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Meeting Summary

November 2023

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Overview

The IASB met in London on 13-15 November 2023. The following topics were discussed:

Business Combinations under Common Control: The IASB decided to discontinue the project. As a next step, the IASB will prepare a project summary that explains the considerations that have been given to the project, what feedback has been heard and how the IASB responded, while also summarising which current requirements apply to business combinations under common control, even if they are not within the scope of IFRS 3.

Equity Method: The IASB decided to propose improvements to the disclosure requirements for investments in joint ventures, and when a parent elects to use the equity method to account for its investments in subsidiaries in separate financial statements. The IASB also made decisions on transitional provisions to be proposed in the upcoming exposure draft.

Amendments to the Classification and Measurement of Financial Instruments: The staff presented the feedback on Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments*. The IASB decided to finalise the proposals on derecognition of financial liabilities through electronic transfer and the proposed disclosure requirements for investments in equity instruments designated at fair value through other comprehensive income.

Primary Financial Statements: The IASB made decisions on sweep issues related to subtotals and categories, and aggregation and disaggregation that arose during the balloting process of IFRS 18 *Presentation and Disclosure in Financial Statements*.

Provisions—Targeted Improvements: The IASB decided to develop proposals to amend IAS 37 to specify more precisely the basis on which an entity determines the discount rate it uses in measuring a provision and to specify that an entity is required to use a rate that reflects the time value of money—represented by a risk-free rate—with no adjustment for non-performance risk.

Post-implementation Review of IFRS 9—Impairment: The IASB discussed feedback received in response to its Request for Information *Post-implementation Review—IFRS 9 Financial Instruments—Impairment*. The staff plans to discuss the following topics in the first half of 2024: general approach to recognising expected credit losses (ECL); determining significant increases in credit risk; measuring ECL; purchased or originated credit-impaired; interaction of impairment requirements with other requirements; and credit risk disclosures. No decisions were made.

Second Comprehensive Review of the *IFRS for SMEs* Standard: The IASB continued the redeliberation of its proposals in the ED *Third edition of the IFRS for SMEs Accounting Standard*. The IASB decided to align the definition of joint control in Section 15 of the Standard with IFRS 11, retain the three classifications of joint arrangements in Section 15 of the Standard and align Section 15 of the Standard with IFRS 11:23. The IASB also decided to retain the simplification in the *IFRS for SMEs* for measuring the obligation and the related cost of defined benefit plans.

Updating the *Subsidiaries without Public Accountability: Disclosures* Standard: The staff set out the IASB's project plan for the preparation of a "Catch-up Exposure Draft" (ED) following the issue of the forthcoming IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures*. With the ED, the IASB will consult stakeholders on requirements arising from IFRS Accounting Standards that have been issued or amended since the IASB published the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* in July 2021.

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Business Combinations under Common Control

In this meeting, the IASB was asked whether it wants to discontinue the project.

Cover Paper (Agenda Paper 23)

The IASB published Discussion Paper DP/2020/*2 Business Combinations under Common Control* (BCUCC) in November 2020, with a comment letter deadline of 1 September 2021. In previous meetings, the IASB discussed the project direction for the project on BCUCC and in September 2023 discussed the feedback from various stakeholders to inform the project direction. In this meeting, the IASB was asked to make a decision on the project direction.

This paper was not discussed.

Due Process Handbook assessment (Agenda Paper 23A)

In this paper, the staff provided an updated assessment of the Due Process Handbook requirements for a standard-setting project, taking into accounts IASB members' comments from the September 2023 meeting. This included an updated assessment of whether the IASB should maintain project direction, or change the project direction and choose Option 2 (i.e. develop disclosure-only requirements) or Option 3 (i.e. develop no recognition, measurement or disclosure requirements).

Staff recommendation

The staff recommended that the IASB should change the project direction and discontinue the project (Option 3). The IASB was also asked for any comments on next steps for the staff to take in accordance with the IASB's decision.

IASB discussion

IASB members generally agreed with the staff recommendations. Though a minority of IASB members would have preferred trying to develop recognition and measurement principles, the majority agreed that the diverse stakeholder views and inconsistent existing practices mean that there is no clear way forward. Some IASB members observed that, at this stage of a project, the overall direction might be apparent whereas for this project there are still some significant issues, such as identifying the acquirer in such transactions, that are yet to be explored.

IASB members provided some feedback regarding what information should be included in a comprehensive project summary, suggesting that all considerations given to the project, what feedback was heard and how the IASB responded should be explained, while also summarising what current requirements would apply to business combinations under common control, even if they are not within the scope of IFRS 3.

IASB decision

The IASB voted 10:3 (one absent) in favour of the staff recommendation to change the direction the project.

The IASB generally expressed that disclosure-only requirements in lieu of recognition and measurement principles would not be appropriate. On this basis, the IASB members present voted unanimously in favour of the staff recommendation to discontinue the project.

What a disclosure-only project could cover (Agenda Paper 23B)

In this paper, the staff set out an overview of what a disclosure-only project could cover to support the IASB in assessing the staff recommendations in Agenda Paper 23A. This paper did not ask the IASB for any decisions and was not discussed.

Equity Method

The purpose of this meeting was to discuss whether to propose improvements to the disclosure requirements for investments in joint ventures, and when a parent elects to use the equity method to account for its investments in subsidiaries in separate financial statements.

Cover paper (Agenda Paper 13)

The objective of the Equity Method project is to develop answers to application questions about the equity method, as set out in IAS 28, using the principles derived from IAS 28 where possible.

The purpose of this meeting was to ask the IASB to decide:

- Whether to propose improvements to the disclosure requirements for investments in joint ventures, and when a parent elects to use the equity method to account for its investments in subsidiaries in separate financial statements, the same as those it had previously tentatively decided to propose for investments in associates
- On transitional provisions to be proposed in the exposure draft

This paper was not discussed.

Towards an Exposure Draft— Possible improvements to disclosure requirements for investments in joint ventures and subsidiaries (Agenda Paper 13A)

At its September 2023 meeting, the IASB tentatively decided to propose disclosure requirements for investments in associates in relation to its tentative decisions on the Equity Method project to date.

The purpose of this meeting was to decide if those disclosure requirements should also be proposed for investments in joint ventures; and for investments in subsidiaries when a parent elects to use the equity method to account for its investments in subsidiaries in separate financial statements as permitted in IAS 27.

Staff recommendation

The staff recommended that the IASB proposes:

- Improvements to the disclosure requirements for investments in joint ventures the same as those it had previously tentatively decided to propose for investments in associates (Recommendation 1)
- That a parent, that elects to use the equity method to account for its investments in subsidiaries in separate financial statements, discloses the amount of gains or losses from transactions to its subsidiaries (Recommendation 2)

IASB discussion

All IASB members supported Recommendation 1 as associates and joint ventures are similar in nature and they would not expect much difference in terms of accessibility and costs of obtaining the relevant information from them. One IASB member also said that the disclosure requirements should be the same for them since the related accounting requirements are the same. One IASB member supported the staff's view that an entity should assess the extent of disaggregation of the reconciliation disclosure requirements and that this should form part of the Basis for Conclusions.

Most IASB members supported Recommendation 2. However, many IASB members raised the concern that the gains or losses from transactions with associates should not be limited to downstream transactions but should also include upstream transactions. A few IASB members mentioned that it was important to understand what information is useful to the users of the financial statements and the cost benefit analysis should be done on that basis. It was recommended by a few IASB members that the exposure draft should cover both upstream and downstream transactions to get views in terms of benefits and costs on both aspects (new Recommendation 3).

IASB decision

On Recommendation 1, all of the 13 IASB members present (one was absent) voted in favour of the staff recommendation.

On Recommendation 2, 10 of the 13 IASB members present (one was absent) voted in favour of the staff recommendation.

On Recommendation 3, only 5 of the 13 IASB members present (one was absent) voted in favour of the new recommendation. The recommendation was therefore rejected.

Towards an Exposure Draft—Transitional provisions (Agenda Paper 13B)

At its April 2023 meeting, the IASB decided to move the Equity Method research project to its standard-setting work plan and work towards publishing an exposure draft as the next due process step.

The purpose of this meeting was to discuss the transitional provisions to be proposed in that exposure draft.

Staff recommendation

The staff recommended that the IASB proposes that an investor or a joint venturer:

- Retrospectively applies the requirement to be proposed that an investor or a joint venturer recognises the full gain or loss on all transactions with its associates or joint ventures (Recommendation 1)
- Recognises and measures contingent consideration at its fair value at the transition date. The investor or joint venturer recognises a corresponding adjustment, if any, to the carrying amount of its investments in associates or joint ventures (Recommendation 2)
- Prospectively applies all the other requirements to be proposed from the transition date (Recommendation 3)

IASB discussion

Most IASB members agreed with the staff recommendations.

On Recommendation 1, a few IASB members mentioned that a full retrospective approach might be costly and burdensome for preparers. One IASB member proposed introducing a modified retrospective approach and a few IASB members agreed with this, subject to understanding the details on how the modified retrospective approach would work. A few IASB members said that they would like to wait for comments received on the Exposure Draft to understand the issues that preparers might have on the full retrospective approach before proposing any changes.

On Recommendation 2, a few IASB members mentioned that they would like to see the definition of transition date clarified and that the staff should consider other circumstances as well such as for those companies that present more than one comparative period. A few IASB members also said that there should be some further consideration given to the contingent consideration requirements and if the impact of that should be in retained earnings instead of the investment carrying amount. It was also discussed that the change in the investment carrying amount might have an impact on the impairment assessment and that should be considered as well. Another IASB member said that a transition relief can be provided for the impairment analysis done in the prior periods.

IASB decision

On Recommendation 1, 12 of the 13 IASB members present (one was absent) voted in favour of the staff recommendation.

On Recommendation 2 and 3, all of the 13 IASB members present (one was absent) voted in favour of the staff recommendation.

Amendments to the Classification and Measurement of Financial Instruments

In this session, the IASB discussed the feedback on Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments*.

Cover paper (Agenda Paper 16)

In March 2023, the IASB published Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments* (ED). This paper addressed the feedback on Question 1 of the ED about the derecognition of a financial liability through electronic transfer and Question 5 on the disclosures relating to equity investments and other comprehensive income.

This paper was not discussed.

Feedback analysis—Derecognition of financial liabilities through electronic transfer (Agenda Paper 16A)

Question 1 of the ED asked for feedback on the proposed requirements regarding the derecognition of a financial liability through electronic transfer.

The IASB proposed, in paragraph B3.1.2A of the ED, to clarify that an entity is required to apply settlement date accounting when derecognising a financial asset or a financial liability. In addition, when meeting the proposed requirements in paragraphs 3.3.8-3.3.10 of the ED, an entity is permitted to deem a financial liability that is settled using an electronic payment system to be discharged before the settlement date.

Most respondents agreed with the proposal in paragraph B3.1.2A of the ED but said that further clarifications are needed to limit the risk of unintended consequences. The staff acknowledges that the reference to settlement date accounting might appear inconsistent to other requirements in IFRS 9. Therefore, to avoid any unintended consequences, the staff recommended adding an explanation that the settlement date refers to the date on which the right to receive or obligation to pay cash (or another financial asset) is established or extinguished.

In relation to the proposed criteria for derecognising a financial liability before the settlement date, some respondents suggested the scope should be expanded to include other payment methods. However, the staff concluded that this is a narrow-scope amendment and the settlement risk for other payment methods is insignificant. Some respondents asked for the scope to be expanded to financial assets. However, the staff believed this is not appropriate as there is no equivalent notion of having no practical ability to withdraw or cancel a payment.

Some respondents stated that the criteria would set too high a threshold to overcome in practice resulting in little practical benefit. The staff agreed and recommended making it clear that this relates to the practical ability to access the cash. However, the staff does not believe that the term ‘practical’ needs further explanation.

Staff recommendation

The staff recommended finalising the proposed amendments subject to:

- Deleting the reference to 'settlement date accounting' and instead replacing this with a reference to 'settlement date' in a revised version of paragraph B3.1.2A of the ED along with an explanation that 'settlement date' refers to the date on which the right to receive or obligation to pay cash (or another financial asset) is established or extinguished
- Aligning the requirement in paragraph B3.3.8(a) with that of paragraph B3.3.8(b) of the ED so that both refer to 'practical ability'

IASB discussion

Overall, IASB members were supportive of the staff's paper and recommendations.

A few IASB members commented on the feedback on the scope of the project. The IASB had considered the scope in detail when the proposals were developed and the explanations in the paper on the rationale for the decisions made was reflected well in the paper. IASB members asked that the rationale for the scope was clearly explained in the Basis for Conclusions (BC).

In terms of including financial assets in the scope of the project, IASB members did not see enough evidence from the feedback that this needs to be addressed. However, one IASB member noted that he would like to understand the impact of this ED on the Interpretations Committee's tentative agenda decision. Another IASB member highlighted that the tentative agenda decision was not approved by the IASB and therefore is not approved literature.

Feedback was received that it is not clear whether and how the exception to derecognising a financial liability would apply if a payment instruction would be settled by way of an overdraft or other similar facility with a negative balance. The staff noted in their paper that this was addressed by BC37 of the ED. However, an IASB member noted that it was addressed in a very subtle way in BC37 and asked the staff to make this more explicit.

As the requirement applies for all settlements made through the same electronic system, an IASB member asked if an exception could be made for intercompany payments. However, the staff commented that no exception for intercompany balances exists in the Standard and therefore thought this would be inappropriate.

IASB decisions

All 13 of the IASB members present (one member was absent) voted in favour of the staff recommendation.

Feedback analysis—Equity instruments and other comprehensive income (Agenda Paper 16B)

Question 5 of the ED asked for feedback on the proposed disclosure requirements for investments in equity instruments designated at fair value through other comprehensive income (OCI). This paper analysed the feedback and provided some recommendations.

As part of the feedback from the post-implementation review (PIR), some participants said that the prohibition of reclassification of amounts accumulated in OCI to profit or loss in IFRS 9, does not faithfully represent the performance of the equity investments on disposal. However, as part of the PIR the IASB found no evidence that recycling would necessarily result in more or better information. The IASB did however propose the following disclosure amendments:

- Amending IFRS 7:11A(c) to not require disclosure of the fair value of each investment at the end of the reporting period

- Adding IFRS 7:11A(f) to require an entity to disclose the changes in fair value presented in OCI during the reporting period, showing separately the amount of that change related to equity investments derecognised during the reporting period and the amount of that change related to equity investments held at the end of the reporting period

Most respondents welcomed the amendments to not require disclosure of the fair value of each equity investment, however noted that the requirement does not explicitly require disclosure of the aggregate fair value of these equity investments. The IASB intended for an entity to determine the appropriate level of aggregation. Therefore, to avoid any confusion, the staff recommends adding that the information is required by class of equity investment.

Some stakeholders suggested that a transfer to retained earnings of the cumulative fair value gains or losses relating to an equity investment that has been derecognised should be required. However, the staff believes this would be burdensome and beyond the scope of this project. On the other hand, the staff agrees that if an entity chooses to transfer any amounts within equity relating to the equity investments that were disposed of, it would be useful to readers to require disclosure of the amount being transferred and the component of equity it is being transferred to (i.e. include a disclosure requirement similar to IFRS 7:11A(e) in IFRS 7:11B).

Staff recommendation

The staff recommended that:

- The introduction sentence in IFRS 7:11A is amended to require disclosure of information in that paragraph per class of equity investment
- The proposed amendments to IFRS 7:11A(c) and the proposed addition of IFRS 7:11A(f) are finalised as drafted in the ED
- A disclosure requirement similar to that in IFRS 7:11A(e) is included in IFRS 7:11B

IASB discussion

Respondents acknowledged the IASB's rationale and decision not to permit recycling of fair value gains or losses accumulated in OCI to profit or loss. The paper states that the IASB will monitor new information and further evidence when such information becomes available, especially from the insurance industry. An IASB member asked the staff to ensure they are continually doing so.

Some feedback suggested that disclosing changes in fair value of equity investments derecognised during the reporting period, separately from those still held by the entity at the reporting date, will result in additional costs. However, the staff believed this information would not cause any additional cost. The IASB discussed this point and while they concluded that there may be some additional cost involved, this cost would not outweigh the benefit of this disclosure.

For disclosures of changes in fair value, the staff paper makes it clear that there is no need for tracking fair value changes related to equity investments that have been disposed of during previous reporting periods. An IASB member noted that this was important information that should be included in the BC.

IASB decisions

All 13 of the IASB members present voted in favour of the staff recommendation.

Primary Financial Statements

In this session, the IASB discusses the sweep issues identified during the pre-ballot process of IFRS 18.

Cover note and summary of feedback and redeliberations (Agenda Paper 21)

In July 2023, the IASB gave the staff the permission to start the balloting process for the publication of the new IFRS Accounting Standard, IFRS 18 *Presentation and Disclosure in Financial Statements.* This paper discussed the sweep issues related to subtotals and categories and aggregation and disaggregation and other topics.

Sweep issues related to subtotals and categories (Agenda Paper 21A)

Background

This paper discussed the sweep issues related to the classification of income and expenses in the investing category on which the staff would like the IASB's input. The issues identified are the scope of income and expenses classified in the investing category and financial assets for which the income and expenses are classified in the investing category. The paper also discussed minor sweep issues related to subtotals and categories in the statement of profit or loss that the staff has addressed in drafting. Appendix A to the paper summarised the issues and the approaches taken to address them in drafting.

Staff recommendation

The staff recommended that the IASB clarifies in IFRS 18 the income and expenses from assets that an entity classifies in the investing category. The IASB previously confirmed the assets from which the income and expenses need to be classified in the investing category. The clarification is that the income and expenses from those specified assets comprise: [Recommendation 1]

- The income generated by the specified assets
- The income and expenses that arise from the initial and subsequent measurement of the specified assets
- The incremental expenses directly attributable to the acquisition and disposal of the specified assets, for example transaction costs and costs to sell.

In addition, the staff recommended that the IASB clarifies in IFRS 18 that the income and expenses from liabilities that arise from transactions that involve only the raising of finance comprise: [Recommendation 2]

- The income and expenses that arise from the initial and subsequent measurement of the liabilities
- The incremental expenses directly attributable to the issue and disposal of the liabilities, for example transaction costs

Lastly, the staff recommended that the IASB add application guidance that provides examples of assets that generate returns individually and largely independently of the other resources of the entity and those that do not, including loans and receivables recognised from providing goods and services to customers. This application guidance would replace the application guidance on classification of income and expenses from financial assets arising from providing financing to customers. [Recommendation 3]

The staff also asked whether the IASB has any comments on the minor sweep issues included in Appendix A.

IASB discussion

Most IASB members agreed with the Recommendation 1. However, some IASB members expressed concern that the list of specified assets included in the paper may be seen as a rule rather than exception. The staff replied that the list of specified assets will be considered carefully in the drafting of IFRS 18. All IASB members considered Recommendation 2 to be helpful. Some IASB members asked the staff to clarify in the drafting that an entity would only be required to identify whether or not its main business activity involves investing in assets or provide financing to customers and is not required to identify all of its main business activities. Other IASB members debated whether the IASB should prohibit an entity from allocating foreign exchange differences on each liability that arise from a transaction that involves not only the raising of finance. However, these IASB members ultimately agreed with the staff's recommendation because the allocation of foreign exchange differences may require judgement and cause diversity in practice.

IASB decision

All 13 IASB members present (one IASB member was absent) agreed with the staff recommendations.

Sweep issues related to aggregation and disaggregation and other topics (Agenda Paper 21B)

Background

This paper discussed the issues on which the staff would like the IASB's input related to the role of the primary financial statements to provide a 'useful structured summary' of the entity's income, expenses, assets, liabilities, equity and cash flows. The paper also discussed other minor sweep issues that the staff has addressed in drafting. Appendix A to the paper summarises the issues and the approaches taken to address them in drafting.

Staff recommendation

The staff recommended that the IASB:

- Clarify that an entity does not need to assess whether the classification requirements that determine the structure of a primary financial statement will result in a useful structured summary because application of those requirements is presumed to always result in a useful structured summary [Recommendation 1]
- Clarify that an entity need not present separately a specific line item in a primary financial statement if doing so is not necessary for the statement to provide a useful structured summary (this is the case even if the IFRS Accounting Standards contain a list of specific required line items or describes the line items as minimum requirements) [Recommendation 2]
- Remove the application guidance stating that in general it is unlikely that the presentation of the list of items set out in IFRS 18 related to the statement of profit or loss, if classified in the operating category, would reduce how effective the statement is in providing a useful structured summary [Recommendation 3]
- Clarify instead that because of the importance of the operating category it is likely that for the statement of profit or loss to give a useful structured summary of its income and expenses, an entity will need to present more line items for operating expenses than it will for income and expenses classified in other categories [Recommendation 4]
- Make consequential clarifications to the examples in the application guidance on aggregation of operating expenses based on similar characteristics and disaggregation of operating expenses based on dissimilar characteristics [Recommendation 5]

The staff also asked whether the IASB have any comments on explaining in education materials how useful structured summary fits within the materiality process and whether the IASB have any comments on the minor sweep issues included in Appendix A.

IASB discussion

IASB members were supportive of Recommendation 1 because application of those requirements is presumed to always result in a useful structured summary. However, some IASB members expressed concern that the term ‘useful structured summary’ is not defined and asked the staff to clarify the distinction between useful structured summary and required disaggregation. The staff replied that ‘useful structured summary’ is just putting a label to the concept that already exists in Practice Statement 2 *Making Materiality Judgements* and this will be clarified in the drafting of IFRS 18. All IASB members disagreed with Recommendation 4 because this detracts from the principle of ‘useful structured summary’.

Some IASB members disagreed with the example illustrating how an entity provides further information on an aggregated line item that is considered to be immaterial, including an indication of the nature and amount of the largest item included in that aggregated line item. The staff clarified that this was just an example of how an entity can satisfy the requirement to provide information on judgements made on what constitutes material information. Some IASB members asked the staff to confirm whether an adjustment based on a hypothetical transaction made to a specified subtotal meets the definition of management-defined performance measure. However, other IASB members said it is unlikely that regulators would permit entities to include management-defined performance measures calculated using hypothetical transactions.

IASB decision

All 13 IASB members present (one IASB member was absent) agreed with Recommendation 1.

10 of 13 IASB members present (one IASB member was absent) agreed with Recommendation 2.

11 of 13 IASB members present (one IASB member was absent) agreed with Recommendation 3.

None of the IASB members present (one IASB member was absent) agreed with Recommendation 4.

12 of 13 IASB members present (one IASB member was absent) agreed with Recommendation 5.

Provisions—Targeted Improvements

In this session, the IASB was asked to decide whether to amend to IAS 37 to specify more precise requirements for determining the discount rate and if so, what requirements to propose.

Discount rates (Agenda Paper 22)

As part of its project to make targeted improvements to IAS 37, the IASB is considering developing proposals to specify in IAS 37 whether and how discount rates for provisions should reflect non-performance risk.

At its July 2023 meeting, the IASB discussed the standardisation of discount rates for provisions. The IASB decided not to pursue the idea of including non-performance risk in the discount rate. The requirements would be drafted in a way that clarifies that the measure of a provision is adjusted to reflect one type of risk—the uncertainty in the amount or timing of the expenditure required to settle the liability.

The staff analysed two possible options, as requested by IASB members:

- Option 1, which aligns discount rates with IAS 19 and includes some non-performance risk; and
- Option 2, which requires discounting provisions based on the time value of money alone using a risk-free rate, such as a government bond yield.

Several concerns have been expressed by accounting practitioners on the practicability of determining discount rates for provisions applying the requirements in IAS 19 for defined benefit pension obligations.

Staff recommendation

The staff recommended that the IASB:

- Develop proposals to amend IAS 37 to specify more precisely the basis on which an entity determines the discount rate it uses in measuring a provision
- Propose to specify that an entity uses a rate that reflects the time value of money—represented by a risk-free rate—with no adjustment for non-performance risk (Option 2)

IASB discussion

During the discussion, IASB members acknowledged that guidance on the determination of the discount rate for provisions is helpful to improve consistency among preparers. Further, IASB members agreed that including the non-performance risk in the determination of the discount rate is not useful to represent the entity's financial position. Finally, IASB members acknowledged that the use of risk-free rates compared to the ones used in IAS 19 will be easier, less onerous and it would not worsen the quality of financial reporting.

IASB decision

All 13 IASB members present (one absent) agreed to provide clearer guidance regarding the criteria to determine the discount rate used in measuring a provision.

12 out of 13 IASB members present agreed to specify that the discount rate should reflect the time value of money, based on a risk-free rate (government grant), without adjustment related to the non-performance risk.

Post-implementation Review of IFRS 9—Impairment

In this session, the IASB discussed a summary of the feedback received in response to its Request for Information *Post-implementation Review—IFRS 9 Financial Instruments—Impairment* and a plan for the next phase of the project.

Cover note (Agenda Paper 27)

At this meeting, the IASB discussed the summary of the feedback received in response to its Request for Information (RFI) *Post-implementation Review—IFRS 9 Financial Instruments—Impairment* and a plan for the next phase of the project. The IASB was not asked to make any decisions at this meeting. Instead, the staff asked whether IASB members have any comments or questions on the summarised feedback or the plan for the next phase of the project presented.

Feedback summary (Agenda Paper 27A)

This paper summarised the feedback received in response to the RFI.

Overall, the post-implementation review (PIR) feedback was very positive. Almost all respondents agreed that the impairment requirements in IFRS 9 result in more timely recognition of credit losses compared to IAS 39. They said applying the requirements helped resolve the 'too little, too late' problem identified during the financial crisis. The requirements work as intended with no fundamental questions.

Most respondents commented that applying the requirements during periods of uncertainty, such as the COVID 19 pandemic or the recent geopolitical and economic uncertainties, demonstrated the model is based on robust principles. However, some respondents said the requirements have yet to be tested in a scenario of significant defaults. Other respondents noted the increased use of judgemental management overlays, rather than statistical models, to respond to these uncertainties. In their view, this practice highlights the limitations of scenario analysis.

Although the PIR feedback did not identify any fatal flaws, respondents identified specific matters where entities experience application challenges and diversity in practice, mostly in areas that require use of judgement. Respondents also expressed concerns over the lack of consistency in the credit risk disclosures. Most PIR feedback focused on:

- Application issues arising from the interaction between the impairment requirements and the requirements in IFRS 9 for modifications, derecognition and write-off
- Diversity in application of, and potential improvements to, the disclosure requirements on credit risk in IFRS 7

Respondents generally suggested that the IASB should make specific improvements, mainly in the form of application guidance or illustrative examples. In their view, major amendments are not justified in the light of the overall positive experience with the impairment requirements and the significant implementation costs incurred.

IASB discussion

IASB members noted that the comments received are an affirmation that the objective of the impairment requirements introduced under the Standard is met and the requirements are working as intended. They acknowledged the comments around diversity in practice on disclosure requirements on credit risk and different ECL model outcomes. However, they considered the diversity is to a large extent inevitable regardless of any further interpretation guidance that could be produced. This is due to inherent judgement involved. They also acknowledged based on the comments received that the impairment requirements as set in the Standard might be burdensome in the context of intracompany assets. However, the requirements still remain highly relevant for users and as such they do not believe there should be a scope exception for them. Regarding application issues from the interaction between impairment and modification/derecognition requirements in the Standard, IASB members expect a deeper analysis of the topic.

IASB members highlighted that while responses suggested a need for further education material, illustrative examples and application guidance, the IASB needs to exercise significant caution and the material will only be produced if there is a critical need and only in limited circumstances.

Plan for PIR Phase 2 (Agenda Paper 27B)

The staff proposed to discuss the following topics in the first half of 2024:

- General approach to recognising ECL
- Determining significant increases in credit risk
- Measuring ECL
- Purchased or originated credit-impaired
- Interaction of impairment requirements with other requirements
- Credit risk disclosures

IASB discussion

There was no significant discussion on this paper.

Second Comprehensive Review of the *IFRS for SMEs* Accounting Standard

In this session, the IASB redeliberated its proposals in the ED *Third edition of the IFRS for SMEs Accounting Standard.*

Cover paper (Agenda Paper 30)

In September 2022, the IASB published Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* (ED). The ED was open for comment for 180 days, which ended on 7 March 2023.

At the November 2023 IASB meeting, the IASB continued its redeliberations of the proposals in the ED.

Proposed amendments to Section 15 Investments in Joint Ventures (renamed Joint Arrangements) (Agenda Paper 30A)

The purpose of this paper was for the IASB to consider feedback on the proposals in the ED to align Section 15 *Investments in Joint Ventures* (proposed to be renamed *Joint Arrangements*) of the *IFRS for SMEs* Accounting Standard with IFRS 11 *Joint Arrangements* and decide whether to proceed with the proposals in the ED to amend Section 15 of the Standard.

The staff recommended that the IASB confirms the amendments to Section 15 of the *IFRS for SMEs* Accounting Standard proposed in the ED to:

- Align the definition of joint control in Section 15 of the Standard with IFRS 11
- Retain the three classifications of joint arrangements in Section 15 of the Standard
- Align Section 15 of the Standard with IFRS 11:23

IASB discussion

Most of the IASB members were in support of retaining the three classifications of joint arrangements in Section 15 of the Standard rather than aligning with IFRS 11. They were of the view that retaining the classification requirements should avoid the difficulty and significant judgements involved in applying the classification requirements in IFRS 11. This is because the Section 15 classifications are based on the structure of the joint venture which is simpler for SMEs to apply.

One IASB member was supportive of aligning the classifications in Section 15 of the Standard with IFRS 11 because the requirements in IFRS 11 provide a clearer principle in classifying joint arrangements.

IASB decision

- The 13 IASB members present (one absent) voted in favour of aligning the definition of joint control in Section 15 of the Standard with IFRS 11
- 12 of the 13 IASB members present voted in favour of retaining the three classifications of joint arrangements in Section 15 of the Standard
- The 13 IASB members present voted in favour of aligning Section 15 of the Standard with IFRS 11:23

Simplification in paragraph 28.19 (Agenda Paper 30B)

The purpose of this paper was to ask the IASB to consider feedback on the proposals in the ED to remove the simplification for measuring the obligation and the related cost of defined benefit plans in paragraph 28.19 of the *IFRS for SMEs* Accounting Standard and decide whether to retain the simplification in paragraph 28.19 in the Standard, clarifying its application.

The staff recommended that the IASB:

- Retains paragraph 28.19 of the Standard

- Clarifies that, when applying paragraph 28.19, an SME measures a defined benefit plan obligation at the current termination amount—so that an SME would assume that all its employees terminate their employment at the reporting date and, therefore, the entity would not be allowed to discount its obligations from defined benefit plans
- Requires an SME to disclose the basis for determining that termination amount

IASB discussion

IASB members agreed with the staff recommendation to retain the simplification. They acknowledged that most SMEs do not have defined benefits pension schemes and for SMEs who provide defined benefits pension schemes to their employees the simplification is useful and has a significant effect in some jurisdictions.

Some IASB members questioned whether the clarification proposed by the staff is a further simplification to paragraph 28.19 of the Standard. Some IASB members do not believe there is a link between not discounting and termination of employment given the payment of the terminated amount is possibly only due decades after the termination of employment.

The IASB members suggested that the staff consider whether the key terms and condition of the plan should be disclosed when applying the simplification, including when there is a significant delay between the termination of the employment and the payment.

IASB decision

- The 13 IASB members present voted in favour of retaining paragraph 28.19 of the Standard
- The 13 IASB members present voted in favour of not discounting the defined benefit pension scheme obligations and that the simplified methodology should be allowed
- 11 of the 13 IASB members present voted in favour of the disclosure requirements as drafted in the agenda paper

Updating the *Subsidiaries without Public Accountability: Disclosures* Standard

The purpose of this session was to set out the IASB's project plan for the preparation of the "Catch-up Exposure Draft" following the issue of the forthcoming IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures*

Project plan for the Catch-up Exposure Draft (Agenda Paper 32)

The paper set out the project plan for the preparation of the "Catch-up Exposure Draft" (Catch-up ED) following the issue of the forthcoming IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures* (Subsidiaries Standard) in the first half of 2024.

Staff summary of the plan for technical discussions and the special case of Primary Financial Statements

<u>Plan for technical discussions</u>

There are four groups of disclosure requirements that will be considered for the purposes of the Catch-up ED based on their timing:

- Group 1: Requirements issued between 28 February 2021 and the publication of the Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (Subsidiaries ED) in July 2021
- Group 2: Requirements issued between the publication of the Subsidiaries ED and the issue of the Subsidiaries Standard

- Group 3: Requirements proposed between the publication of the Subsidiaries ED and the issue of the Subsidiaries Standard, which are expected to be finalised and issued after the Subsidiaries Standard is issued
- Group 4: Requirements expected to be proposed after the Subsidiaries Standard is issued

The Catch-up ED will address disclosure requirements in Groups 1 and 2. Disclosure requirements in Group 3 will be included in exposure drafts for those new or amended Standards. New or amended Standards in Group 4 will be subject to the agreed maintenance approach.

<u>The special case of IFRS 18 *Presentation and Disclosure in Financial Statements*</u>

IFRS 18 will be issued before the Subsidiaries Standard. The approach applied in preparing the Subsidiaries Standard is that:

- If the disclosure requirement was in IAS 1 and remains in either IFRS 18 or is relocated to IAS 8, the IASB's proposals in the Subsidiaries ED hold for the Subsidiaries Standard.
- New or amended disclosure requirements in IFRS 18 will apply to eligible subsidiaries.

The contents of the Catch-up ED for disclosure requirements in new or amended standards issued after 28 February 2021 will be discussed by the IASB in the first half of 2024. This will be the last part of the work on the Subsidiaries Standard as a self-contained project.

The staff asked IASB members whether they have any questions or comments about the project plan.

IASB discussion

One IASB member asked about the timeline regarding redeliberation, especially for the Group 3 requirements. The staff explained that the catch-up ED would include proposals from the reduced disclosures. These disclosure requirements will be consulted on at the same time as the proposed disclosure requirements in each exposure draft. IASB members agreed with the staff summary but there was otherwise no significant discussion. No decision was made.