



IFRS® Foundation

IASB Update

Nick Anderson

Capital Markets Advisory Committee
Agenda Paper 1
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Overview

Open consultations and recently closed consultations

Other projects

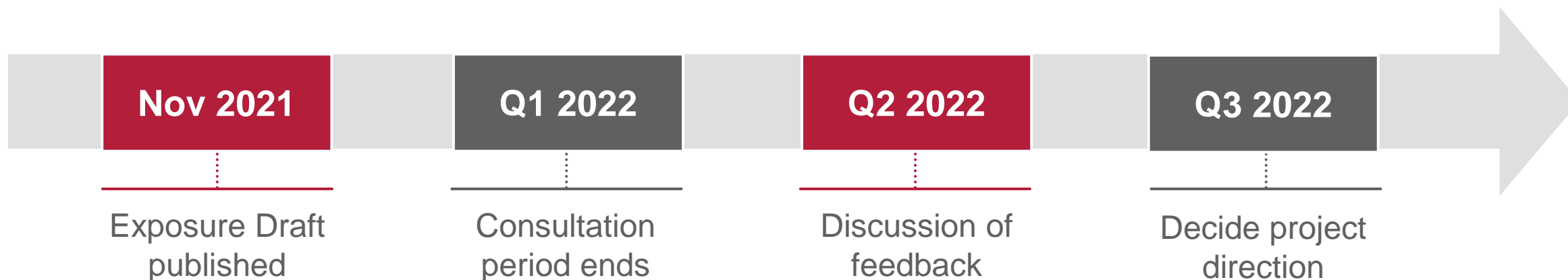
Strategy and Governance projects - Third Agenda Consultation

Update on ISSB



Consultations out for
comment

Non-current Liabilities with Covenants



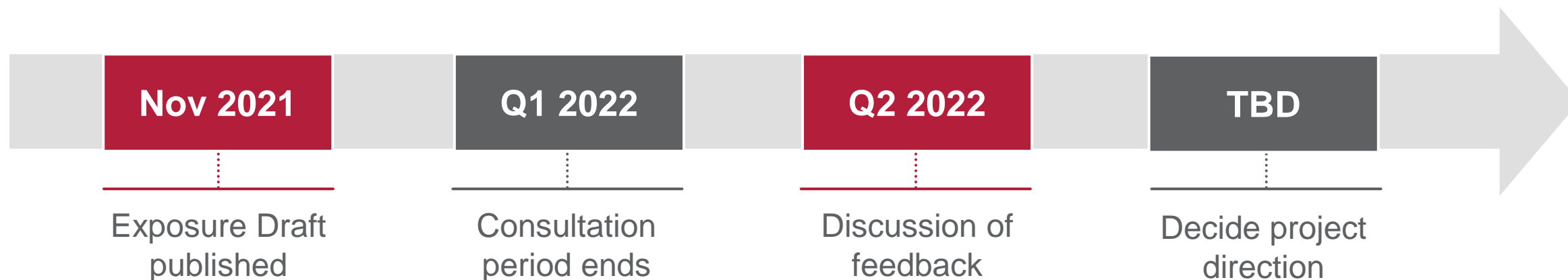
Objective

Improve the information about liabilities with covenants provided through classification (as current or non-current), presentation and disclosure in financial statements

Proposed amendments to IAS 1

- 1 Specify that covenants with which an entity must comply **after the reporting period** do not affect classification of a liability as current or non-current at the end of the reporting period
- 2 Add **presentation and disclosure requirements** for non-current liabilities subject to covenants
- 3 Clarify situations in which an entity **does not have a right to defer settlement**

Supplier Finance Arrangements



Objective

Provide information that enable investors to assess the effects of supplier finance arrangements on a company's liabilities and cash flows.

Proposed amendments to IAS 7 and IFRS 7

- 1 Describe** the characteristics of an arrangement for which an entity would be required to provide the proposed disclosure
- 2 Add qualitative and quantitative disclosure** requirements for supplier finance arrangements to meet the disclosure objective
- 3 Highlight** the required disclosure of liquidity risk and risk management and of non-cash changes in financing liabilities arising from supplier finance arrangements

A grayscale world map is the background, showing continents and a grid of dotted lines. Overlaid on the left side are several thick, curved, light-gray lines that sweep across the map from the bottom left towards the top right.

Projects with consultations recently closed

IASB discussing ...

Next step: IFRS Standard

- Primary Financial Statements
- Rate-regulated Activities

Next step: IFRS Amendment

- Lease Liability in a Sale and Leaseback

Next step: Exposure Draft

- Second Review of the *IFRS for SMEs* Standard

Next step: Feedback Statement

- Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12

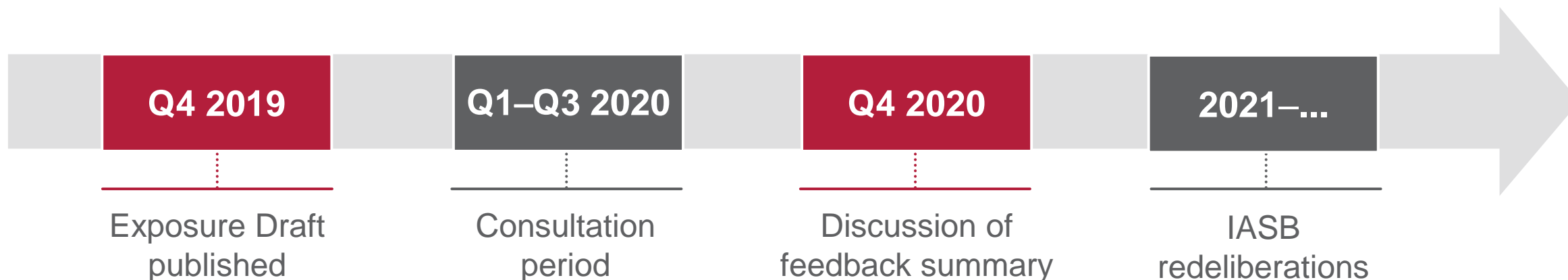
Next step: Decide Project Direction

- Goodwill and Impairment
- Business Combinations under Common Control
- Lack of Exchangeability

Next step: Stakeholder Feedback

- Management Commentary
- Disclosure Initiative—Targeted Standards-level Review of Disclosures
- Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures
- Post-implementation Review of IFRS 9—Classification and Measurement

Primary Financial Statements



Objective

- Improve communication in financial statements
- Focus on information included in the statement of profit or loss

Main proposals

- 1 Require additional **defined subtotals** in statement of profit or loss
- 2 Strengthen requirements for **disaggregating information**
- 3 Require disclosures about **management performance measures**

Rate-regulated Activities



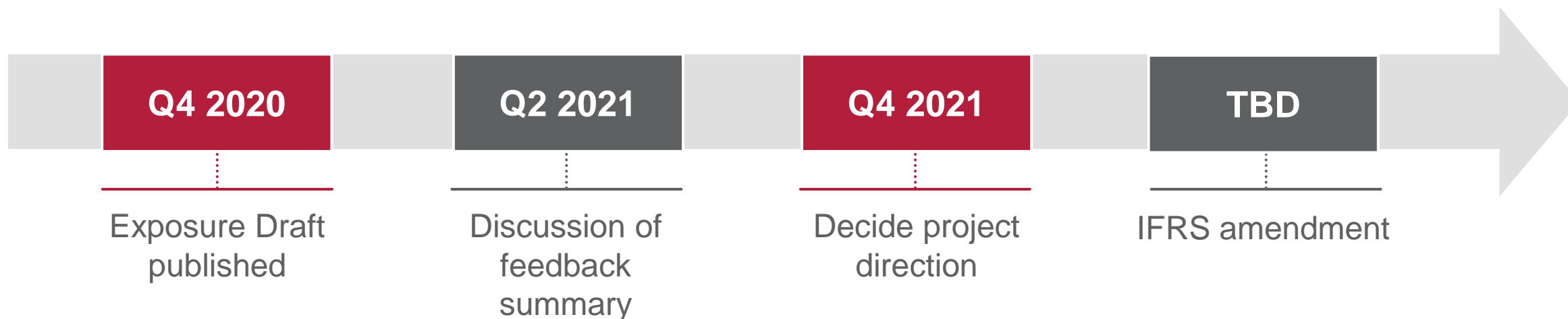
Objective

- Provide information about the effects of regulatory income, regulatory expense, regulatory assets and regulatory liabilities on companies' financial performance and financial position

Main proposals

- 1 Require recognition of **regulatory assets**, **regulatory liabilities**, **regulatory income** and **regulatory expense**
- 2 Reflect **compensation** for goods or services supplied as part of a company's reported financial performance for the period in which it supplies those goods or services
- 3 Measure regulatory assets and regulatory liabilities using a **cash-flow-based** measurement technique

Lease Liability in a Sale and Leaseback



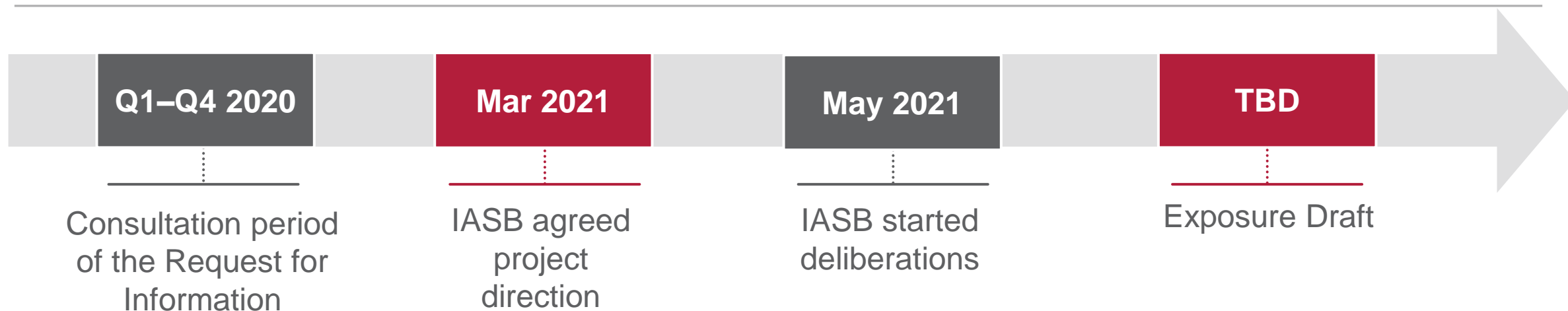
Objective

Improve the measurement requirements for sale and leaseback transactions — particularly those with variable payments

Proposed amendments to IFRS 16

- 1 Specify **the method** used in initially measuring the right-of-use asset and liability arising in a sale and leaseback transaction
- 2 Specify **subsequent measurement requirements** for the lease liability in a sale and leaseback transaction

Second Review of the *IFRS for SMEs* Standard



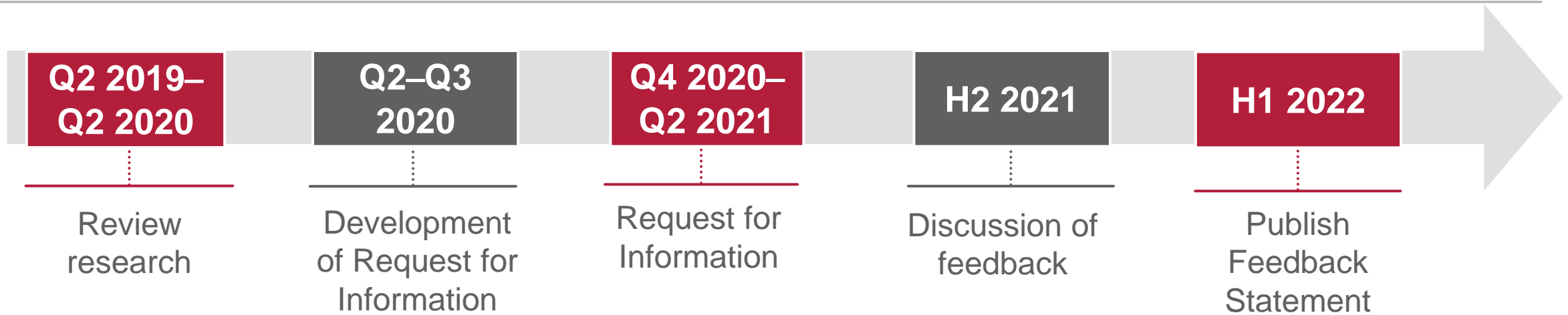
Objective

- Update the *IFRS for SMEs* Standard for new requirements in IFRS Standards that are in the scope of the review

Approach

- Apply alignment approach to decide how to update the *IFRS for SMEs* Standard
- The alignment approach uses the principles of relevance to SMEs, simplicity and faithful representation, including the assessment of costs and benefits, to identify possible amendments

Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12



Topics in the Request for Information



Objective

- Assess whether IFRS 10, IFRS 11 and IFRS 12 are working as intended

- | | | |
|---|---|----------------------|
| 1 | Control assessment, investment entities, specific accounting requirements | Consolidated reports |
| 2 | Collaborative arrangements, classifying joint arrangements, requirements for joint operations | Joint arrangements |
| 3 | Whether the disclosures provided applying IFRS 12 meet the Standard's objective | Disclosures |

Goodwill and Impairment



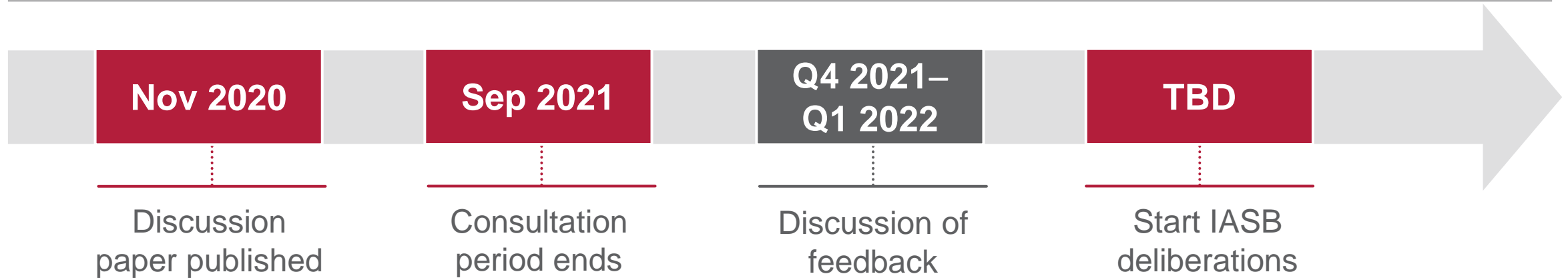
Objective

- Improve information companies provide about their acquisitions

Preliminary views

- 1**
 - Disclose management's objectives for acquisitions and subsequently disclose the performance against those objectives
 - Some targeted improvements to existing standards
- 2**
 - Retain impairment-only model for goodwill
 - Simplify impairment test
- 3**
 - Present amount of total equity excluding goodwill
 - Do not change recognition of intangibles separately from goodwill

Business Combinations under Common Control



Objective

- Fill a 'gap' in IFRS Standards
- Give investors the information they need without imposing unnecessary costs on companies

Preliminary views

- 1 Specify which method should be applied in which circumstances to reduce diversity in practice and improve transparency in reporting
- 2 Use the **acquisition method** set out in IFRS 3 *Business Combinations* for combinations that affect investors outside the group, including all combinations by companies whose shares are publicly traded
- 3 Use a **book-value method** to be specified in IFRS Standards in all other cases – such as group restructurings involving wholly-owned subsidiaries

Lack of Exchangeability



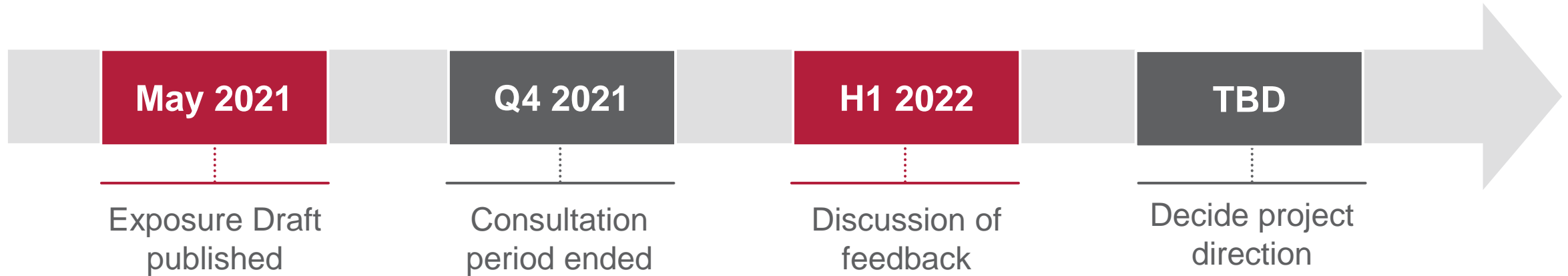
Objective

Improve usefulness of information provided by requiring a consistent approach to determining whether a currency is exchangeable into another currency and the exchange rate to use when it is not

Proposed amendments to IAS 21

- 1 Specify when exchangeability between two currencies is lacking and **how to make** that assessment
- 2 **Estimate the spot exchange rate** when exchangeability is lacking
- 3 **Disclose** how the lack of exchangeability affects, or is expected to affect, the entity's financial performance, financial position, and cash flows

Management Commentary



Objective

Overhaul IFRS Practice Statement 1 to provide a **comprehensive framework** for preparing management commentary—building on recent developments in narrative reporting

Features of the proposals

- 1 Focus on information needs of **investors** and **creditors**
- 2 Disclosure objectives + supporting guidance
- 3 Would bring together in one report **financial**, **sustainability** and **other** information about matters fundamental to entity's long-term prospects

Disclosure Initiative—Targeted Standards-level Review of Disclosures



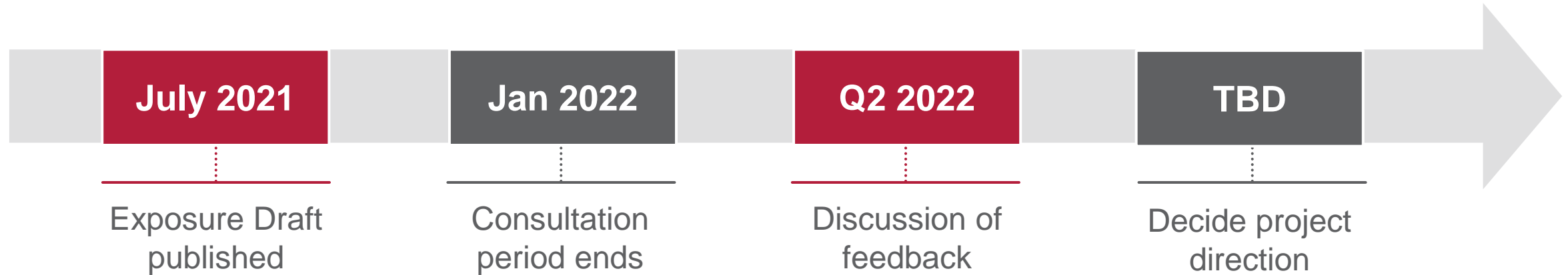
Objective

- Improve the IASB's approach to developing disclosure requirements in a way that enables companies to enhance their judgement and provide more decision-useful information for investors

Main proposals

- 1 New approach for the IASB to use when developing and drafting disclosure requirements in IFRS Standards (proposed Guidance)
- 2 Replace disclosure requirements in IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits* with a new set of disclosure requirements developed applying the proposed Guidance
- 3 Focus compliance on detailed disclosure objectives rather than prescriptive requirements, thus requiring companies to apply judgement

Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures



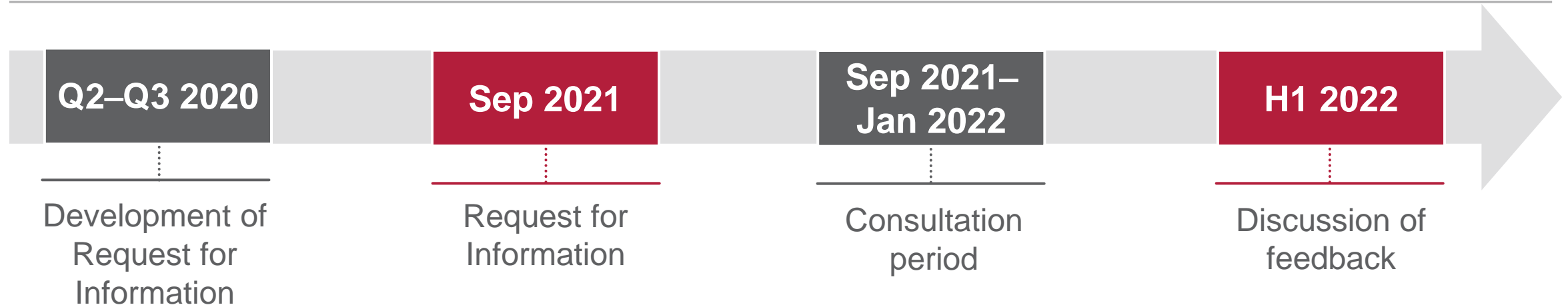
Objective

To permit eligible subsidiaries to apply the disclosure requirements in the draft Standard and the recognition, measurement and presentation requirements in IFRS Standards

Features of the proposals

- 1 Sets out **reduced disclosure requirements** for eligible subsidiaries
- 2 A **voluntary standard** forming part of the IFRS Standards
- 3 Would **reduce costs** for preparers and **maintain usefulness** of the financial statements

Post-implementation Review of IFRS 9— Classification and Measurement



Objective

- Assess whether the classification and measurement requirements in IFRS 9 are working as intended

Topics in the Request for Information

- | | | |
|----------|--|------------------------------|
| 1 | Business model, SPPI, Fair value changes in equity instruments | Financial assets |
| 2 | Presentation of own credit gains and losses | Financial liabilities |
| 3 | Modifications to contractual cash flows, Effective interest method, Transition to IFRS 9 | Other topics |

A grayscale world map is the background for the slide. Overlaid on the map are several thick, curved, light-gray lines that sweep across the continents. Additionally, there are several dotted lines that form a grid-like pattern across the map, intersecting the curved lines.

Other projects

Financial Instruments with Characteristics of Equity

Purpose

- Improve the information that companies provide in their financial statements about financial instruments that they have issued
- Address challenges with applying IAS 32 *Financial Instruments: Presentation*

Approach

- Explore clarifying IAS 32 classification principles (rather than rewriting IAS 32) to address practice issues (eg classification of financial instruments settled in the issuer's own equity instruments)
- Provide classification guidance and illustrative examples
- Improve presentation and disclosure

Next milestone

Exposure Draft

Dynamic Risk Management

Objective

Develop an accounting model that will better reflect a company's dynamic risk management process in the financial statements. The process involves understanding and managing the amount, timing and uncertainty caused by interest rate risks

Overview of the DRM model

- Companies dynamically manage the **current net open risk position**—that is, the net of eligible assets and liabilities, including core demand deposits
- The **risk mitigation intention** is the extent of current net open position that the company dynamically manages using derivatives
- When designated derivatives are successful in mitigating the repricing risk due to changes in interest rates and achieving the entity's **target profile**, changes in the fair value of such derivatives are recognised in OCI and reclassified to the statement of profit or loss over time

Next steps

Continue the redeliberation of key issues identified in the meetings with preparers

Provisions—Targeted Improvements to IAS 37

Objective

- Develop proposals for three targeted amendments to *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*

Targeted amendments

- **Align requirements** for identifying liabilities with *Conceptual Framework*
- Clarify which **costs** to include in measure of a provision
- Specify whether **discount rates** used should reflect entity's own credit risk

Next steps

Staff will prepare a project plan for consideration by the IASB

Equity Method

Objective

- Assess whether application questions with the equity method as set out in IAS 28 *Investments in Associates and Joint Ventures* can be addressed in consolidated and individual financial statements by identifying and explaining the principles of IAS 28

Project plan

- Identify application questions in the equity method and decide which of these problems to address
- Address application questions by identifying and explaining the principles that underlie IAS 28

Next steps

Decide project direction

Extractive Activities

Objective

- Provide more useful information about exploration and evaluation expenditure and activities accounted for applying IFRS 6 *Exploration for and Evaluation of Mineral Resources* by improving the transparency and comparability of this information

Project scope

- Explore developing requirements or guidance to improve the disclosure objectives and requirements about a company's exploration and evaluation expenditure and activities
- Explore removing the temporary status of IFRS 6

Next steps

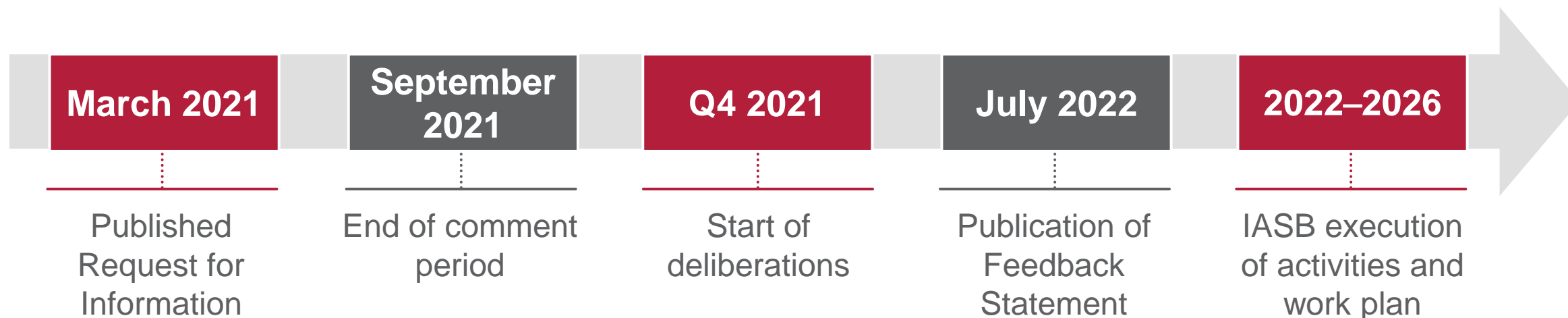
Consider research to be performed



Strategy and Governance projects

Third Agenda Consultation

Third Agenda Consultation



Feedback will help the IASB determine its priorities and work plan from 2022 to 2026.

Objective of the consultation—to seek views on

- 1 the strategic direction and balance of the IASB’s activities
- 2 the criteria for assessing the priority of financial reporting issues that could be added to the IASB’s work plan
- 3 new financial reporting issues that could be given priority in the IASB’s work plan

1 Strategic direction and balance of the IASB's activities



After considering cross-cutting themes, such as implications of connectivity with the International Sustainability Standards Board (ISSB), and consistent with stakeholders' feedback, the IASB decided:

- to begin no new activities within the current scope of its work; and
- to leave its current level of focus on its main activities largely unchanged.

Activity	Current level of focus	IASB's decision
New Accounting Standards and major amendments	40%–45%	Slightly decrease
Maintenance and consistent application	15%–20%	Leave unchanged
The <i>IFRS for SMEs</i> Standard	5%	Leave unchanged
Digital financial reporting	5%	Slightly increase
Understandability and accessibility of Accounting Standards	5%	Slightly increase (indirect support of maintenance and consistent application)
Stakeholder engagement	20%–25%	Leave unchanged

2 Criteria for assessing priority of financial reporting issues that could be added to the IASB's work plan



The IASB decided:

- not to reprioritise projects on its current work plan, but to continue working on those projects.
- not to make any changes to the list of criteria but to proceed with the list as proposed in the Request for Information.

Overarching consideration

whether a potential project will meet investors' needs, while taking into account the costs of producing the information

- ① the importance of the matter to **investors**
- ② whether there is a **deficiency** in current reporting
- ③ the **type of companies** affected and jurisdictions where the matter is more prevalent
- ④ how **pervasive or acute** the matter is likely to be for companies
- ⑤ the potential project's **interaction with other projects**
- ⑥ the **complexity and feasibility** of the potential project and its solutions
- ⑦ the **capacity** of the IASB and its stakeholders to progress the potential project

3 Financial reporting issues that could be added to the IASB's work plan—to be decided in March–April 2022



- The IASB should not add too many **new projects** to the work plan as it will need capacity to deal with emerging issues and interaction with the ISSB
- Some projects are related and could be worked on at the same time—for example, intangible assets and cryptocurrencies
- The IASB should work on climate-related risks and pollutant pricing mechanisms (PPM) together with the ISSB

Some of the most commonly suggested projects (in alphabetical order)

Climate-related risks (incl. PPM)



Cryptocurrencies and related transactions



Going concern



Intangible assets



Operating segments (highly rated among users)



Statement of cash flows and related matters





Update on ISSB

About the IFRS Foundation

Our organisation

- Not-for-profit, public-interest organisation
- Three-tier governance model
 1. Monitoring Board (oversight)
 2. Trustees (governance & strategy)
 3. IASB + ISSB (standards)
- Extensive, inclusive due process

Our mission

Develop IFRS Standards that bring transparency, accountability and efficiency to financial markets around the world

IFRS Accounting Standards

Required for use by more than 140 jurisdictions around the world

Current sustainability reporting landscape

International initiatives

- Voluntary application
- Multiple standards
- Multiple audiences

Jurisdictional initiatives

- Different jurisdictions, different requirements
- Differences in scope, ambition and pace

Consequences

'Alphabet soup' of requirements



Cost & complexity in reporting

Selective & inconsistent application of voluntary standards



'Greenwashing' risk

Different requirements by different jurisdictions



Lack of global comparability & consistency

Lack of capital market rigour (mandated standards, audited information, digital reporting)



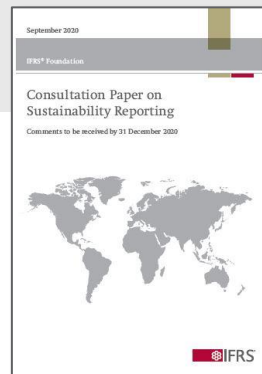
Lack of confidence and trust in information

Impediment to financial market participation in drive towards Net Zero

Demand-driven process

What we asked

- Demand for global sustainability disclosure standards?
- Should the IFRS Foundation play a role?
- Is the solution a sustainability-focused standard-setting board within the IFRS Foundation?



What we heard

- 750+ comment letters across stakeholder groups, geographies & economic settings
- Growing and urgent demand for global standards to improve consistency and comparability
- Broad support for Foundation to play a role
- ESG focus but climate first



COP26 announcement (November 2021)



1. Formation of the International Sustainability Standards Board (ISSB)



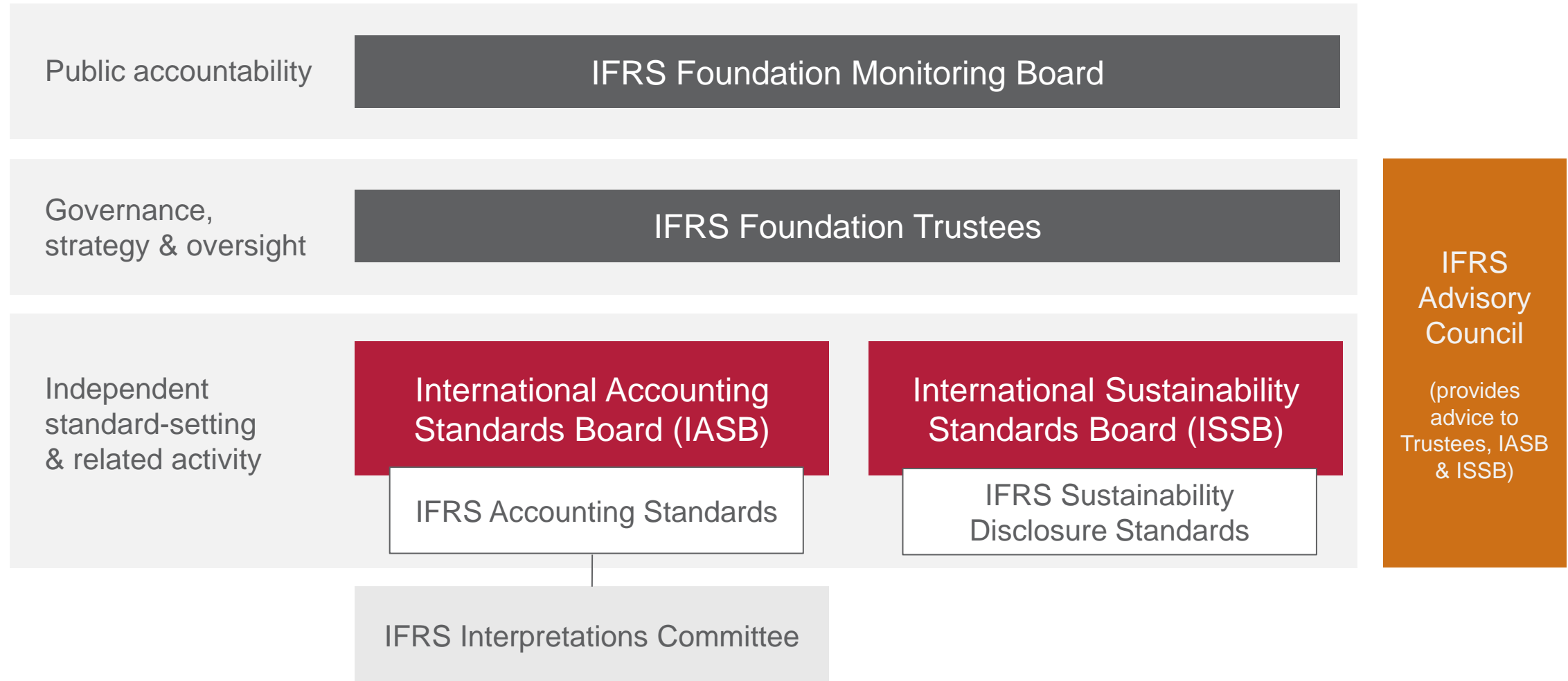
2. Consolidation with Climate Disclosure Standards Board (CDSB) & Value Reporting Foundation (VRF)



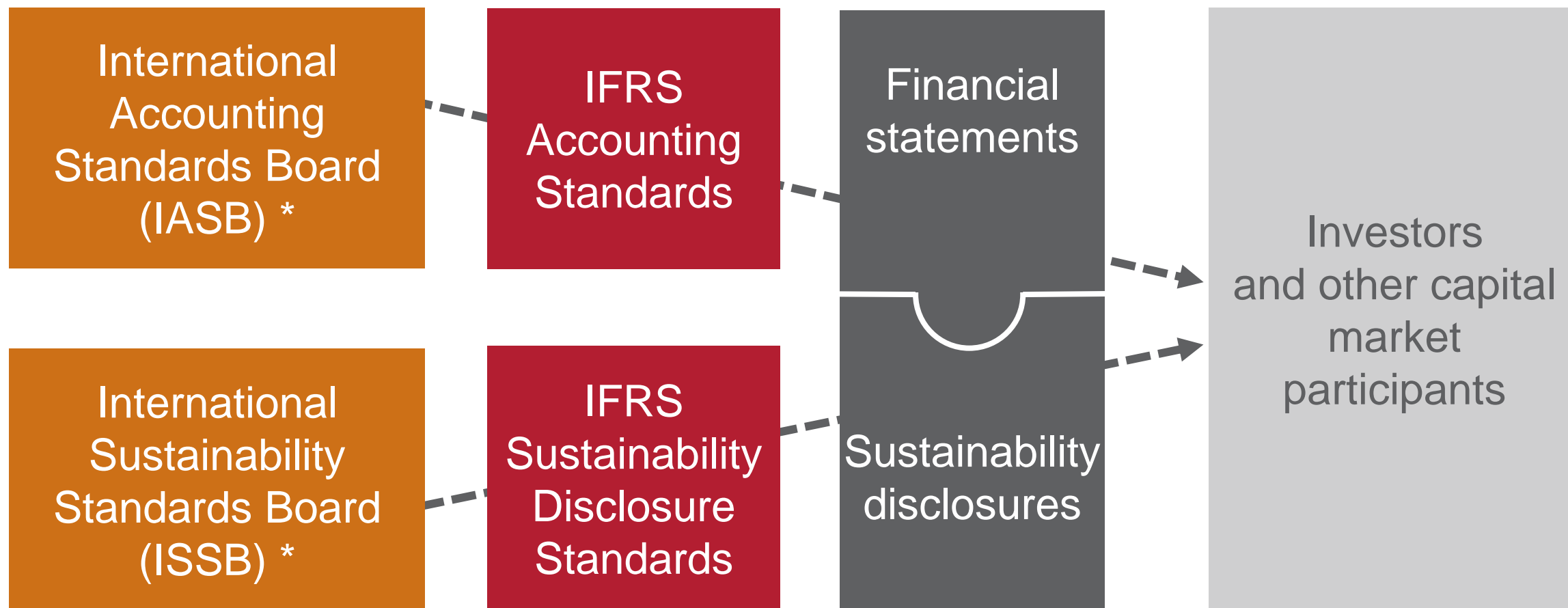
3. Publication of climate and general disclosure prototype requirements (developed by Technical Readiness Working Group)

Creates the necessary institutional arrangements and technical groundwork for a global sustainability disclosure standard-setter for the financial markets

Governance structure



Compatible standards to meet investors' needs



* Integrated Reporting Council to advise IASB and ISSB on connectivity via fundamental concepts / guiding principles of integrated reporting

ISSB's remit



Develop global baseline of sustainability disclosure standards



Focus on meeting the information needs of investors

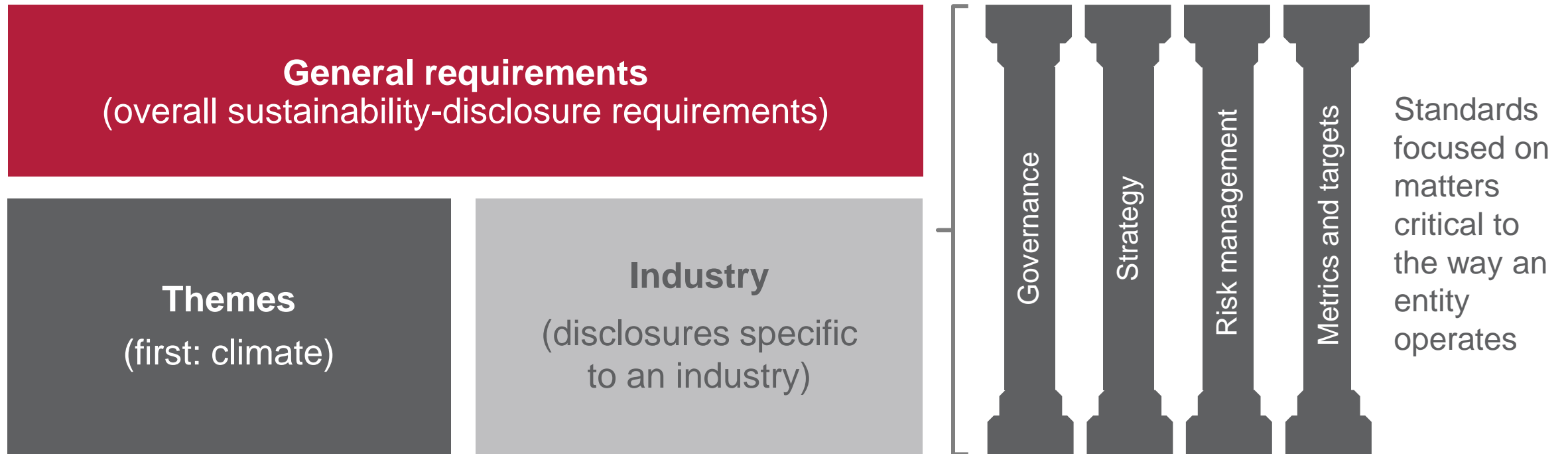


Will enable companies to provide comprehensive sustainability information for the global capital markets



Facilitate the addition of requirements that are jurisdiction-specific or aimed at a broader group of stakeholders

Recommended architecture for ISSB requirements



Prototypes developed by the TRWG

General disclosure requirements

- Overall requirements for disclosing sustainability-related financial information relevant to the company's sustainability-related risks and opportunities
- Provides connectivity between financial statements and sustainability-related disclosures

Objective: require companies to provide material information about their exposure to sustainability-related risks and opportunities that is useful to investors

Climate-related disclosures

- Requirements for identification, measurement and disclosure of climate-related financial information
- Incorporates TCFD recommendations
- Includes cross-industry and industry-based (based on SASB Standards) metrics

Objective: require companies to provide material information about their exposure to climate-related risks and opportunities

Covers: governance, strategy, risk management, metrics and targets

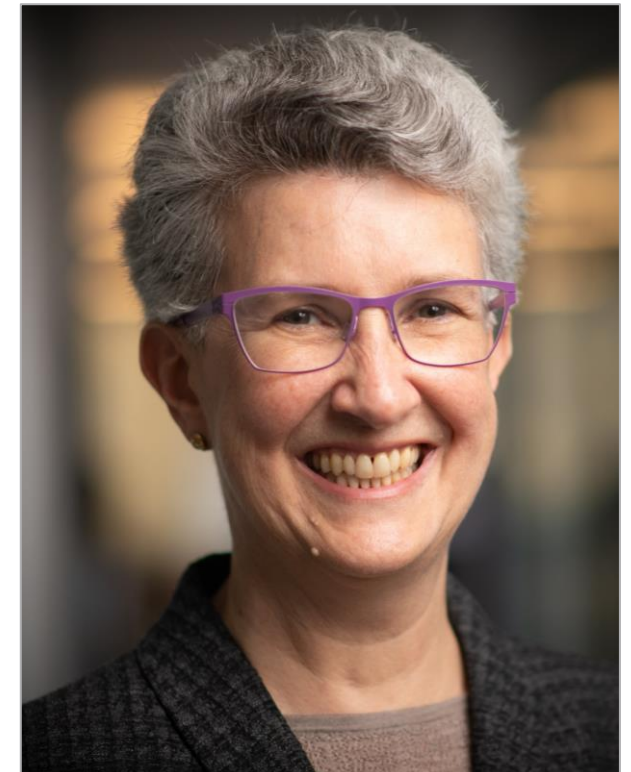
Appointments



Emmanuel Faber
Chair



Sue Lloyd
Vice-Chair



Janine Guillot
Special Advisor

Next steps

Appointments	Remaining ISSB members
Consultations	Proposed climate and general disclosure standards, digital taxonomy, work plan and future priorities (due process)
Advisory groups	Appoint members to technical and jurisdictional groups
Consolidation	CDSB completed, VRF by June 2022
Location	Implement multi-location approach for global footprint

Call to action



Continue applying existing frameworks



Get familiar with the prototypes – early indication of direction of travel



Be ready to share your views – public consultation coming



Sign up for alerts – ifrs.org/sustainability

ISSB – key developments and next steps

COP26 announcement	Post-COP26 announcements	Current focus	Next steps
Formation of ISSB	<ul style="list-style-type: none"> Appointment of ISSB Chair, Vice-Chair and Special Advisor to ISSB Chair 	<ul style="list-style-type: none"> Recruiting remaining ISSB members Implementing multi-location model Forming advisory groups 	<ul style="list-style-type: none"> Appoint ISSB members Trustees meeting in Frankfurt Q1, Montreal Q2 Appoint advisory group members
Consolidation – CDSB & VRF	<ul style="list-style-type: none"> Completion of CDSB consolidation 	<ul style="list-style-type: none"> Preparing for VRF consolidation 	<ul style="list-style-type: none"> Complete VRF consolidation by end of Q2
Publication of prototypes		<ul style="list-style-type: none"> Developing proposals based on prototypes Planning outreach 	<ul style="list-style-type: none"> Publish proposed standards for consultation by end of Q1

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