Update on IASB and IFRS Interpretations Committee activities

Emerging Economies Group Meeting

EEG Agenda Paper 4
May 2022
Overview

Introduction

Third Agenda Consultation

Business Combinations under Common Control

Other research projects

Standard-setting projects

Maintenance projects

Work of the IFRS Interpretations Committee
Introduction
Introduction

Third Agenda Consultation
• This document provides an update on the IASB work plan for 2022–2026

IASB work plan
• This document sets IASB’s technical projects, highlighting the next milestone
• Such projects include research, standard-setting and maintenance
• This document includes an update on the IASB’s tentative decisions on the objective and scope of its Business Combinations under Common Control project, as topic of interest for EEG members

IFRS Interpretations Committee activities
• This document provides an overview of the work of the Interpretations Committee, including recent agenda decisions
Recent developments

Recent developments (since December 2021 EEG meeting)

- IASB issued a narrow-scope amendment to the transition requirements in IFRS 17
- Comment periods of three main consultations ended in January 2022
  - Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach*
  - Exposure Draft *Subsidiaries without Public Accountability: Disclosures*
  - Request for Information *Post-implementation Review of IFRS 9—Classification and Measurement*
- Comment periods of two narrow-scope consultations ended in March 2022
  - Exposure Draft *Supplier Finance Arrangements*
  - Exposure Draft *Non-current Liabilities with Covenants*
- IASB published a Project Summary on its research project Pension Benefits that Depend on Asset Returns

Overall, the IASB is shifting from a period of multiple consultation documents out for comment to a period of significant deliberation of feedback.
## Forthcoming documents

<table>
<thead>
<tr>
<th>Project</th>
<th>Next steps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12</td>
<td>Feedback Statement expected in June 2022</td>
</tr>
<tr>
<td>Third Agenda Consultation</td>
<td>Feedback Statement expected in July 2022</td>
</tr>
<tr>
<td>Lease Liability in a Sale and Leaseback</td>
<td>Narrow-scope amendment to IFRS 16 expected in Q3 2022</td>
</tr>
<tr>
<td>Second Review of the <em>IFRS for SMEs</em> Accounting Standard</td>
<td>Exposure Draft expected in Q3 2022</td>
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</table>
Third Agenda Consultation
### Third Agenda Consultation

<table>
<thead>
<tr>
<th>Start of Consultation</th>
<th>End of Consultation</th>
<th>Publication of Feedback Statement</th>
<th>IASB Execution of Activities and Work Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2021</td>
<td>September 2021</td>
<td>Q4 2021</td>
<td>2022–2026</td>
</tr>
</tbody>
</table>

#### 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**

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

<table>
<thead>
<tr>
<th>Activity</th>
<th>Current level of focus</th>
<th>IASB’s decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Accounting Standards and major amendments</td>
<td>40%–45%</td>
<td>Slightly decrease</td>
</tr>
<tr>
<td>Maintenance and consistent application</td>
<td>15%–20%</td>
<td>Leave unchanged</td>
</tr>
<tr>
<td>The <em>IFRS for SMEs</em> Standard</td>
<td>5%</td>
<td>Leave unchanged</td>
</tr>
<tr>
<td>Digital financial reporting</td>
<td>5%</td>
<td>Slightly increase</td>
</tr>
<tr>
<td>Understandability and accessibility of Accounting Standards</td>
<td>5%</td>
<td>Slightly increase (indirect support of maintenance and consistent application)</td>
</tr>
<tr>
<td>Stakeholder engagement</td>
<td>20%–25%</td>
<td>Leave unchanged</td>
</tr>
</tbody>
</table>
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
The IASB decided:
- to add two projects to the research project pipeline;
- to add a project to the maintenance project pipeline to investigate whether narrow-scope standard-setting is needed in relation to climate-related risks; and
- to create a reserve list of two projects that could be added to the work plan only if additional capacity becomes available.
Business Combinations under Common Control
Objective

- Develop reporting requirements to reduce diversity in practice and improve transparency

Preliminary views in Discussion Paper (Nov 2020)

- Specify which measurement method should be applied in which circumstances
  - Neither the acquisition method (set out in IFRS 3) nor a book-value method should be applied to all BCUCCs
  - In principle use the acquisition method for combinations that affect non-controlling shareholders (NCS principle)
  - Use a book-value method in all other cases
- Specify how a book-value method should be applied
Objective

- Almost all respondents agreed to not remove any transactions from the project’s scope
- Most respondents suggested expanding the project scope (see next slide)

Selecting the measurement method

- Many respondents agreed with the NCS principle and some others agreed with a modified NCS principle if the affected NCS are insignificant. Many others disagreed and said:
  - A book-value method should apply to all BCUCCs
  - The method to apply to BCUCCs that affect NCS should depend on the substance of the BCUCC
  - The receiving entity should have a choice which method to apply to BCUCCs that affect NCS
- Many respondents agreed a book-value method should be applied to BCUCCs that do not affect NCS. Many others disagreed, most of which said the acquisition method should apply in specific circumstances (for example, if the receiving entity has publicly traded debt) but otherwise agreed
**Project objective—tentative decision**

- Update the project objective to emphasise that the IASB is considering the needs of users of the receiving entity’s (that is, the reporting entity’s) financial statements

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**Scope—tentative decisions**

Not to expand the project scope to address:

- reporting by any entity in a BCUCC other than the receiving entity;
- the reporting, in separate financial statements, by a receiving entity obtaining control of an investment in a subsidiary from a party under common control; or
- the reporting of common control transactions other than BCUCCs.

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**Scope—not yet discussed**

The IASB has not yet discussed other aspects of project scope including:

- transitory control;
- group restructurings; and
- specific clarification requests.
## BCUCC—Project plan

<table>
<thead>
<tr>
<th>Workstream</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>I—Project scope</td>
<td>See previous slide</td>
</tr>
<tr>
<td>II—Selecting the measurement method</td>
<td>Commence deliberations in the first half of 2022</td>
</tr>
<tr>
<td>III—Applying the measurement methods (including the acquisition method, book-value method and related disclosures)</td>
<td>Commence deliberations after completing the first two workstreams</td>
</tr>
<tr>
<td>IV—Applying the measurement methods (including transition)</td>
<td>Commence deliberations after completing the first two workstreams</td>
</tr>
</tbody>
</table>
Other research projects
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.
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 milestone

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 a company’s disclosures about its exploration and evaluation expenditure and activities
• Explore removing the temporary status of IFRS 6

Next steps

Decide project direction
## Goodwill and Impairment

**Objective**
- Improve information companies provide about their acquisitions at a reasonable cost

### Preliminary views (2020 Discussion Paper)

- Disclose management’s objectives for acquisitions and subsequently disclose the performance against those objectives
- Targeted improvements to existing standards
- Retain impairment-only model for goodwill
- Simplify impairment test
- Do not change recognition of intangibles separately from goodwill

### Project update

- This information conceptually can be required in financial statements (IASB’s tentative decision)
- Investigation of practical concerns with stakeholders using staff examples (in progress)
- Analysis of specific aspects of the feedback on the subsequent accounting for goodwill (in progress)
- Feedback discussed in May 2021

### Next milestone

Decide project direction
Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12

Objective

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

Topics in the Request for Information

- Consolidation
- Joint arrangements
- Disclosures

IASB conclusions

- IFRS 10, IFRS 11 and IFRS 12 are working as intended
- No topics identified as part of the Review require immediate action or need to be added to the research pipeline

Next milestone

Publish Project Report and Feedback Statement
Post-implementation Review of IFRS 9—Classification and Measurement

Objective

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

Discussion plan for the Feedback on the Request for Information

<table>
<thead>
<tr>
<th>April/May 2022</th>
<th>Q2/Q3 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contractual cash flow characteristics (including ESG, contractually linked instruments)</td>
<td>Business model assessment</td>
</tr>
<tr>
<td></td>
<td>Equity instruments and OCI</td>
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<tr>
<td></td>
<td>Modifications to contractual cash flows</td>
</tr>
<tr>
<td></td>
<td>Amortised cost and effective interest method</td>
</tr>
<tr>
<td></td>
<td>Other matters</td>
</tr>
</tbody>
</table>

Next milestone

Discuss Request for Information Feedback
Standard-setting projects
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 Accounting Standards

**Features of proposals in Exposure Draft (July 2021)**

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

**Next milestone**

Discuss Exposure Draft Feedback
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 in Exposure Draft (Mar 2021)

• New approach for the IASB to use when developing and drafting disclosure requirements in IFRS Accounting Standards (proposed Guidance)
• 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
• Focus compliance on detailed disclosure objectives rather than prescriptive requirements, thus requiring companies to apply judgement

Next milestone

Discuss comment letter feedback
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

Publish Exposure Draft
Management Commentary

Objective

- Overhaul IFRS Practice Statement 1 to provide a comprehensive framework on management commentary—building on innovations in narrative reporting and focusing on capital market needs

Feedback on Exposure Draft

- Strong investor support for the project, as it addresses common shortcomings in reporting practice
- Support for focus on investors’ information needs, but some calls for a broader focus
- Support for proposed objectives-based approach, disclosure objectives and areas of content
- Calls to work together with the ISSB with suggestions to pause the project to enable that connectivity
- Some suggestions for further integration with other reporting frameworks (eg <IR> Framework¹)

Next milestone

Consider path forward for the project in Q2 2022

¹ International Integrated Reporting Council (IIRC, now Value Reporting Foundation)’s International Integrated Reporting Framework
Primary Financial Statements

Objective

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

Main proposals in Exposure Draft (Dec 2019)

• Require additional defined subtotals in statement of profit or loss
• Strengthen requirements for disaggregating information
• Require disclosures about management performance measures

Next milestone

Issue IFRS Accounting Standard
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 in Exposure Draft (Jan 2021)**

- Require recognition of **regulatory assets**, **regulatory liabilities**, **regulatory income** and **regulatory expense**
- 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
- Measure regulatory assets and regulatory liabilities using a **cash-flow-based** measurement technique

**Next milestone**

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

**Objective**

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

**Approach**

- Apply alignment approach to decide how to update the *IFRS for SMEs* Accounting 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 possible amendments

**Next milestone**

Publish Exposure Draft
Maintenance projects
**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**

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

**Next milestone**

Decide project direction.
Lease Liability in a Sale and Leaseback

Objective

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

Forthcoming amendments to IFRS 16

- Specify subsequent measurement requirements for the lease liability in a sale and leaseback transaction
- Require retrospective application of the amendments applying IAS 8
- Effective on 1 January 2024, with earlier application permitted

Next milestone

Issue amendments to IFRS 16
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

• Specify that covenants with which a company 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

• Add presentation and disclosure requirements for non-current liabilities subject to covenants

• Clarify situations in which a company does not have a right to defer settlement

Next milestone

Discuss Exposure Draft Feedback
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 company’s own credit risk

Next steps

Staff will prepare a project plan for consideration by the IASB
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

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

Next milestone

Discuss Exposure Draft Feedback
Work of the IFRS Interpretations Committee
The Interpretations Committee’s process

Committee receives a question

Is matter widespread/expected to have a material effect?

Yes

Is it necessary to change IFRS Standards?

Yes

Can matter be resolved efficiently and is it sufficiently narrow in scope?

Yes

Narrow scope standard-setting
(ie narrow scope amendment or Interpretation)

Discussed and approved by IASB

No

Agenda decision

Reports decision and often includes explanatory material*

* The publication of an agenda decision is subject to IASB not objecting to its publication
Committee’s work: Overview of 2022 activities

- 8 topics discussed
- 8 topics addressed by Committee through agenda decisions (most including explanatory material)

Three Committee meetings held in 2022 to date
Committee’s work: Overview of 2021 activities

12 addressed by Committee through agenda decisions (most including explanatory material)

16 topics discussed

2 work in progress

2 addressed through a narrow-scope amendment

Six Committee meetings held in 2021
### Sample of recent agenda decisions

<table>
<thead>
<tr>
<th>Supply Chain Financing Arrangements—Reverse Factoring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand Deposits with Restrictions on Use arising from a Contract with a Third Party (IAS 7)</td>
</tr>
<tr>
<td>TLTRO III Transactions (IFRS 9 and IAS 20)</td>
</tr>
<tr>
<td>Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38)</td>
</tr>
<tr>
<td>Economic Benefits from Use of a Windfarm (IFRS 16)</td>
</tr>
<tr>
<td>Costs Necessary to Sell Inventories (IAS 2)</td>
</tr>
<tr>
<td>Hedging Variability in Cash Flows due to Real Interest Rates (IFRS 9)</td>
</tr>
<tr>
<td>Attributing Benefit to Periods of Service (IAS 19)</td>
</tr>
<tr>
<td>Preparation of Financial Statements when an Entity is No Longer a Going Concern (IAS 10)</td>
</tr>
</tbody>
</table>
## Coming up

### Interpretations Committee’s meetings

**June 2022**

- **Comment letters on tentative agenda decisions**
  - Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)
  - Negative Low Emission Vehicle Credits (IAS 37)
  - Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)*

- **New submissions**
  - Consolidation of a non-hyperinflationary subsidiary by a hyperinflationary parent (IAS 21 and IAS 29)
  - Group of insurance contracts that generate cash flows in a foreign country (IFRS 17 and IAS 21)

### Future meetings

- **Comment letters on tentative agenda decisions**
  - SPAC: Accounting for Warrants at Acquisition*
  - SPAC: Classification of Public Shares as Financial Liabilities or Equity (IAS 32)*
  - Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)*

* Tentative agenda decisions open for comment until 23/05/22.
Find us online

<table>
<thead>
<tr>
<th>ifrs.org</th>
<th>IFRS Foundation</th>
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<tr>
<td>@IFRSFoundation</td>
<td>International Accounting Standards Board</td>
</tr>
<tr>
<td>IFRS Foundation</td>
<td>International Sustainability Standards Board</td>
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