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## Accounting Standards Advisory Forum meeting

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| Date     | March 2024   |
| Project  | Rate-regulated Activities  |
| Topic    | Redeliberations during Q3 and Q4 2023  |
| Contacts | Mariela Isern ( <a href="mailto:misern@ifrs.org">misern@ifrs.org</a> )<br>Nhlanhla Mungwe ( <a href="mailto:nmungwe@ifrs.org">nmungwe@ifrs.org</a> )<br>Jingyi Ding ( <a href="mailto:jingyi.ding@ifrs.org">jingyi.ding@ifrs.org</a> ) |

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## Purpose of this session

- Provide an update on the redeliberations of the Exposure Draft *Regulatory Assets and Regulatory Liabilities* (Exposure Draft or ED).
- Seek ASAF members' views on whether the IASB's tentative decisions in Q3 and Q4 2023 help address stakeholders' feedback on the proposals in the ED dealing with:<sup>(\*)</sup>
  - credit risk;
  - survey on the direct (no direct) relationship concept;
  - items affecting regulated rates only when related cash is paid or received;
  - presentation; and
  - unit of account and offsetting.

## Question for ASAF members

- Slide 14 includes a question for ASAF members.

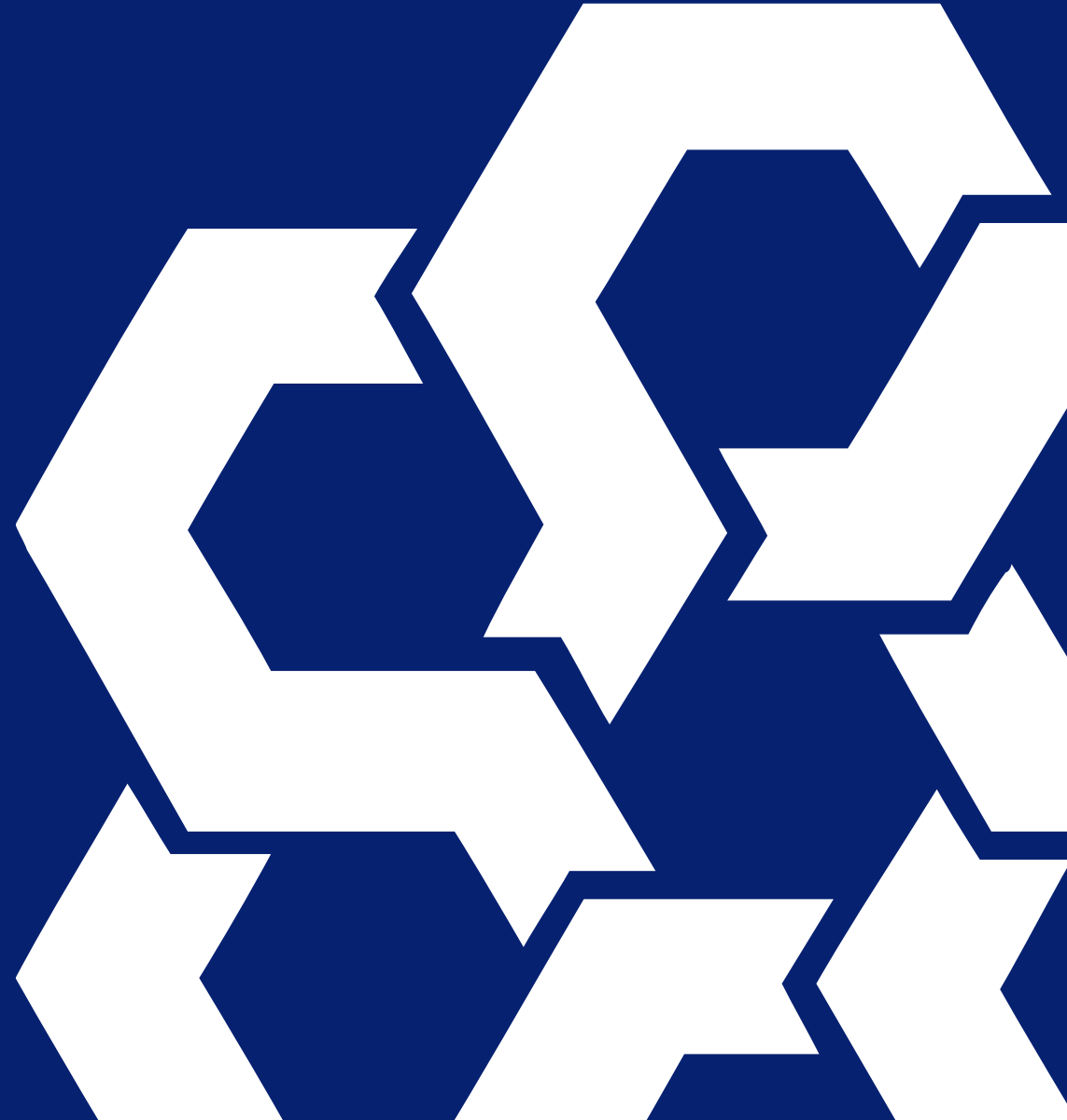
## Appendices

- Appendix A—Outstanding redeliberations (slides 15–16);
- Appendix B—Summary of tentative decisions previously discussed with ASAF members (slides 17–33).

(\*): The IASB started its redeliberations on the proposals dealing with the boundary of a regulatory agreement in October 2023. The IASB will continue these redeliberations during Q1 2024. This topic will be brought for discussion with ASAF members at a future meeting.

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# IASB's tentative decisions Q3 and Q4 2023



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## Tentative decisions—Credit risk (1/2)

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### **Credit and other risks**

AP9A September 2023

- **Purpose:** discuss feedback on the proposals relating to credit and other risks affecting the estimates of future cash flows arising from a regulatory asset or a regulatory liability.
  - **Tentative decision:** the Standard will:
    - a) retain the requirement proposed in the Exposure Draft that an entity estimating future cash flows arising from a regulatory asset or a regulatory liability:
      - i. reflects in the estimates the uncertainty about the amount or timing of future cash flows; and
      - ii. assesses whether the entity or its customers bear this uncertainty in future cash flows.
    - b) specify that if an entity bears credit risk, the entity:
      - i. estimates uncollectible amounts considering the net cash flows that will arise from the recovery of regulatory assets and the fulfilment of regulatory liabilities; and
      - ii. allocates the estimates of uncollectible amounts to regulatory assets only.
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## Tentative decisions—Credit risk (2/2)

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### **Credit and other risks** AP9A September 2023

- **Tentative decision:** the Standard will:
    - c) provide no additional guidance on how an entity accounts for:
      - i. credit risk if the entity is compensated for this risk; and
      - ii. demand risk; and
    - d) retain the requirement proposed in the Exposure Draft that an entity's estimates of future cash flows arising from a regulatory liability do not reflect the entity's own non-performance risk.
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## Tentative decisions—Survey on the direct (no direct) relationship concept (1/2)

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### **The direct (no direct) relationship concept— Report on findings from the survey**

AP9B September 2023

AP9C September 2023

- **Purpose:** discuss how to use the responses to a survey on the direct (no direct) relationship concept to develop guidance in the prospective Accounting Standard.
  - **Tentative decision:** the Standard will:
    - a) include the direct (no direct) relationship concept to help an entity identify differences in timing arising from the regulatory compensation the entity receives on its regulatory capital base;
    - b) specify that an entity's ability to trace differences between the regulatory capital base and the property, plant and equipment at an asset level is a strong indicator that they have a direct relationship;
    - c) specify that, in the case of service concession arrangements, an entity determines whether the regulatory capital base has a direct (no direct) relationship with the intangible asset that arises from the service concession arrangement; and
    - d) include examples to illustrate how an entity determines the direct (no direct) relationship using specific fact patterns.
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## Tentative decisions—Survey on the direct (no direct) relationship concept (2/2)

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### **Survey on the direct (no direct) relationship concept— Additional feedback AP9A October 2023**

- **Purpose:** discuss whether to include guidance in the prospective Accounting Standard based on feedback from a survey on the direct (no direct) relationship concept. The feedback relates to capitalised borrowing costs, inflation and other items included in the regulatory capital base.
  - **Tentative decision:** the Standard will include guidance on how to account for regulatory returns on an asset not yet available for use that compensate for borrowing costs an entity has capitalised. The guidance would illustrate how an entity accounts for such regulatory returns if:
    - a) the entity determines the capitalised borrowing costs at a higher level of aggregation than the individual asset level; or
    - b) a regulator determines the regulatory returns on a real basis.
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## Tentative decisions—Items affecting regulated rates when related cash is paid or received (1/2)

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### **Items affecting regulated rates only when related cash is paid or received**

AP9C December 2023

AP9D December 2023

- **Purpose:** discuss feedback on the proposals relating to the measurement and presentation of items affecting regulated rates only when related cash is paid or received.
  - **Tentative decision:** the Standard will:
    - a) retain the proposed concept that differences in timing that arise from differences between regulatory and accounting criteria represent enforceable present rights or enforceable present obligations. Those rights or obligations meet the proposed definitions of regulatory assets and regulatory liabilities.
    - b) retain the measurement requirements proposed in paragraph 61 of the Exposure Draft for items that affect regulated rates only when related cash is paid or received.
    - c) retain the requirements proposed in paragraph 69 of the Exposure Draft to present specified regulatory income and regulatory expense in other comprehensive income.
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## Tentative decisions—Items affecting regulated rates when related cash is paid or received (2/2)

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### **Items affecting regulated rates only when related cash is paid or received**

[AP9C December 2023](#)

[AP9D December 2023](#)

- **Tentative decision:** the Standard will:
    - d) clarify that an entity is required to reclassify regulatory income or regulatory expense presented in other comprehensive income to profit or loss if IFRS Accounting Standards require the entity to reclassify the related expense or income to profit or loss.
    - e) include no additional presentation requirements for other comprehensive income. An entity would apply the requirements in IAS 1 *Presentation of Financial Statements* or the prospective IFRS Accounting Standard *Presentation and Disclosure in Financial Statements* (prospective PFS Standard).
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## Tentative decisions—Presentation (1/2)

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### **Presentation** AP9B December 2023

- **Purpose:** discuss feedback on the presentation proposals set out in paragraphs 67–68 and 70 of the Exposure Draft and the proposed amendments to IAS 1.
  - **Tentative decision:** the Standard will:
    - a) require an entity to classify all regulatory income minus all regulatory expense (regulatory income or regulatory expense) as revenue.
    - b) require an entity to present regulatory income or regulatory expense as a separate line item in the statement(s) of financial performance.
    - c) omit the proposed amendment to paragraph 82 of IAS 1 that would have required an entity to present regulatory income or regulatory expense as a separate line item immediately below revenue.
    - d) retain the proposals to require an entity to include regulatory interest income within regulatory income and regulatory interest expense within regulatory expense.
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## Tentative decisions—Presentation (2/2)

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### **Presentation**

AP9B December 2023

- **Tentative decision:** the Standard will:
    - e) amend the prospective PFS Standard to clarify that regulatory interest is classified in the operating category.
    - f) retain the proposal to require an entity to present in its statement of financial position:
      - i. line items for regulatory assets and regulatory liabilities; and
      - ii. current and non-current regulatory assets and current and non-current regulatory liabilities as separate classifications by applying paragraphs 66 and 69 of IAS 1, except when the entity presents all assets and liabilities in order of liquidity.
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## Tentative decisions—Unit of account and offsetting

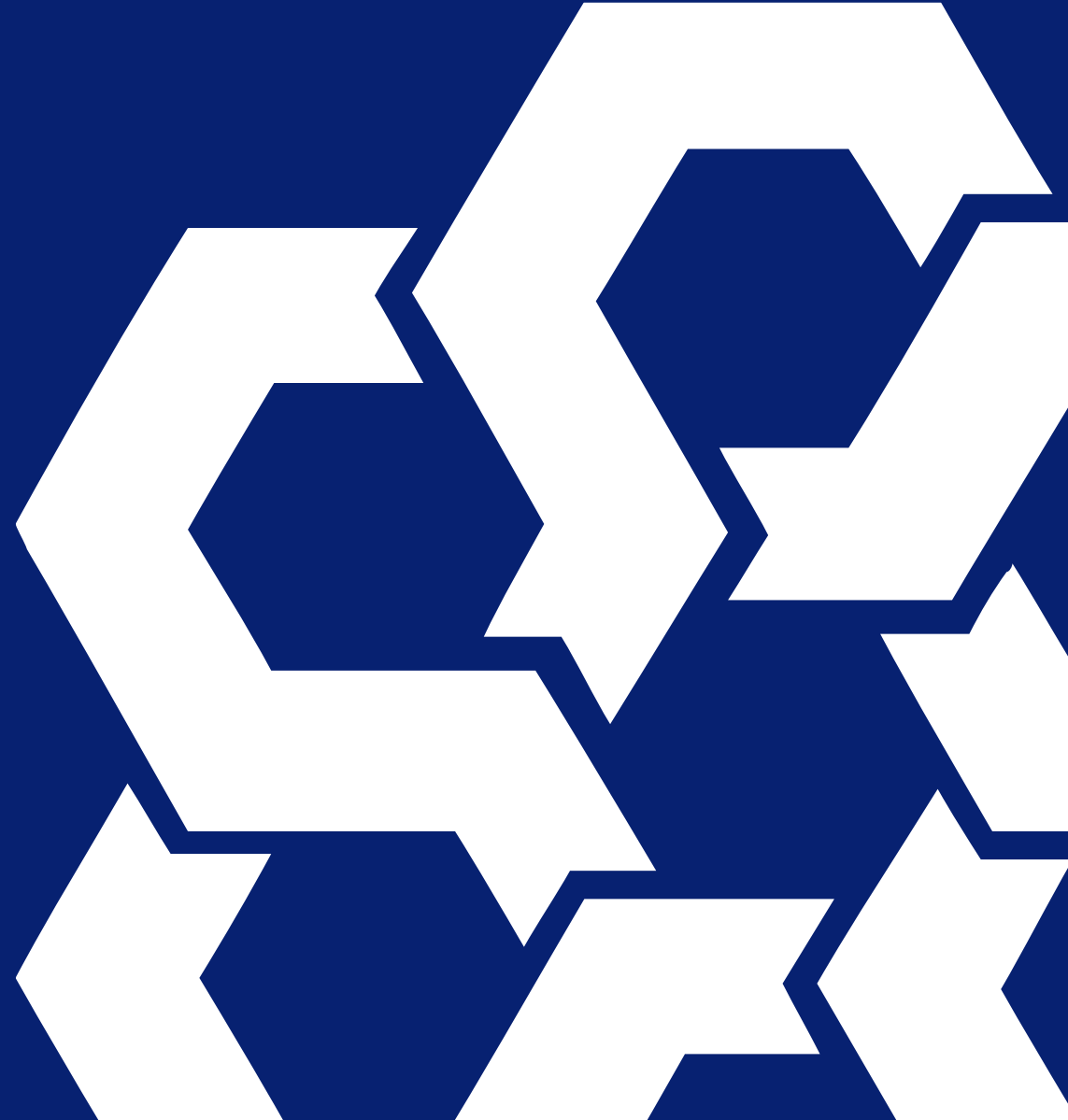
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### **Unit of account and offsetting** AP9A December 2023

- **Purpose:** discuss feedback on the proposals on the unit of account and on offsetting of regulatory assets and regulatory liabilities for presentation purposes.
  - **Tentative decision:** the Standard will:
    - a) clarify that the unit of account is the right or obligation arising from a difference in timing or from a group of differences in timing. The differences in timing included in that group would:
      - i. be created by the same regulatory agreement;
      - ii. have similar expiry patterns; and
      - iii. be subject to similar risks.
    - b) omit the proposal in paragraph 71 of the Exposure Draft that would have permitted an entity to offset regulatory assets and regulatory liabilities in the statement of financial position.
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## Question for ASAF members



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## Question for ASAF members

Do the IASB's tentative decisions on the following topics help address feedback from stakeholders in your jurisdiction:

- credit risk (slides 4–5);
- survey on the direct (no direct) relationship concept (slides 6–7);
- items affecting regulated rates only when related cash is paid or received (slides 8–9);
- presentation (slides 10–11); and
- unit of account and offsetting (slide 12)?

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## Appendix A—Outstanding redeliberations

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## Outstanding redeliberations

At the February 2024 meeting, the IASB redeliberated the proposals on:<sup>(\*)</sup>

- Boundary of a regulatory agreement;
- Amendments to IAS 36; and
- Disclosure.

The following items still need to be redeliberated:

- Discount rate, including the proposals on minimum interest rate;
- Items affecting regulated rates only when related cash is paid or received—whether to extent the proposals to other cases;
- Interaction between the model and IFRS 17 *Insurance Contracts*;
- Amendments to other IFRS Accounting Standards;
- Effective date and transition; and
- Expected effects of the prospective Accounting Standard.

<sup>(\*)</sup>: These topics will be brought for discussion with ASAF members at a future meeting.



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## Appendix B—Summary of tentative decisions previously discussed with ASAF members

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## Total Allowed Compensation (1/6)

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### Components of total allowed compensation AP9A July 2022<sup>1</sup>

- **Purpose:** discuss feedback on the proposed components of total allowed compensation in paragraph B2 of the Exposure Draft.
- **Tentative decision:** the application guidance will focus on helping entities to identify differences in timing instead of specifying the components of total allowed compensation. To do so, the application guidance will focus on the most common differences in timing that could arise from various types of regulatory schemes.

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### Regulatory returns on an asset not yet available for use AP9B and AP9C July 2022<sup>1</sup>

- **Purpose:** discuss feedback on the proposed treatment of returns on assets not yet available for use (paragraph B15 of the Exposure Draft).
- **Tentative decision:** the Standard will specify that when an entity has an enforceable present right to regulatory returns on an asset not yet available for use, those returns should form part of the total allowed compensation for goods or services supplied during the construction period of that asset. The Standard will provide guidance for entities to assess whether their rights to these regulatory returns are enforceable.

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1. Tentative decisions discussed at the September 2022 ASAF meeting.

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## Total Allowed Compensation (2/6)

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### **Proposed definition of allowable expense and benchmark expenses** AP9A October 2022<sup>2</sup>

- **Purpose:** discuss feedback on the proposed definition of allowable expense and the treatment of allowable expenses based on benchmarks.
- **Tentative decision:** the Standard will:
  - a) retain the proposed definition of allowable expense;
  - b) clarify that a regulatory agreement may determine the amount that compensates an entity for an allowable expense using a basis different from the basis the entity uses to measure the expense in accordance with IFRS Accounting Standards; and
  - c) clarify the treatment of allowable expenses based on benchmarks and include examples to help entities to identify differences in timing in those cases.

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2. Tentative decision discussed at the March 2023 ASAF meeting.

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## Total Allowed Compensation (3/6)

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### Regulatory assets and regulatory liabilities arising from differences between the regulatory recovery period and the asset's useful lives AP9B October 2022<sup>4</sup>

- **Purpose:** discuss feedback on the proposed treatment of regulatory assets or regulatory liabilities arising from differences between the regulatory recovery period and the assets' useful lives.
- **Tentative decision:** the Standard will:
  - a) provide guidance to help an entity determine whether its regulatory capital base and its property, plant and equipment have a direct relationship;<sup>2</sup>
  - b) retain the proposals for an entity to account for regulatory assets or regulatory liabilities arising from differences between the regulatory recovery period and the assets' useful lives if the entity has concluded that there is a direct relationship between its regulatory capital base and its property, plant and equipment; and
  - c) require an entity that has concluded that its regulatory capital base and its property, plant and equipment have no direct relationship to provide disclosures to enable users of financial statements to understand the reasons for its conclusion.

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3. ASAF members helped the staff identify entities in their jurisdictions or regions to participate in a survey. The input from that survey will be used to develop application guidance on the direct (no direct) relationship concept.

4. Tentative decision discussed at the March 2023 ASAF meeting.

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## Total Allowed Compensation (4/6)

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### Capitalised borrowing costs AP9A and AP9C November 2022<sup>5</sup>

- **Purpose:** discuss the accounting for regulatory returns on an asset not yet available for use when an entity capitalises borrowing costs to construct that asset.
- **Tentative decision:** the IASB decided that when an entity's regulatory capital base and its property, plant and equipment have a direct relationship and the entity capitalises its borrowing costs:
  - a) if the regulatory agreement provides the entity with both a debt and an equity return on an asset not yet available for use—to require the entity to reflect only those returns in excess of the entity's capitalised borrowing costs in the statement of financial performance during the construction period; and
  - b) if the regulatory agreement provides the entity with only a debt return on such an asset—to prohibit the entity from reflecting the return in the statement of financial performance during the construction period.

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### Inflation adjustment to the regulatory capital base AP9A December 2022<sup>5</sup>

- **Purpose:** discuss feedback on the proposals in the Exposure Draft dealing with inflation adjustments to an entity's regulatory capital base.
- **Tentative decision:** the Standard will specify that an entity is neither required nor permitted to recognise as a regulatory asset inflation adjustments to the regulatory capital base.

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5. Tentative decisions discussed at the March 2023 ASAF meeting.

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## Total Allowed Compensation (5/6)

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**Other items included  
in the regulatory  
capital base**  
AP9C December 2022<sup>6</sup>

- **Purpose:** discuss feedback on the proposals in the Exposure Draft for the accounting for allowable expenses or performance incentives included in an entity's regulatory capital base.
- **Tentative decision:** the Standard will specify that:
  - a) an entity is required to recognise a regulatory asset or a regulatory liability relating to an allowable expense or performance incentive included in its regulatory capital base when:
    - i. the entity's regulatory capital base and its property, plant and equipment have a direct relationship; and
    - ii. the entity has an enforceable present right (obligation) to add (deduct) the allowable expense or performance incentive to (from) future regulated rates.
  - b) an entity is neither required nor permitted to recognise a regulatory asset or a regulatory liability relating to an allowable expense or performance incentive included in its regulatory capital base when the entity's regulatory capital base and its property, plant and equipment have no direct relationship.

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6. Tentative decision discussed at the March 2023 ASAF meeting.

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## Total Allowed Compensation (6/6)

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### Total allowed compensation— performance incentives

AP9D February 2023<sup>7</sup>

- **Purpose:** discuss feedback on the proposed accounting treatment for performance incentives, except long-term performance incentives.
- **Tentative decision:** the Standard will retain the proposed requirement relating to performance incentives. Amounts relating to performance incentives should form part of or reduce the total allowed compensation for goods or services supplied in the period in which the entity's performance gives rise to the incentive. These amounts would include those that result from an entity's performance of construction work.

### Long-term performance incentives

AP9A April 2023<sup>7</sup>

- **Purpose:** discuss feedback on the proposals dealing with the recognition and measurement of regulatory assets and regulatory liabilities arising from long-term performance incentives.
- **Tentative decision:** the Standard will retain the proposal to require an entity to estimate the amount of a long-term performance incentive, and to determine the portion of that estimated amount that relates to the reporting period using a reasonable and supportable basis.

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7. Tentative decisions discussed at the September 2023 ASAF meeting.



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## Scope (1/4)

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### **Determining whether a regulatory agreement is within the scope of the proposals**

AP9B February 2022<sup>8</sup>

- **Purpose:** to reconfirm specific aspects of the proposals on the scope and address concerns raised about the difficulty of determining whether a regulatory agreement is within the scope of the Standard.
- **Tentative decision:**
  - a) The IASB decided:
    - i. an entity applies the Standard to all regulatory assets and regulatory liabilities;
    - ii. the Standard applies to all regulatory agreements and not only to those that have a particular legal form; and
    - iii. the conditions necessary for a regulatory asset and regulatory liability to exist.
  - b) The IASB decided:
    - i. not explicitly to specify in the Standard which regulatory schemes would be within or outside its scope.
    - ii. the Standard will clarify the relevance of features of some regulatory agreements for entities to determine whether they are in its scope.

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8. Tentative decision discussed at the March 2022 ASAF meeting.



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## Scope (2/4)

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### **Definition of a regulator**

AP9C February 2022<sup>9</sup>

- **Purpose:** to address concerns on the lack of clarity of whether a regulator is required for a regulatory asset or regulatory liability to exist.
- **Tentative decision:** the IASB decided the Standard will:
  - a) include the existence of a regulator as part of the conditions necessary for a regulatory asset or a regulatory liability to exist.
  - b) define a regulator as ‘a body that is empowered by law or regulation to determine the regulated rate or a range of regulated rates’.
  - c) include guidance to clarify self-regulation.

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9. Tentative decision discussed at the March 2022 ASAF meeting.

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## Scope (3/4)

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### Interaction with IFRIC 12 AP9A September 2022<sup>10</sup>

- **Purpose:** discuss feedback on the interaction between the proposals in the Exposure Draft and IFRIC 12 *Service Concession Arrangements*.
- **Tentative decision:** the Standard will:
  - a) clarify the intended interaction between the Standard and IFRIC 12. That is, an entity would apply IFRIC 12 first and then apply the requirements of the Standard to any remaining rights and obligations to determine if the entity has regulatory assets or regulatory liabilities.
  - b) include examples to illustrate that interaction.

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10. Tentative decision discussed at the March 2023 ASAF meeting.

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## Scope (4/4)

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### Customers

AP9D May 2022<sup>11</sup>

- **Purpose:** to address application questions raised by stakeholders relating to the term ‘customers’ in the Exposure Draft.
- **Tentative decision:** the IASB decided that for a regulatory asset or a regulatory liability to arise, it is necessary that differences in timing originate from, and reverse through, amounts included in the regulated rates that an entity accounts for as revenue in accordance with IFRS 15 *Revenue from Contracts with Customers*.

This would imply that the term ‘customers’ in the Exposure Draft should be understood as defined in IFRS 15.

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### Financial instruments within the scope of IFRS 9

AP9E May 2022<sup>11</sup>

- **Purpose:** to clarify the interaction between the model and IFRS 9 *Financial Instruments*.
- **Tentative decision:** the expectation is that regulatory assets or regulatory liabilities would not arise from financial instruments within the scope of IFRS 9. Because of this, the IASB decided not to exclude from the scope of the Standard regulatory assets or regulatory liabilities related to financial instruments within the scope of IFRS9. Instead the Basis for Conclusions will explain that the regulation of interest rates is typically limited to setting a cap or floor on interest rates. This type of regulation is not expected to give rise to differences in timing.

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11. Tentative decisions discussed at the September 2022 ASAF meeting.

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## Tentative decisions—Recognition (1/3)

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### The recognition threshold

AP9B February 2023<sup>12</sup>

- **Purpose:** discuss feedback on the proposed recognition threshold for regulatory assets and regulatory liabilities.
- **Tentative decision:** the Standard will:
  - a) retain the proposal to require an entity to recognise a regulatory asset or a regulatory liability whose existence is uncertain if it is more likely than not that such an asset or liability exists;
  - b) not include a recognition threshold based on the probability of a flow of economic benefits;
  - c) not include a recognition threshold based on the level of measurement uncertainty, except for those regulatory assets and regulatory liabilities described in paragraph (e);
  - d) retain the proposed symmetric recognition threshold for regulatory assets and regulatory liabilities; and
  - e) require an entity to recognise a regulatory asset or regulatory liability—whose measurement depends on a regulatory benchmark determined after the financial statements are authorised for issue—when the regulator determines the benchmark.

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12. Tentative decision discussed at the September 2023 ASAF meeting.

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## Tentative decisions—Recognition (2/3)

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### Enforceability and recognition

AP9C February 2023<sup>13</sup>

- **Purpose:** discuss feedback on the proposed requirements on the interaction between the assessment of enforceability and the recognition of regulatory assets and regulatory liabilities.
- **Tentative decision:** the Standard will:
  - a) retain and clarify the proposed single assessment for the existence of enforceable present rights and enforceable present obligations at the level of the individual regulatory assets or regulatory liabilities.
  - b) clarify that rights and obligations can be enforceable even if their existence is uncertain.
  - c) include requirements for assessing the existence of enforceable present rights for regulatory returns on an asset not yet available for use, and for assessing the existence of enforceable present rights or enforceable present obligations for long-term performance incentives. Those requirements will be developed considering the principles in paragraph 35(c) of IFRS 15 *Revenue from Contracts with Customers* that relate to an entity's right to payment for performance completed to date.

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13. Tentative decision discussed at the September 2023 ASAF meeting.

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## Tentative decisions—Recognition (3/3)

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### Timing of initial recognition

AP9A May 2023<sup>14</sup>

- **Purpose:** discuss feedback on the proposed requirements on the initial recognition of regulatory assets and regulatory liabilities.
- **Tentative decision:** the Standard will retain:
  - a) the proposal to require recognition of all regulatory assets and all regulatory liabilities existing at the end of the reporting period; and
  - b) the proposal to treat any regulatory assets or regulatory liabilities arising from regulated rates denominated in a foreign currency as monetary items when applying IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

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14. Tentative decision discussed at the September 2023 ASAF meeting.

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## Tentative decisions—Derecognition (1/2)

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### **Derecognition** AP9B April 2023<sup>15</sup>

- **Purpose:** discuss feedback on the proposed requirements relating to the derecognition of regulatory assets and regulatory liabilities.
- **Tentative decision:** the Standard will:
  - a) require an entity to derecognise:
    - i. a regulatory asset as it recovers part or all of the regulatory asset by adding amounts to future regulated rates charged to customers; and
    - ii. a regulatory liability as it fulfils part or all of the regulatory liability by deducting amounts from future regulated rates charged to customers.
  - b) explain that the derecognition of regulatory assets and regulatory liabilities, as described in paragraph (a), is the most common way in which regulatory assets and regulatory liabilities would be derecognised. Therefore, in applying the recognition and measurement requirements at the end of each reporting period, an entity would not be required to consider explicitly when and how its regulatory assets and regulatory liabilities should be derecognised.
  - c) clarify that an entity would derecognise a regulatory asset or a regulatory liability if the asset or liability ceased to meet the ‘more likely than not’ recognition threshold.

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## Tentative decisions—Derecognition (2/2)

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### **Derecognition** AP9B April 2023<sup>16</sup>

- **Tentative decision:** the Standard will:
  - d) include guidance on the derecognition of regulatory assets and regulatory liabilities settled by a regulator or another designated body. The guidance would also require an entity to recognise the difference between the derecognised regulatory asset or regulatory liability and any new asset or liability in profit or loss.
  - e) specify that if a regulatory asset or a regulatory liability is added to or deducted from an entity's regulatory capital base and the entity's regulatory capital base has no direct relationship with its property, plant and equipment, the entity would derecognise:
    - i. the regulatory asset and recognise any associated regulatory expense in profit or loss; and
    - ii. the regulatory liability and recognise any associated regulatory income in profit or loss.

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16. Tentative decision discussed at the September 2023 ASAF meeting.



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## Tentative decisions—Measurement

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### **Estimating uncertain future cash flows** AP9B June 2023<sup>17</sup>

- **Purpose:** discuss feedback on the proposals in the Exposure Draft dealing with the estimation of uncertain future cash flows.
- **Tentative decision:** the Standard will:
  - a) retain the proposal that an entity estimate uncertain future cash flows using whichever of the two methods—the ‘most likely amount’ method or the ‘expected value’ method—the entity expects would better predict the cash flows;
  - b) require an entity to reassess the method of estimating uncertain future cash flows only if there is a significant change in facts and circumstances such that the entity no longer expects the method to better predict the cash flows;
  - c) clarify that when an entity uses the ‘expected value’ method to estimate uncertain future cash flows the entity should consider the entire range of outcomes, including those outcomes in which a regulatory asset or a regulatory liability would not exist, or would exist but produce no future cash flows; and
  - d) retain the proposal not to require a separate impairment test for regulatory assets.

The Standard will not provide additional guidance on circumstances in which the ‘most likely amount’ method might better predict uncertain future cash flows.

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17. Tentative decision discussed at the September 2023 ASAF meeting.

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