
Agenda paper 6

Update on the IASB's activities

October 2023—March 2024

IFRS Advisory Council
April 2024

Update on the IASB's activities

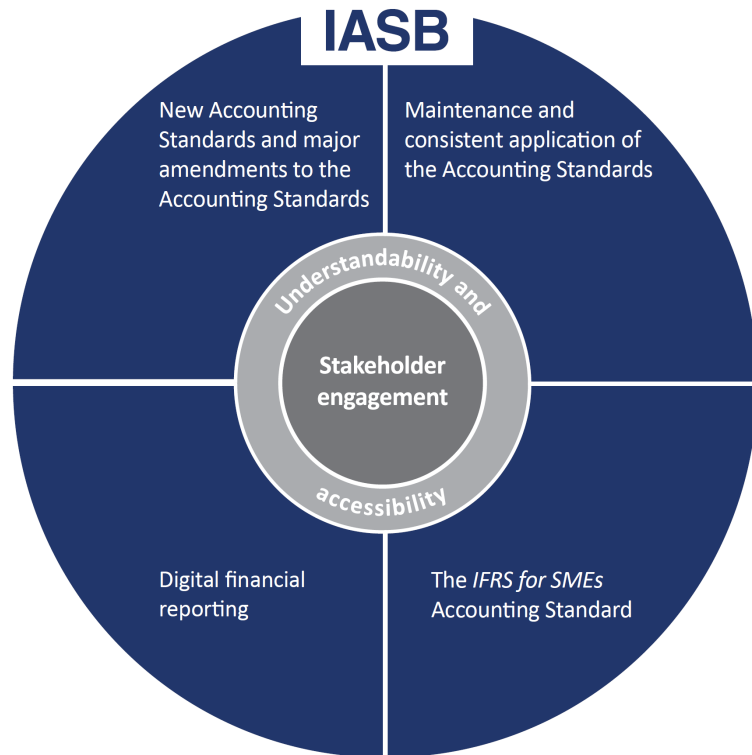
Contents

- Significant developments: October 2023—March 2024
- Snapshot of what's on the horizon
- Deep dive—projects dealing with climate-related matters in the financial statements

Appendix: Stakeholder engagement activities and Detailed description of projects

Significant developments: October 2023—March 2024

The IASB's activities – more than standard-setting!



Type of project	as of 27 March 2024
Post-implementation reviews	2
Standard-setting and research projects	10
Maintenance projects	8
IFRS Taxonomy projects	2
Total	22

- 1** Forthcoming Standards and Amendments
- 2** Published consultations
- 3** Forthcoming consultations
- 4** Changes to the work plan
- 5** Other forthcoming publications

1 Final Standards and Amendments

Forthcoming Standards and Amendments

1. April 2024: IFRS 18 *Presentation and Disclosure in Financial Statements*
2. May 2024: IFRS 19 *Subsidiaries without Public Accountability: Disclosures*
3. May 2024: Amendments to the classification and measurement of financial instruments (IFRS 9)
4. Q3 2024: Annual Improvements to IFRS Accounting Standards
5. Third edition of the *IFRS for SMEs* Accounting Standard

Consultations

2 Published consultations

1. Proposed IFRS Taxonomy update 2023—*Common Practice (Financial Instruments) and General Improvements*
2. Exposure Draft *Financial Instruments with Characteristics of Equity* (amendments to IAS 32)
3. Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment* project (amendments to IFRS 3 and IAS 36)

3 Forthcoming consultations

1. March 2024: Addendum to the Exposure Draft Third edition of the *IFRS for SMEs Accounting Standard*
2. May 2024: Exposure Draft *Power Purchase Agreements* project (amendments to IFRS 9)
3. July 2024: Exposure Draft updating the *Subsidiaries without Public Accountability: Disclosures Standard*
4. Q2 2024: Proposed IFRS Taxonomy Update—*Primary Financial Statements*
5. Q3 2024: Exposure Draft *Use of a Hyperinflationary Presentation Currency by a Non-hyperinflationary Entity* project (amendments to IAS 21)
6. H2 2024: Proposed IFRS Taxonomy Update—*Subsidiaries without Public Accountability: Disclosures and Amendments to IFRS 7 and IFRS 9*
7. H2 2024: Exposure Draft *Equity Method* project (amendments to IAS 28)
8. H2 2024: Exposure Draft *Provisions—Targeted Improvements* projects (clarifications to IAS 37)

Changes to the work plan 4

1. Decided to stop the work on the *Business Combinations under Common Control* project
2. Added project *Use of a Hyperinflationary Presentation Currency by a Non-hyperinflationary Entity (IAS 21)* to the work plan
3. Added project *Updating the Subsidiaries without Public Accountability: Disclosures Standard* to the work plan
4. Added project *Addendum to the Exposure Draft Third edition of the IFRS for SMEs Accounting Standard* to the work plan
5. IFRS 19 *Subsidiaries without Public Accountability: Disclosures*: publication date was changed from late April 2024 to early May 2024

5 Other forthcoming publications

1. *Business Combinations under Common Control* project: project summary in April 2024
2. Post-implementation Review (PIR) of IFRS 9—Impairment: feedback statement in Q3 2024
3. PIR of IFRS 15 *Revenue from Contracts with Customers*: feedback statement in H2 2024

Starting New Projects: Possible Outlook

1. *Intangible assets*: decided in Third Agenda Consultation
2. *Statement of Cash Flows and Related Matters*: decided in Third Agenda Consultation
3. PIR of IFRS 16 *Leases* to start in Q2 2024: required by Due Process Handbook
4. *Amortised Cost Measurement*: arose from PIR of classification and measurement requirements in IFRS 9 (see next slide)

Amortised Cost Measurement

- This project will aim to review matters relating to the requirements in IFRS 9 *Financial Instruments* for amortised cost measurement that have been identified through the PIR of IFRS 9—Classification and Measurement
- The project will consider modifications of financial assets and liabilities, the application of the effective interest method to floating rate financial instruments and the interaction of these two areas
- The project may also consider any additional findings from the PIR of IFRS 9—Impairment

Connectivity

Connectivity (October 2023 – March 2024)	Connections in our processes	Connections in our products	Connections in general purpose financial reports
<ul style="list-style-type: none"> • <u>IASB-ISSB public joint education meeting in January 2024</u> • <u>Joint IASB-ISSB podcast with Linda Mezon-Hutter and Sue Lloyd</u> • Progress on IASB’s project on <i>Climate-related and Other Uncertainties in the Financial Statements</i> • Continued sharing of staff expertise • Continued embedding of process 			

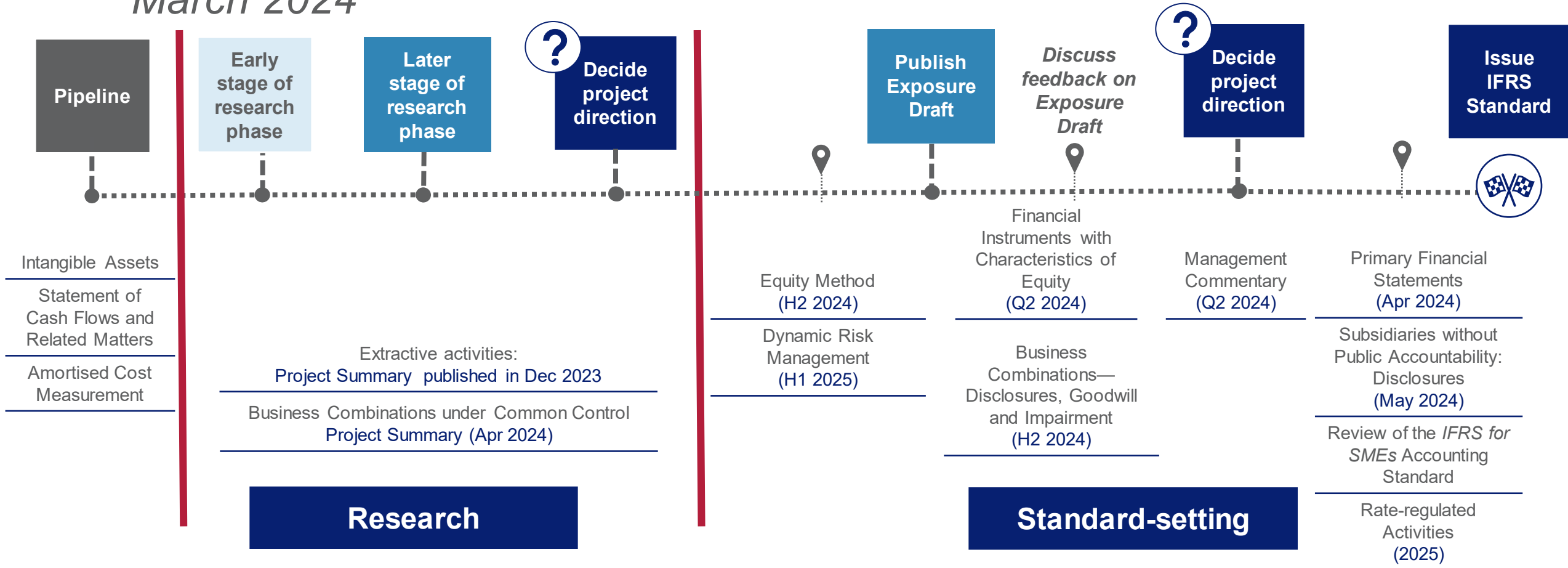




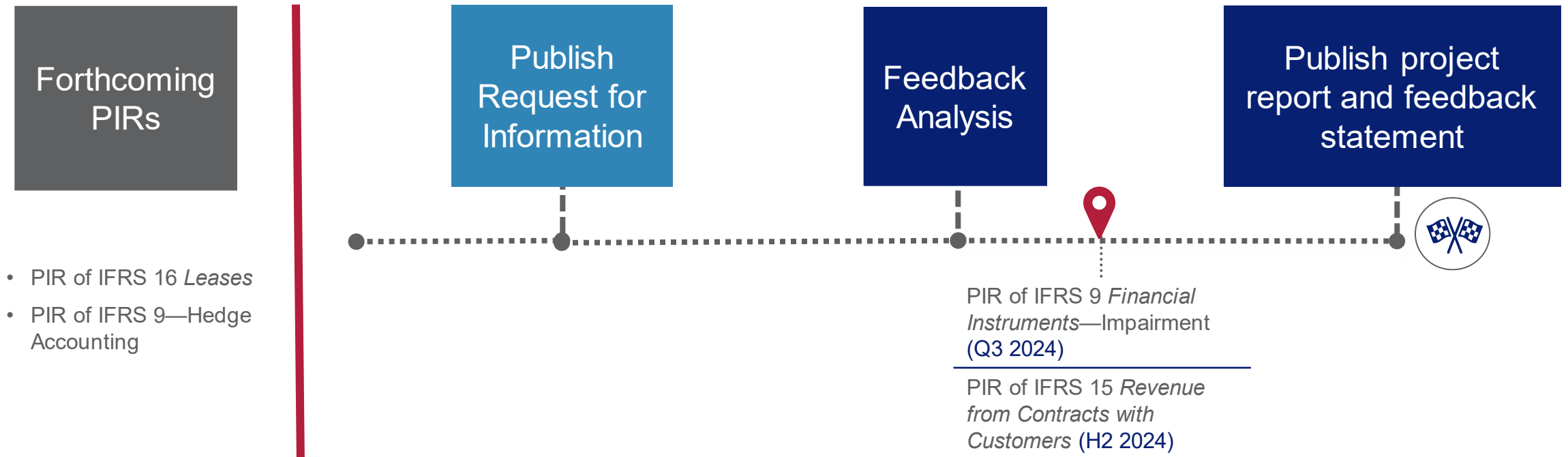
Snapshot of what is on the horizon

Snapshot of what's on the horizon: Research and standard-setting projects

March 2024

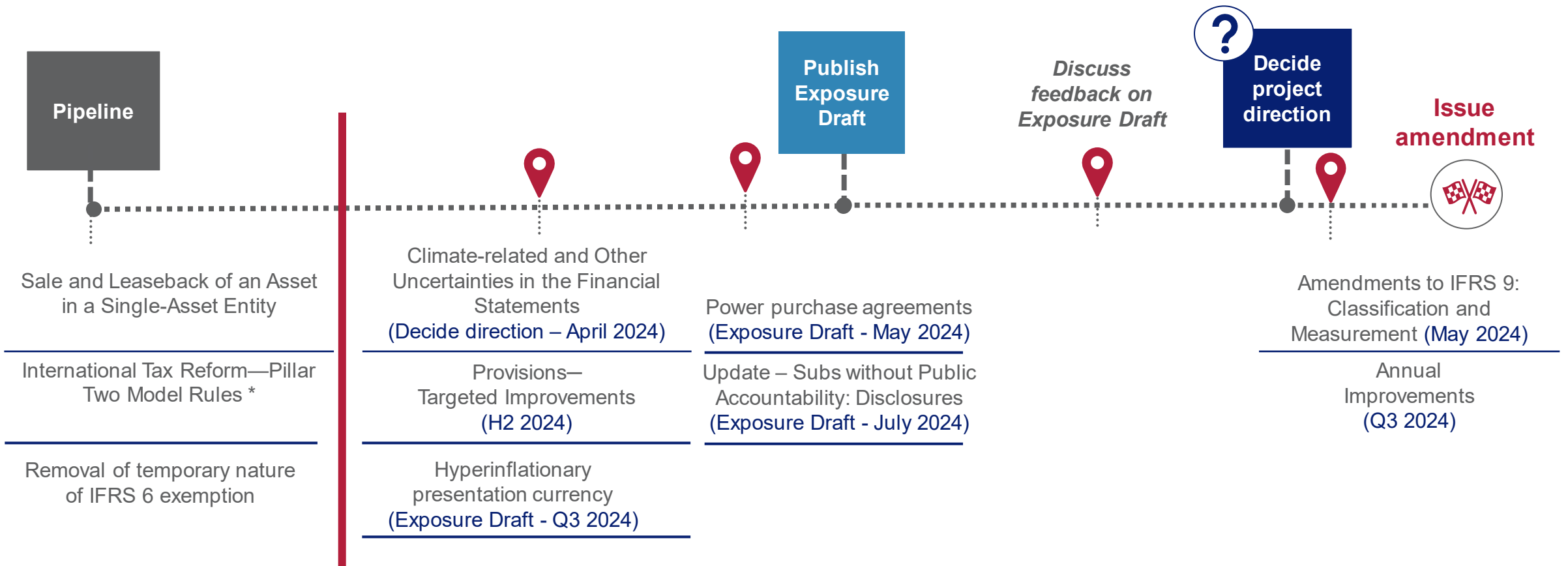


Snapshot of what's on the horizon: Post-implementation reviews (PIRs) *March 2024*



Snapshot of what's on the horizon: Maintenance projects

March 2024



* To determine whether to remove or make permanent the temporary exception

Projects dealing with climate-related matters in the financial statements

- 1** Climate-related and Other Uncertainties in the Financial Statements
-
- 2** Amendments to the Classification and Measurement of Financial Instruments
 - 3** Power Purchase Agreements
 - 4** IFRS Interpretations Committee Agenda Decision on Climate-related Commitments
 - 5** Post-implementation Review of IFRS 9—Impairment

1

Climate-related and Other Uncertainties in the Financial Statements

2

Origins of the project

3



4

- In the IASB's Third Agenda Consultation, respondents attributed **high-priority** to a project on climate-related risks in the financial statements
- Concerns that information about climate-related risks in financial statements is:
 - **insufficient**
 - **inconsistent** with information reported elsewhere by the company

1

Climate-related and Other Uncertainties in the Financial Statements

2

Project overview

3

Project objective

Explore **targeted** actions to improve the reporting of **climate-related and other uncertainties** in the **financial statements**

4

[Link to project page](#)

March 2023

April–August 2023

September 2023

October 2023–February 2024



Project starts

Research, outreach and analysis

Decisions

Further outreach, analysis and next steps

Next steps

The staff expect to ask the IASB to make decisions at its April 2024 meeting.

1

Climate-related and Other Uncertainties in the Financial Statements

2

Focus of the project

3



- **Targeted actions** such as:
 - examples and educational materials
 - targeted amendments to IFRS Accounting Standards
 - article about the role of financial statements
 - a submission to IFRS IC about the recognition of liabilities for climate-related commitments

4



- This project will **not** seek to:
 - develop an Accounting Standard on climate-related risks;
 - broaden the objective of financial statements;
 - change the definitions of assets and liabilities; or
 - develop accounting requirements for pollutant pricing mechanisms.¹

¹ *Pollutant Pricing Mechanisms* is on a reserve list of projects that may be added to the IASB's work plan if stakeholders and the IASB have sufficient capacity.

1

Amendments to IFRS 9: Classification and Measurement

2

3

4



Narrow-scope amendments in response to the PIR of IFRS 9



1. Contractual cash flow characteristics of financial assets
2. Derecognition of financial liabilities settled through electronic cash transfers
3. Disclosure requirements for equity instruments for which fair value changes are presented in other comprehensive income

Clarification how to apply SPPI test to ESG-related instruments (**no blanket exception!**)

Creation of an exception to accounting on settlement date if certain conditions are met

Additional disclosures to complement the existing requirements



Final amendment expected in May 2024
Effective date – 1 January 2026

1

Power Purchase Agreements (PPAs)

2

3

Objective

- Explore whether narrow-scope amendments could be made to better reflect PPAs in financial statements

4

Project scope

- Own-use requirements for physical PPAs
- Hedge accounting requirements for using as a hedging instrument virtual PPAs or physical PPAs that are accounted for as derivatives

[see next slides]

Next steps

- Publish Exposure Draft in May 2024
- Final amendments to IFRS 9 expected to be published by the end of 2024, available for application as soon as possible after finalisation

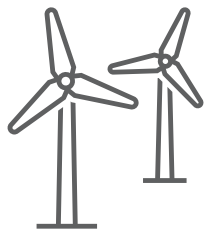
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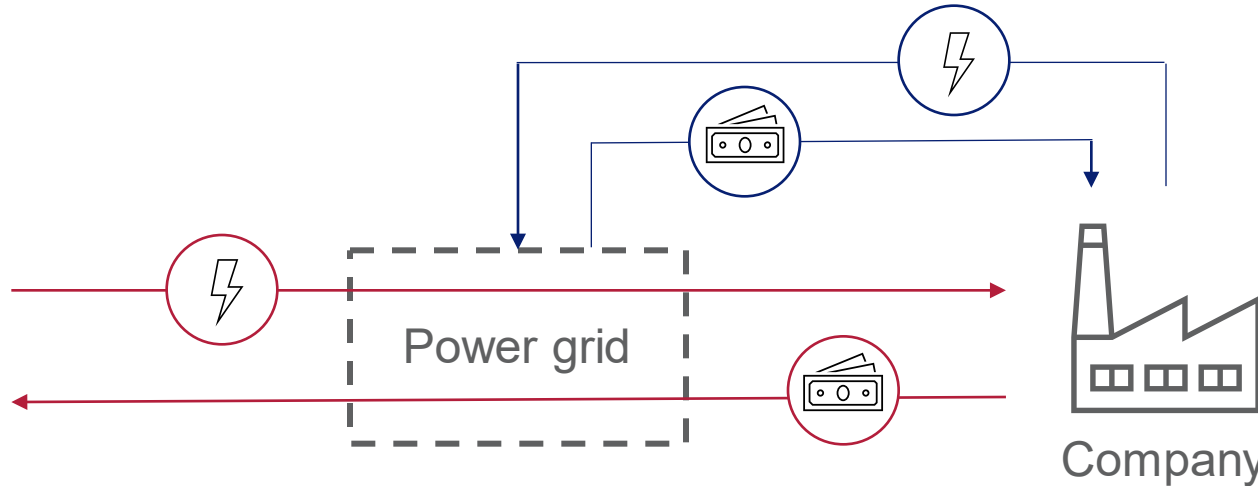
3

4

Physical power purchase agreements



Renewable power producer



1

Physical PPA



The producer delivers power to the company by crediting their account with the grid.



The company pays a fixed price for the power delivered.

2



The company sells any unused power to the grid



The company receives the spot price for the power sold

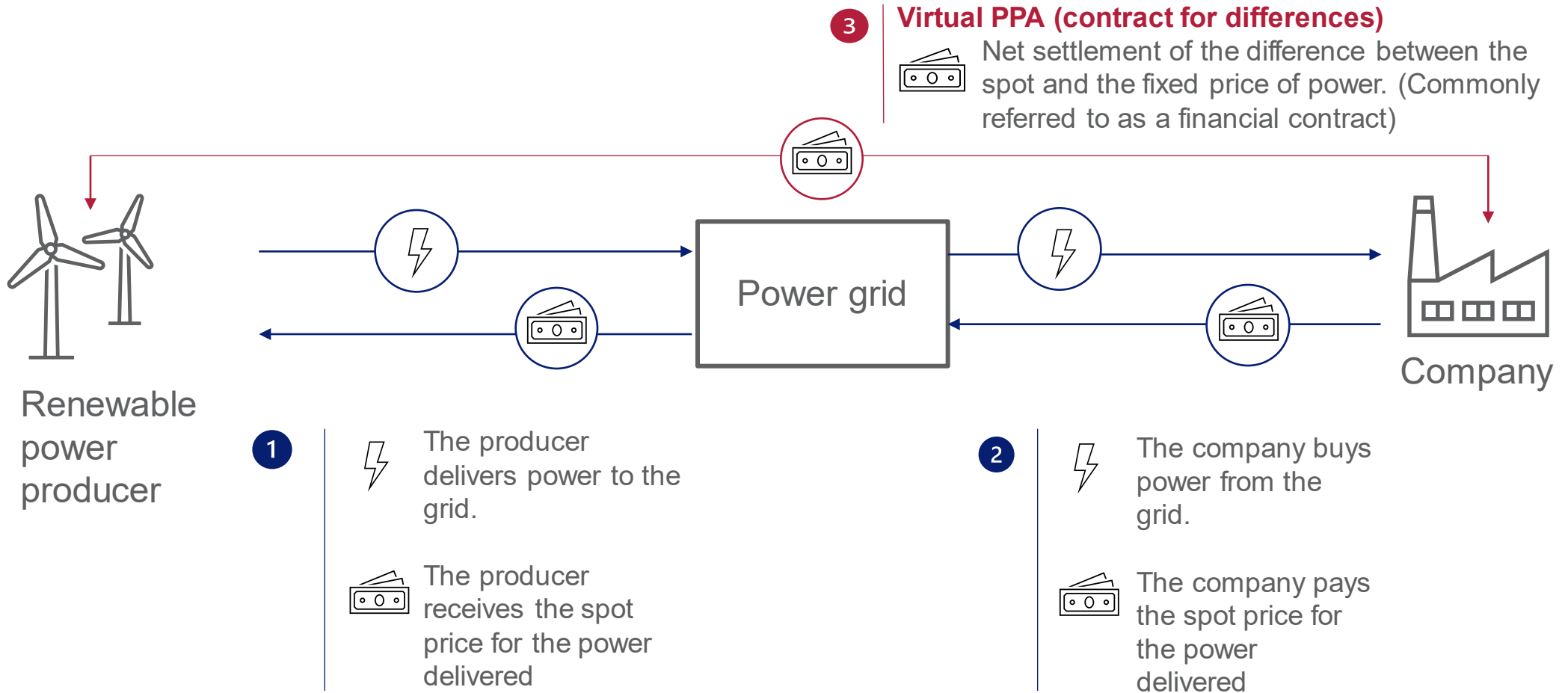
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2

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4

Virtual power purchase agreements



1

⚡ The producer delivers power to the grid.

💰 The producer receives the spot price for the power delivered

2

⚡ The company buys power from the grid.

💰 The company pays the spot price for the power delivered

3

Virtual PPA (contract for differences)

💰 Net settlement of the difference between the spot and the fixed price of power. (Commonly referred to as a financial contract)

Renewable power producer

Power grid

Company

1

2

3

4

IFRS Interpretations Committee Agenda Decision on Climate-related Commitments

Query

- Entity has a commitment to reduce or offset its future greenhouse gas emissions
- Should the entity record a provision for the costs of fulfilling a commitment?

Committee's conclusions

- Not necessarily. The entity records a provision only:
- if the commitment creates a constructive obligation; and
 - if and when that constructive obligation becomes a present obligation

Next step

- Publish Agenda Decision subject to the IASB's approval in April 2024



An obligation to **reduce** emissions never becomes a present obligation. The costs of reducing future emissions are costs of operating in the future.



An obligation to **offset** emissions becomes a present obligation only when the entity has emitted the gases it committed to offset.

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Appendix:

- Stakeholder engagement activities
- Detailed description of projects

Stakeholder engagement

Consultative Groups

- Accounting Standards Advisory Forum (4 Dec, 29 Jan, 25-26 Mar)
- Capital Markets Advisory Committee (19 Oct, 8 Mar)
- Consultative Group for Rate Regulation (13 Oct, 30 Nov)
- Emerging Economies Group (30 – 31 Oct)
- Global Preparers Forum (10 Nov, 1 Mar)
- IFRS Advisory Council (7-8 Nov)
- IFRS Interpretations Committee (28 – 29 Nov, 5 Mar)
- IFRS Taxonomy Consultative Group (12 – 13 Oct, 1 Feb)
- Integrated Reporting and Connectivity Council (9 Nov, 30 Jan)
- Islamic Finance Consultative Group (23 Nov)
- SME Implementation Group (5 Dec)

Other events

- IASB Research Forum (2-3 Nov)

Standard-setting projects

IFRS 18 *Presentation and Disclosure in Financial Statements*



New required subtotals in statement of profit or loss, including ‘operating profit’



Disclosures about **management-defined performance measures** (MPMs)



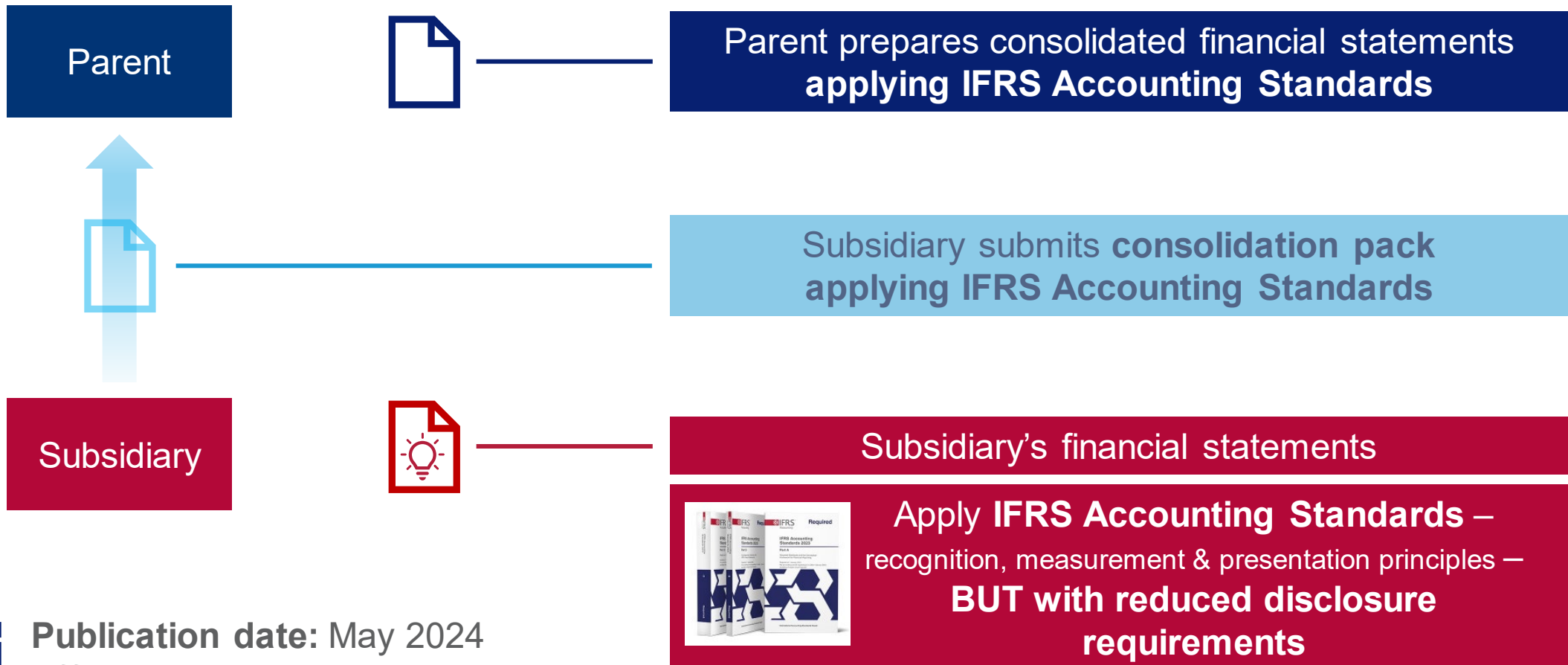
Enhanced guidance on grouping of information (**aggregation and disaggregation**)

Better information for better decisions
– increases comparability, transparency and usefulness of information



Publication date: April 2024
Effective date: 1 January 2027

IFRS 19 *Subsidiaries without Public Accountability: Disclosures*



Publication date: May 2024
Effective date: 1 January 2027



Objective: **Simplify and reduce the cost** of financial reporting for subsidiaries while maintaining the usefulness of their financial statements

Financial Instruments with Characteristics of Equity



Address questions in applying IAS 32:

- The effects of relevant laws or regulations
- Fixed-for-fixed condition for derivatives
- Obligation to purchase an entity's own equity instruments
- Contingent settlement provisions
- Shareholder discretion
- Reclassification of financial liabilities and equity instruments



Approach:

- Address practice issues by clarifying underlying classification principles
- Improve presentation and disclosure
- Provide application guidance and illustrative examples



Exposure draft published in Q4 2023
Comment period closes 29 March 2024

Business Combinations—Disclosures, Goodwill and Impairment



More useful information about acquisitions:

- investors receive insufficient information about the performance of acquisitions
- impairment losses on goodwill are sometimes recognised too late
- impairment tests for goodwill are costly and complex



Approach:

- Require disclosure about the performance of acquisitions and expected synergies (subject to an exemption for commercial sensitivity)
- Improvements to the impairment test



Exposure draft published in March 2024
Comment period closes 15 July 2024

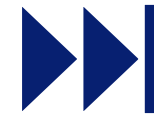
Equity Method



- ✓ Address application questions in IAS 28
- ✓ No fundamental rethink of the equity method



Investments in associates
+
Investments in joint ventures



Drafting an Exposure Draft

Areas where the application of the equity method was clarified:

- Ownership changes
- Recognition of losses
- Transactions with (and between) associates
- Contingent consideration
- Others



Exposure draft publication date:
H2 2024

Review of the *IFRS for SMEs* Accounting Standard

Objective

- To update the *IFRS for SMEs* Accounting Standard to reflect improvements that have been made in full IFRS Accounting Standards (in the scope of this review) while keeping the Standard simple

Approach

- The alignment approach uses the following principles to identify possible amendments:
 - relevance to SMEs;
 - simplicity; and
 - faithful representation, including the assessment of costs and benefits

Next milestone

- Discuss feedback on the [Exposure Draft](#) published in September 2022
- March 2024: publish Addendum to the Exposure Draft that covers Supplier Finance Arrangements and Lack of Exchangeability (Amendments to IAS 21)
- Issue the Third edition of the *IFRS for SMEs* Accounting Standard

Management Commentary

Objective

- Overhaul IFRS Practice Statement 1—building on innovations in narrative reporting and focusing on capital market needs

Evolving landscape

- Support for the project, in particular from investors
- Calls to work together with the ISSB—the Boards jointly discussed feedback on ISSB’s consultation on agenda priorities in January 2024
- IASB discussed staff’s comparison with *Integrated Reporting Framework* and feedback on comparison

Next milestone

- Decide project direction in Q2 2024

Dynamic Risk Management

Objective

- Develop an accounting model to better reflect the effect of dynamic risk management in a company's financial statements

DRM model

- The DRM model addresses the challenges in applying the hedge accounting requirements to dynamic interest rate risk management activities
- Showing the effect of using derivatives to mitigate repricing risk on the current net open risk position
- Tentative decisions made about the mechanics of the DRM model and
- Next focus area is presentation and disclosure requirements

Next milestone

- Publish Exposure Draft – expected in H1 2025

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

Proposals

- In some cases, rate regulation creates differences in timing that arise when compensation for goods or services supplied in one period is included in the regulated rate charged in a different period
- Reflect compensation for goods or services in the period goods or services are supplied
- Require recognition of regulatory assets, regulatory liabilities, regulatory income and regulatory expense

Next milestone

- Issue IFRS Accounting Standard – expected in 2025



Post-implementation reviews



PIR of IFRS 9—*Financial Instruments*: Impairment

Objective

- Assess the effects on stakeholders of applying the expected credit losses (ECL) requirements to financial instruments

Request for Information feedback

- Overall, the PIR feedback is positive. Almost all respondents said that the ECL requirements:
 - result in more timely recognition of credit losses compared to IAS 39; and
 - work as intended with no fundamental questions (‘fatal flaws’)
- Respondents however identify specific application challenges and suggest the IASB make targeted improvements to the requirements, including disclosure requirements.

Next milestone

- The IASB continues its deliberations of the feedback on the Request for Information
- The IASB expects to complete its deliberations by the end of Q2 2024

PIR of IFRS 15—*Revenue from Contracts with Customers*

Objective

- Assess whether the effects of applying IFRS 15 on users of financial statements, preparers, auditors and regulators are as intended when the Standard was issued

Request for Information feedback

- Overall, the PIR feedback is positive:
 - IFRS 15 has achieved its objective and is working well;
 - the five-step model is suitable for analysing contracts of varying complexity; and
 - no fundamental questions about the objective and the core principle.
- Respondents identified specific application challenges and for most of them suggested the IASB provide application guidance, illustrative examples and/or educational materials

Next milestone

- The IASB continues its deliberations of the feedback on the Request for Information
- The IASB expects to complete its deliberations in H2 2024

Maintenance and consistent application

Updating the Subsidiaries without Public Accountability: Disclosures Standard

Objective

- Propose amendments to the forthcoming Subsidiaries without Public Accountability: Disclosures Standard

Project scope

- Develop reduced versions of any disclosure requirements in IFRS Accounting Standards that were added or amended after 28 February 2021

Next steps

- Publish Exposure Draft in July 2024

Amendments to IAS 21: Use of a Hyperinflationary Presentation Currency by a Non-hyperinflationary Entity

Objective

- Narrow-scope amendments to IAS 21 to improve the usefulness of the financial information reported by entities that present financial statements in a hyperinflationary currency.

Areas of focus

- To provide a relevant translation method applicable to entities whose functional currency is the currency of a non-hyperinflationary currency but whose financial statements are presented in a currency of a hyperinflationary economy.

Next milestone

- Exposure Draft
- Publication target Q3 2024

Provisions: scope—three targeted improvements



1. Recognition: amend and clarify requirements for a ‘present obligation’—applying revised *Conceptual Framework*.
2. Measurement: specify discount rate more precisely—whether to include or exclude credit risk.
3. Measurement: specify that costs of settling a provision include both incremental costs and an allocation of other directly related costs.



Disentangle and separately explain three conditions:

1. STRENGTH condition
2. NATURE condition
3. TIMING condition

Require use of a rate that reflects the time value of money with no adjustment for non-performance risk

1. Incremental cost of settling the obligation
2. Allocation of other costs that relate directly to settling obligations of that type



Exposure draft publication date:
H2 2024

Annual Improvements to IFRS Accounting Standards

Objective

- Propose amendments to IFRS Accounting Standards that either:
 - clarify wording; or
 - correct relatively minor unintended consequences, oversights or conflicts between existing requirements

In scope

- IFRS 1 *First-time Adoption of International Financial Reporting Standards*
- IFRS 7 *Financial Instruments: Disclosures*
- IFRS 9 *Financial Instruments*
- IFRS 10 *Consolidated Financial Statements*
- IAS 7 *Statement of Cash Flows*

Next milestone

- Final amendments to IFRS Accounting Standards expected in Q3 2024