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## Global Preparers Forum meeting

Date **11 November 2022**

Topic **IASB and IFRS Interpretations Committee Update**

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This paper has been prepared for discussion at a public meeting of the Global Preparers Forum. This paper does not represent the views of the International Accounting Standards Board (IASB) or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in the *IASB Update*.

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# Overview

- Update on current work plan
- Overview: Research projects
- Overview: Standard-setting projects
- Overview: Maintenance projects
- New requirements
- Recent agenda decisions and other work of the IFRS Interpretations Committee

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# Update on current work plan



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# Developments since the last meeting

## Project

Lease Liability in a Sale and Leaseback

Narrow-scope amendments  
to IFRS 16 *Leases*

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Post-implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*

Feedback Statement

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Third Agenda Consultation

Feedback Statement






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Third Edition of the IFRS for SMEs Accounting Standard (comment period ending 7 March 2023)

Exposure Draft

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# Third Agenda Consultation feedback

Research project pipeline		Intangible Assets—this project will aim to review IAS 38 <i>Intangible Assets</i> comprehensively.
		Statement of Cash Flows and Related Matters—as part of the research phase on such a project, the IASB will consider whether the project should aim to review IAS 7 <i>Statement of Cash Flows</i> comprehensively or make more targeted improvements
Maintenance project pipeline		Climate-related Risks in the Financial Statements—this project will consider whether and, if so, what narrow-scope actions might be needed in relation to accounting for climate-related risks in the financial statements.
Reserve list (if additional capacity becomes available)		Operating Segments
		Pollutant Pricing Mechanisms

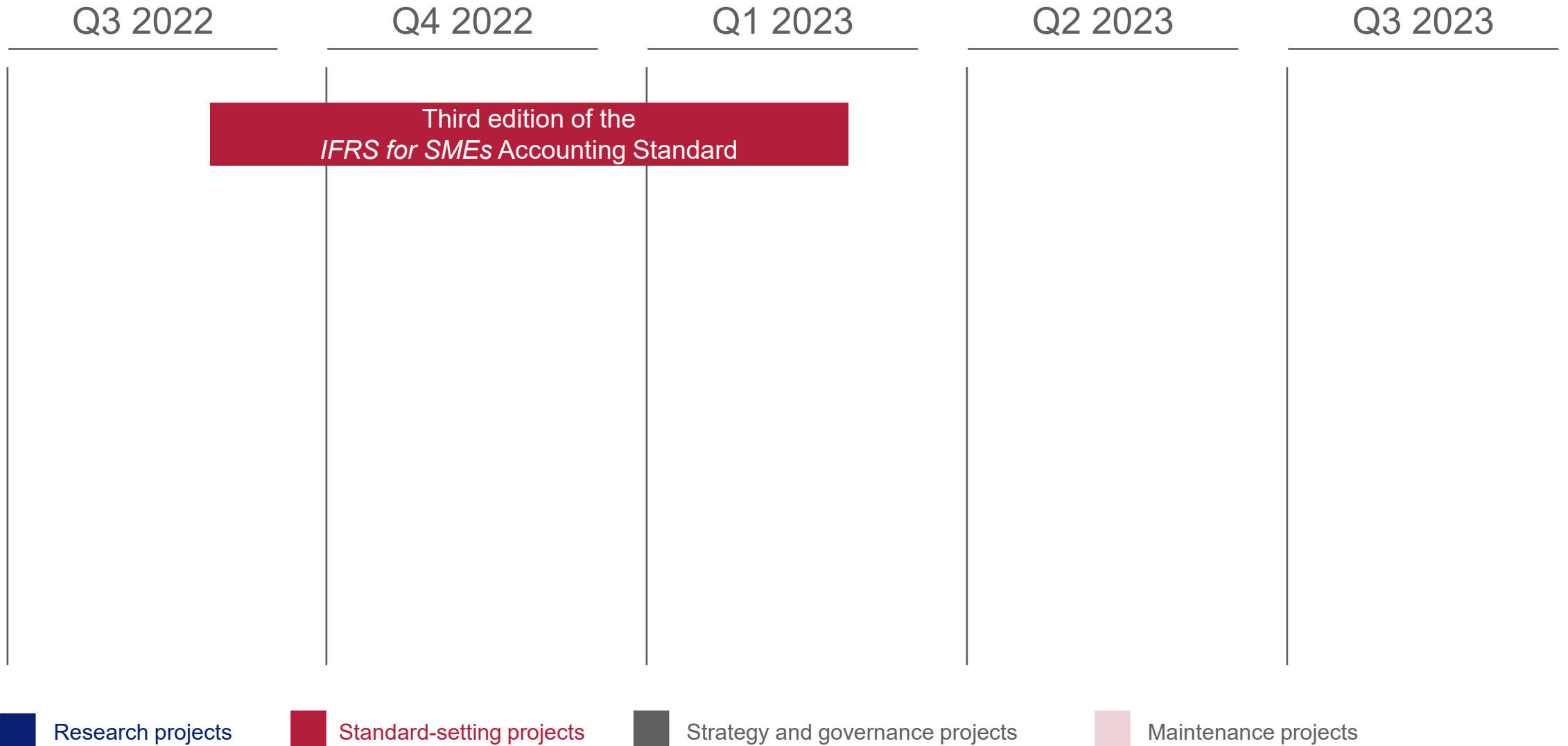


■ Research projects

■ Standard-setting projects

■ Strategy and governance projects

■ Maintenance projects



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# Post-implementation reviews

## Recently completed

PIR of IFRS 10, IFRS 11 and IFRS 12

PIR of IFRS 9—Classification and Measurement

## Ongoing

PIR of IFRS 9—Impairment

PIR of IFRS 15 *Revenue from Contracts with Customers*

PIR of IFRS 16 *Leases*

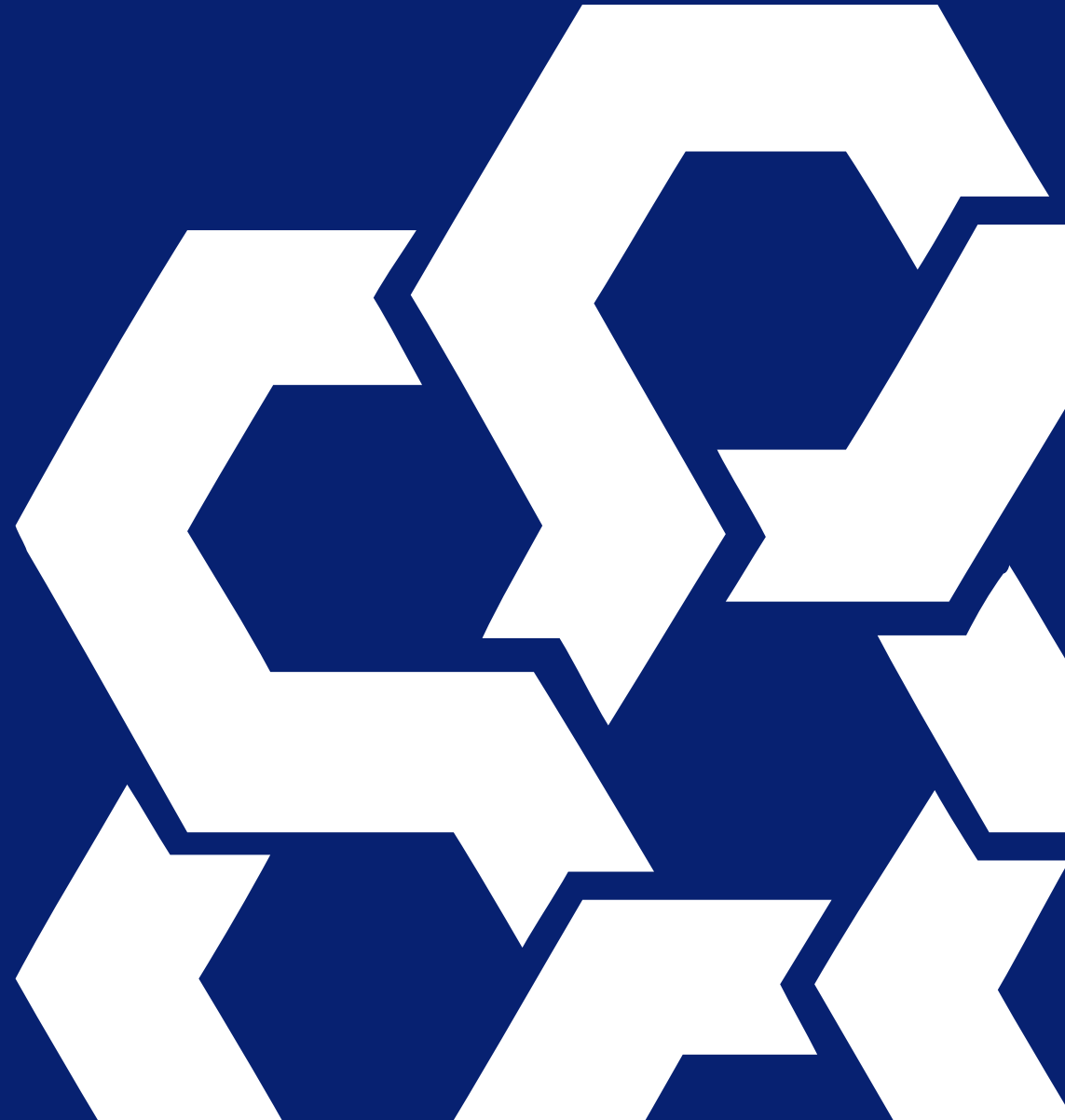
## Forthcoming

PIR of IFRS 9—Hedge Accounting

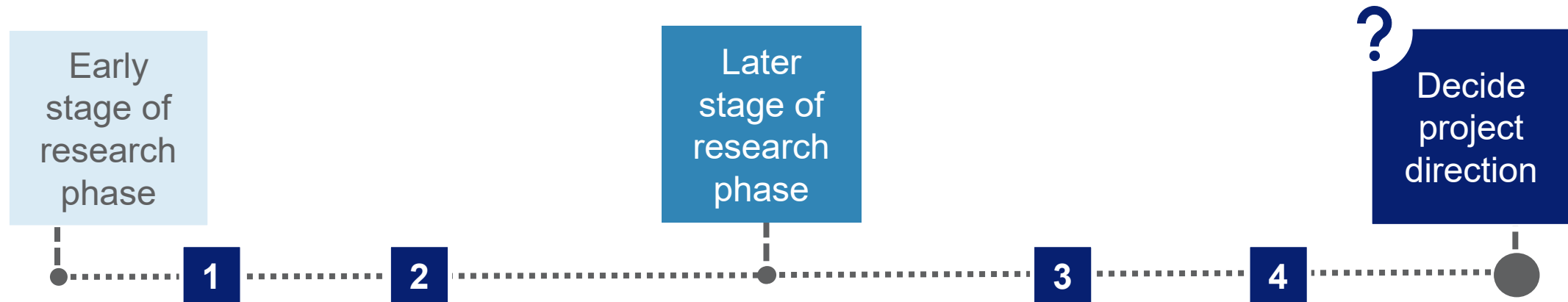


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# Overview: Research projects



# Overview: research projects



**1** Equity Method

**2** Extractive Activities

**3** Business Combinations under Common Control

**4** Goodwill and Impairment

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# 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

- Continue to discuss other application questions identified within the scope of the project
- Decide project direction

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# 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

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# Business Combinations under Common Control

## Objective

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

## Project update

- In March 2022 the IASB tentatively decided not to expand the project's scope

## Next steps

- Deliberations will initially focus on selecting the measurement method(s) to apply
- How to apply the measurement method(s) and other topics to be deliberated subsequently

# Goodwill and Impairment - Background



Objective

To improve the information entities provide to users of financial statements (users), at a reasonable cost, about the business combinations those entities make.



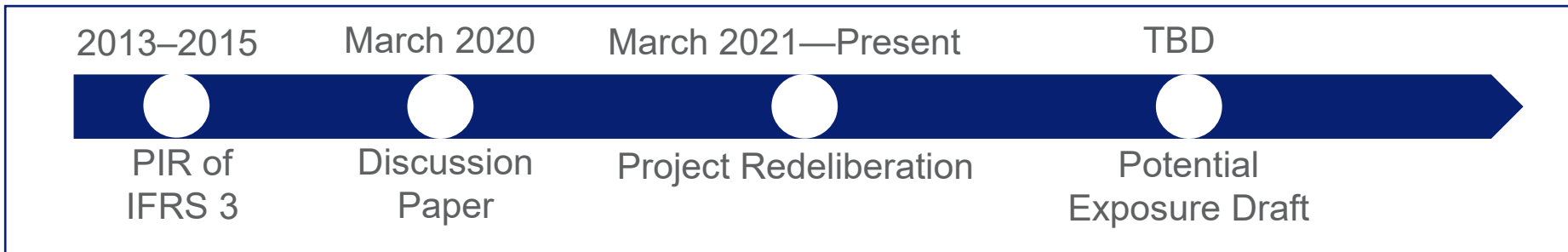
Path forward

The IASB is redeliberating its preliminary views in the Discussion Paper and will make tentative decisions on whether to:

- retain or amend those preliminary views in the light of feedback; and
- move forward with standard-setting and publish an exposure draft.



Project History



# Goodwill and Impairment - Timeline since the Discussion Paper

The IASB tentatively decides to retain the objective and scope of the project

The IASB tentatively decides to proceed with disclosure preliminary views (see slide 16)



The IASB reviews feedback on the Discussion Paper

The IASB decides to prioritise analysis on:

- disclosures about business combinations; and
- specific aspects of feedback on whether to retain the impairment-only model or whether to reintroduce amortisation for goodwill

The IASB to tentatively decide on:

- whether to retain the impairment-only model or to explore reintroducing amortisation of goodwill; and
- whether to move the project from the research to standard-setting phase

After Q4 2022 the IASB will make tentative decisions on other aspects of the project

# Goodwill and impairment - September 2022 IASB tentative decisions

In September 2022 the IASB tentatively decided to:

- require some of the information for only a **subset of business combinations**; and
- **exempt** entities from disclosing some information **in specific circumstances**.

The table below shows the specific pieces of information that each of these would apply to.

Item of Information	Continue with this preliminary view?	Require information for only a subset?	Exempt entities from disclosing information about?
Disclosure objectives	✓	N/A	N/A
Subsequent performance information:			
• Strategic rationale	✓	✗	✗
• Objective	✓	✓	✓
• Metric	✓	✓	✓
• Target	✓	✓	✓
• Actual performance in subsequent years	✓	✓	✗
Quantitative information about expected synergies in year of acquisition	✓	✗	✓

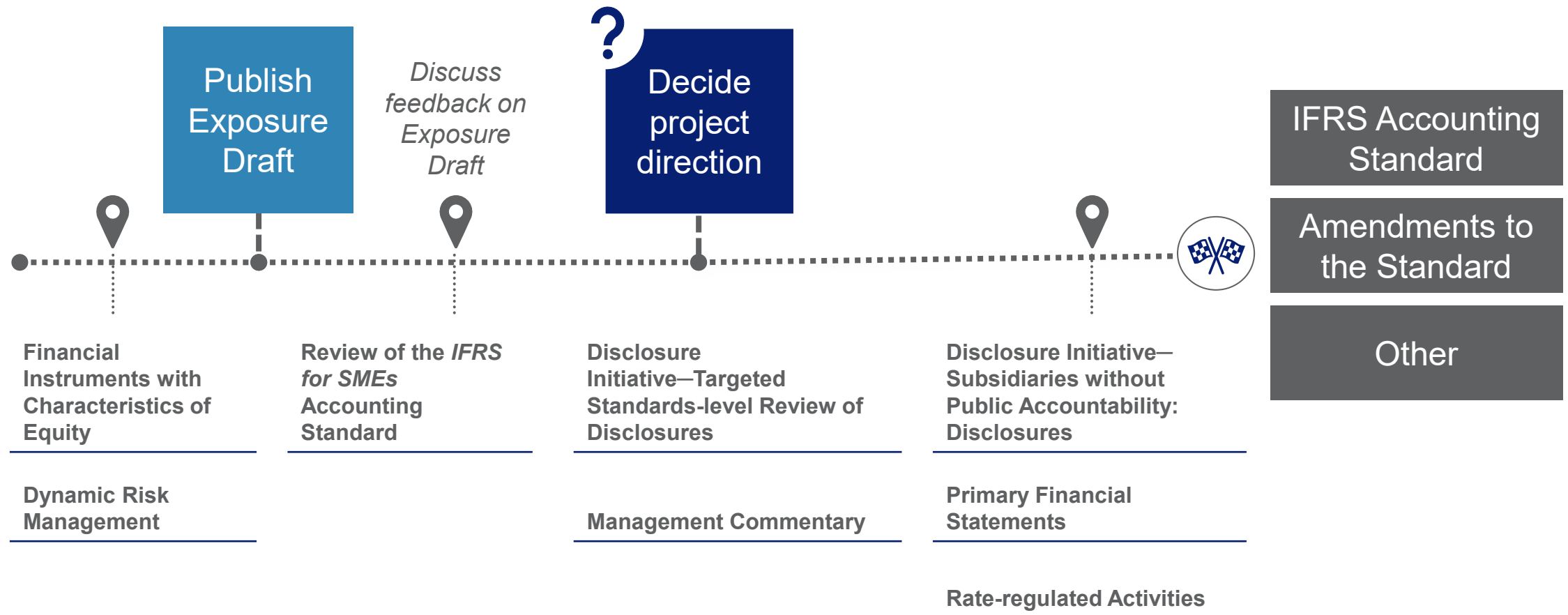


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## Overview: Standard-setting projects



# Overview: standard-setting projects



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# 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 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

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# 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 risk mitigation intention is the extent of current net open position that the company dynamically manages using derivatives
- A DRM adjustment is recognised in the statement of financial position to represent the extent to which the designated derivatives successfully mitigated the variability in both the fair value of and the net interest income from the risk mitigation intention, and achieved the entity's target profile

## Next milestone

- Further discussions on the DRM model

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# Review of the *IFRS for SMEs* Accounting Standard

## Objective

- Update the *IFRS for SMEs* Accounting Standard to reflect improvements made in full IFRS Accounting Standards (in the scope of the second comprehensive review) while keeping the simplicity of the Standard

## Approach

- Apply ‘alignment approach’ 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 amendments

## Next milestone

- Exposure Draft open for comment until March 2023

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# Targeted Standards-level Review of Disclosures

## Objective

Help address the **disclosure problem** by:

- improving the IASB's approach to developing and drafting disclosure requirements
- enabling preparers to improve the usefulness of disclosures in the notes

## Project Update

- Explore a **middle ground approach** to drafting disclosure requirements
- IASB decided not to proceed with the proposed amendments to **IFRS 13** and **IAS 19**

## Next milestone

- Decide project direction

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# 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

- 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

## Next milestone

- Consider project direction

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# Subsidiaries without Public Accountability: Disclosures

## Objective

- Permit eligible subsidiaries to apply the disclosure requirements in the draft Standard and the recognition, measurement and presentation requirements in IFRS Accounting Standards

## Current focus

- Discuss proposals in the Exposure Draft to develop a new IFRS Accounting Standard

## Next milestone

- Issue IFRS Accounting Standard



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# Primary Financial Statements

## Objective

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

## Proposals

- 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

Recordings and presentation slides from the webinar on the Primary Financial Statements project on 14 October 2022 are available here:

[IFRS - Webinar: Project update on exposure draft redeliberations](#)

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# 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

- Require recognition of regulatory assets, regulatory liabilities, regulatory income and regulatory expense
- Reflect compensation for goods or services in financial performance in the period in which goods or services are supplied
- Measure regulatory assets and regulatory liabilities using a cash-flow-based measurement technique

## Next milestone

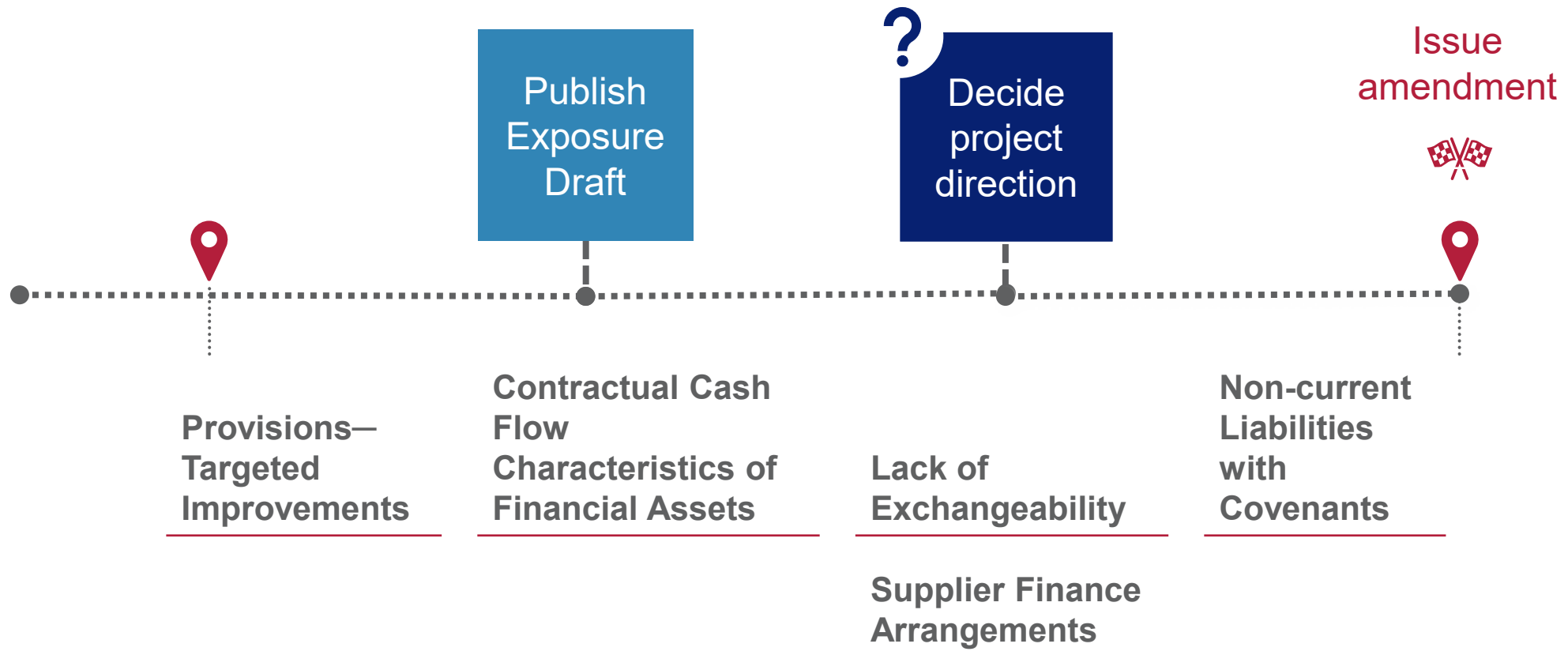
- Issue IFRS Accounting Standard

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# Maintenance projects



# Overview: maintenance projects



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# Provisions—Targeted Improvements

## Objective

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

## Areas of focus

- 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 milestone

- Decide project direction

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# Contractual Cash Flow Characteristics of Financial Assets

## Objective

- To clarify particular aspects of the IFRS 9 requirements for assessing a financial asset's contractual cash flow characteristics (SPPI requirements)

## Areas of focus

- Clarify the concept of a basic lending arrangement and the application of SPPI requirements to contractual terms that may change the amount or timing of contractual cash flows
- Provide a clear description of contractually linked instruments and the requirements applicable to the underlying pool of instruments

## Next milestone

- Publish Exposure Draft

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# 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

## Proposals

- Specify when exchangeability is lacking and how to make that assessment
- Estimate the spot exchange rate when exchangeability is lacking
- Disclose how the lack of exchangeability affects financial performance, financial position and cash flows

## Next milestone

- Decide project direction

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# 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

## Proposals

- Describe the arrangements for which the proposed disclosure would be required
- Add qualitative and quantitative disclosure requirements
- Highlight the required disclosure of liquidity risk and risk management and of non-cash changes in financing liabilities

## Next milestone

- Decide project direction



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# Non-current Liabilities with Covenants

## Objective

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

## Proposals

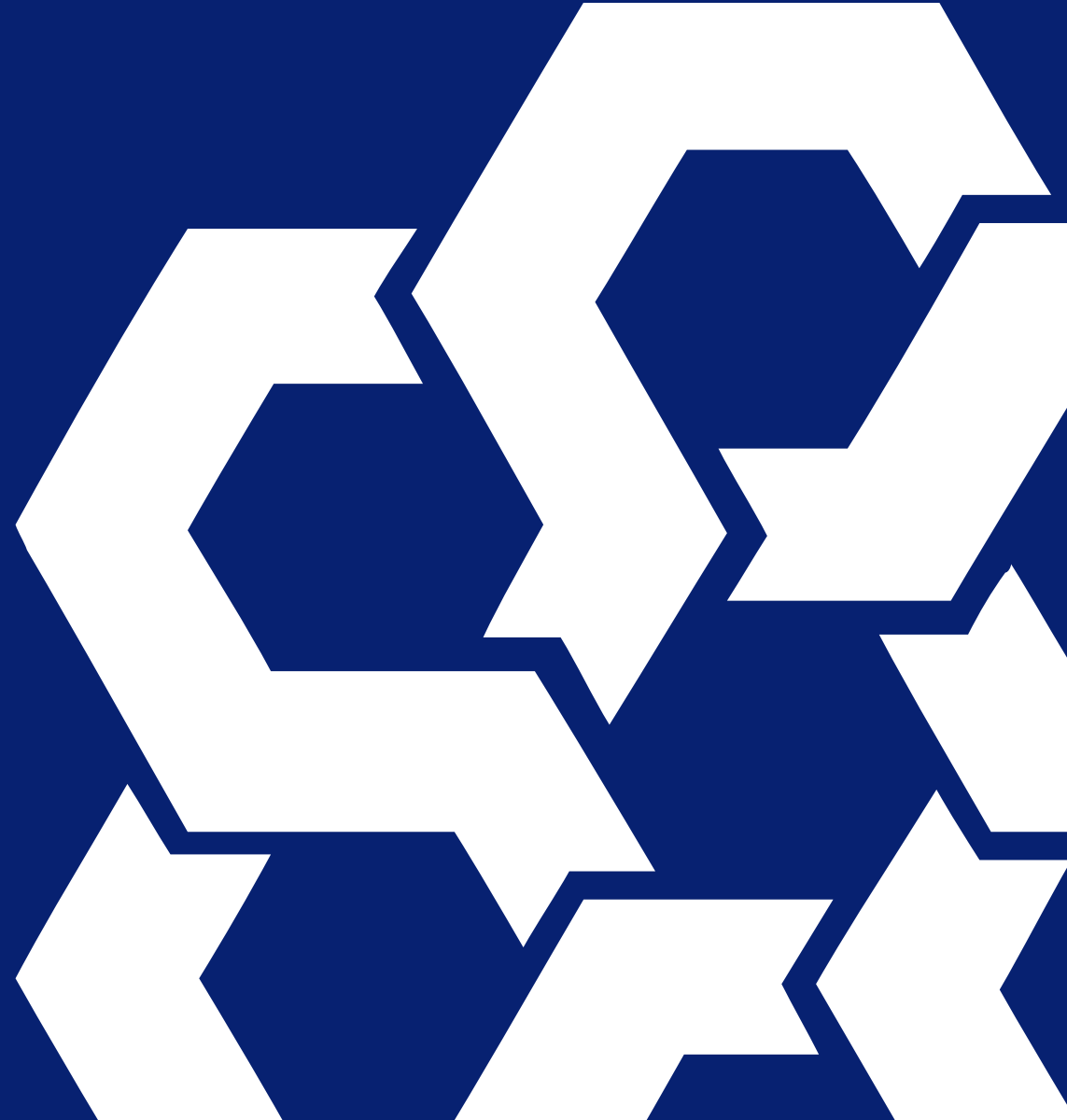
- Specify that covenants with which an entity must comply after the reporting period do not affect classification of a liability as current or non-current at the reporting date
- Add disclosure requirements for non-current liabilities subject to covenants

## Next milestone

- Issue amendments to IAS 1

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# New requirements



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# What is required when?

## 1 January 2023

- IFRS 17 *Insurance Contracts*
- *Definition of Accounting Estimates*
- *Disclosure of Accounting Policies*
- *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (Amendments to IAS 12)

## 1 January 2024

- *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1)\*
- *Lease Liability in a Sale and Leaseback* (Amendments to IFRS 16)

\* The IASB has proposed to defer the effective date of the amendments to no earlier than 1 January 2024

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# IFRS 17 *Insurance Contracts*



More useful and transparent  
information



Better information about  
profitability

- Requires **consistent accounting** for all insurance contracts
- Based on a **current measurement** model
- Provides useful information about the **profitability** of insurance contracts
- Presents **comparable** data across companies
- Assists investors to fulfil **stewardship** responsibilities



**Effective date**

Annual reporting periods beginning on or after 1 January 2023

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## *Definition of Accounting Estimates*

### Identified problem

- Companies can find it difficult to distinguish between a change in accounting policy and a change in accounting estimate, especially when it relates to a change in a measurement method

### The amendments

- Introduce a definition of ‘accounting estimates’
- Provide clarifications, such as
  - estimation techniques and valuation techniques are examples of measurement techniques used to develop accounting estimates
  - a change in accounting estimate that results from new information or new developments is not the correction of an error



Effective date

Annual reporting periods beginning on or after 1 January 2023

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# *Disclosure of Accounting Policies*

## Identified problem

- Users say that accounting policy disclosures today are often not useful
- Stakeholders' views differ about 'significant' accounting policies required by IAS 1 *Presentation of Financial Statements*

## The amendments

- Amend IAS 1 to require companies to disclose their material accounting policy information rather than their significant accounting policies
- Clarify that not all accounting policy information that relates to material transactions, other events or conditions is material to the financial statements
- Add guidance and examples to the materiality practice statement, which will explain how to apply the materiality process to identify material accounting policy information



Effective date

Annual reporting periods beginning on or after 1 January 2023

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# Amendments to IAS 12

## Objective

- Clarify the deferred tax accounting for transactions for which an entity recognises, on initial recognition, both an asset and a liability, such as leases and decommissioning obligations

## The amendments

- Narrow the scope of the recognition exemption in IAS 12 so that it does not apply to transactions that give rise to equal amounts of taxable and deductible temporary differences
- Will result in all entities recognising deferred tax for leases and other transactions in the scope of the amendments, reducing diversity in reporting



Effective date

Annual reporting periods beginning on or after 1 January 2023

# Amendments to IAS 1

Liability is classified as non-current only if a company has right to defer settlement for at least 12 months after reporting period



The amendments to IAS 1 clarify this criterion

## General clarifications

- Right to defer settlement must exist at end of reporting period
- If right is subject to lending conditions, a company must satisfy those conditions at end of reporting period\*
- Classification is unaffected by expectations about *whether* company will exercise its right

## Clarifications affecting convertible bonds

- Counterparty conversion option disregarded when assessing classification if recognised separately as equity component of compound financial instrument
- Any other obligation to convert liability is considered when assessing classification—ie conversion is regarded as settlement



### Effective date

Annual reporting periods beginning on or after 1 January 2023. However, the IASB has proposed to defer the effective date to no earlier than 1 January 2024.



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# Lease Liability in a Sale and Leaseback

## Objective

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

## The 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

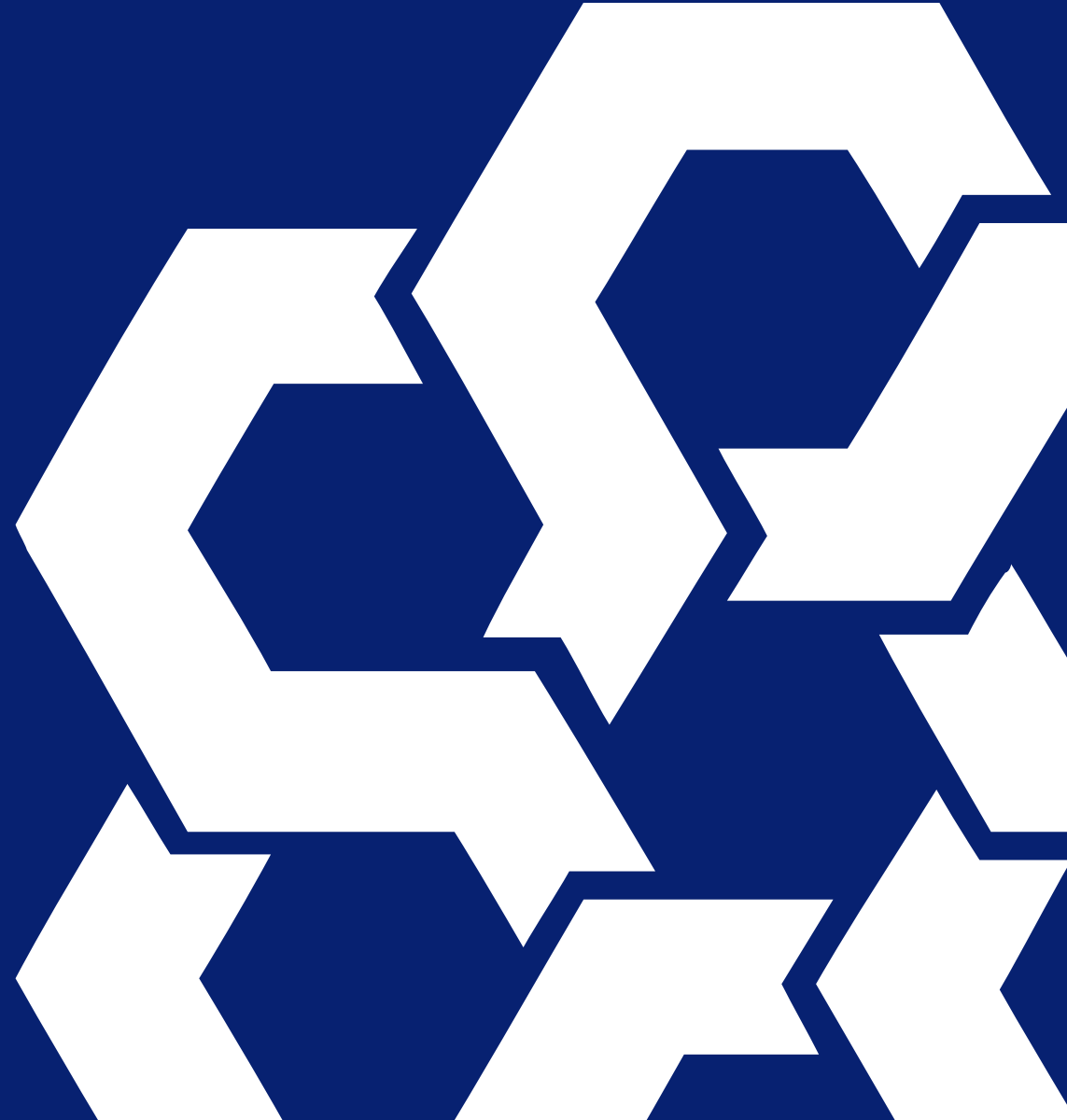


**Effective date**

Annual reporting periods beginning on or after 1 January 2024, with earlier application permitted

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# Recent agenda decisions and other work of the IFRS Interpretations Committee



## Recent agenda decisions and other Committee work

- 1 Agenda Decision: Demand Deposits with Restrictions on Use *April 2022*
- 2 Agenda Decision: Principal vs Agent: Software Reseller *May 2022*
- 3 Agenda Decision: Negative Low Emission Vehicle Credits *July 2022*
- 4 Agenda Decision: Lessor Forgiveness of Lease Payments *Oct 2022*
- 5 Cash Received via Electronic Transfer as Settlement for a Financial Asset

A sample of other agenda decisions published in 2022:

Transfer of Insurance  
Coverage under a Group of  
Annuity Contracts  
*July 2022*

Multi-currency Groups of  
Insurance Contracts  
*Oct 2022*

SPAC: Accounting for  
Warrants at Acquisition  
*Oct 2022*

# 1 Demand Deposits with Restrictions (IAS 7)

Can a demand deposit subject to restrictions on use be classified as cash and cash equivalents?



An entity holds a **demand deposit** whose terms and conditions do **not prevent** the entity from accessing it on demand



The entity has a **contractual obligation with a third party** to use the cash in the demand deposit only for **specified purposes**

## Analysis

- IAS 7 defines cash by stating that it ‘comprises cash on hand and demand deposits’ and **includes no other requirements** on whether an item qualifies as cash
- Requirements in IAS 7 and IAS 1 indicate cash **may be subject to restrictions**

## Conclusion

The restrictions **do not change the nature** of the deposit. The entity can access the cash in the deposit on demand. The deposit is therefore classified as **cash**. Disclosure and presentation requirements in IAS 1, IAS 7 and IFRS 7 apply.

## 2 Principal vs Agent: Software Reseller (IFRS 15)

### Is a reseller of software licences a principal or agent applying IFRS 15?



The reseller has a distribution agreement with a software manufacturer. The reseller:

- provides **pre-sales advice** to customers and has discretion on the pricing
- places an order for any **licenses purchased by the customer** on its behalf
- is responsible for any **unaccepted licences** due to incorrect advice

#### Analysis

- Paragraphs B34–B38 set out a framework for determining whether an entity is a **principal or agent**.
- Paragraph B34A requires the entity to identify the specified goods or services and assess whether it **controls** them **before they are transferred** to the customer.

#### Conclusion

- Pre-sales advice is **not an implicit promise** in the contract with the customer; the licences are the **specified goods** to be provided to the customer.
- **If it is unclear** whether the reseller **obtains control** of the licences **before they are transferred** to the customer, the reseller consider the indicators in paragraph B37.
- Whether the reseller is a principal or agent depends on **specific facts and circumstances**. Disclosure requirements in IAS 1 and IFRS 15 apply.

### 3 Negative Low Emission Vehicle Credits (IAS 37)

**Do measures to encourage reductions in emissions give rise to obligations that meet the definition of a liability in IAS 37?**



**Government measures** require entities to produce or import vehicles with average fuel emissions lower than a government target. Entities receive **positive** or **negative** credits depending on whether they meet the targets



An entity that receives **negative credits** must **eliminate them** by purchasing or generating positive credits. The government may **impose sanctions** on entities that fail to do so

#### Analysis

Paragraph 10 of IAS 37 defines:

- a **liability** as ‘a present obligation of the entity arising from **past events**, the settlement of which is expected to result in an **outflow from the entity of resources embodying economic benefits**’
- obligating event as ‘an event that creates a legal or constructive obligation that results in an entity having **no realistic alternative to settling that obligation**’

## 3 Negative Low Emission Vehicle Credits (IAS 37)

### Conclusion

The Committee concluded:

- the settlement of an obligation to eliminate negative credits would result in an **outflow of resources embodying economic benefits**
- the activity that gives **rise to a present obligation** is the **production or import of vehicles** whose average fuel emissions are higher than the government target
- an entity **would have a legal obligation** that is enforceable by law **if accepting the possible sanctions** for non-settlement is **not a realistic alternative** for that entity

## 4 Forgiveness of Lease Payments (IFRS 9 and IFRS 16)

### How does a lessor account for forgiven lease payments in a rent concession?



Lessor agrees to provide a **rent concession** on an **operating lease**



Lessor **legally releases** the lessee from its obligation to make **specified lease payments** recognised as an operating lease receivable. No other changes are made

### Questions

1. How the lessor applies the **expected credit loss** model to the lease receivable before the rent concession?
2. Does the lessor apply the **derecognition requirements in IFRS 9** or the **lease modification requirements in IFRS 16**?



## 4 Forgiveness of Lease Payments (IFRS 9 and IFRS 16)

### Question 1—Applying the ECL model

#### Analysis

- Operating lease receivables recognised by a lessor are subject to the **impairment requirements** in IFRS 9 (*paragraph 2.1(b) of IFRS 9*)
- IFRS 9 defines credit loss as ‘the difference between **all contractual cash flows** that are due to an entity in accordance with the contract and **all the cash flows that the entity expects to receive (ie all cash shortfalls)...**’
- ECL reflects (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and (b) **reasonable and supportable information** about past events, current conditions and forecasts of future economic conditions (*paragraph 5.5.17 of IFRS 9*)

#### Conclusion

The lessor considers its expectations of forgiving lease payments recognised as part of a lease receivable when measuring the ECL for that receivable.

## 4 Forgiveness of Lease Payments (IFRS 9 and IFRS 16)

### Question 2—Accounting for the rent concession

	IFRS 9	IFRS 16
Analysis	<ul style="list-style-type: none"> <li>Operating lease receivables recognised by a lessor are subject to the <b>derecognition requirements</b> in IFRS 9 (p.2.1(b))</li> <li>An entity derecognises a financial asset when ‘the <b>contractual rights to the cash flows</b> from the financial asset <b>expire</b>’ (p. 3.2.3(a))</li> </ul>	<ul style="list-style-type: none"> <li>The rent concession meets the definition of a <b>lease modification</b> in IFRS 16—lessor accounts for the <b>modified lease as a new lease</b> (p. 87)</li> <li>Lease payments recognised as lease receivable <b>are not accrued lease payments</b>, and therefore not considered as payments for the new lease.</li> </ul>
Conclusion	<ul style="list-style-type: none"> <li>IFRS 9 applies to forgiven lease payments included in the lease receivable.</li> <li>IFRS 16 applies to forgiven lease payments not included in the lease receivable.</li> </ul>	

## 5 Electronic Transfer Payments (IFRS 9)

Can an entity recognise cash received on the date an electronic transfer is initiated (ie before the transfer is settled)?



An entity receives cash **as settlement for a trade receivable** via electronic transfer



The **electronic transfer system** has an automated settlement process that **takes three working days** to settle a cash transfer

### Analysis

- Paragraph 3.1.2 of IFRS 9—which specifies requirements for regular way purchase or sale of a financial asset—is **not applicable**
- The **general recognition and derecognition requirements** in paragraph 3.1.1 and 3.2.3(a) of IFRS 9 apply

### Next step

- IASB is exploring possible narrow-scope standard-setting.

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