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Agenda paper 2

# Update on the IASB's activities

*April 2023 – September 2023*

IFRS Advisory Council  
November 2023

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# Update on the IASB's activities

## Contents

- Significant developments
- Snapshot of what's on the horizon
- Key forthcoming publications in H1 2024
- Digital reporting

## Appendix: Detailed descriptions of projects



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## Significant developments



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# Final Standards and amendments

## Issued amendments

1. International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12)
2. International Tax Reform—Pillar Two Model Rules (Amendments to IFRS for SMEs Accounting Standard)
3. Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)
4. Lack of Exchangeability (Amendments to IAS 21)

## Forthcoming Standards

1. IFRS 18 Presentation and Disclosure in Financial Statements
2. IFRS 19 Subsidiaries without Public Accountability: Disclosures

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# Consultations

## Published consultations

1. Request for information on PIR of IFRS 9 *Financial Instruments—Impairment*
2. Request for Information PIR of IFRS 15 *Revenue from Contracts with Customers*
3. Exposure Draft *International Tax Reform—Pillar Two Model Rules—Proposed Amendments to the IFRS for SMEs Standard*
4. Exposure Draft *Annual Improvements to IFRS Accounting Standards*
5. IFRS Accounting Taxonomy 2023—Proposed Update 1 *International Tax Reform—Pillar Two Model Rules, Supplier Finance Arrangements and Lack of Exchangeability*

## Forthcoming consultations

1. Exposure draft proposing amendments to IAS 32 (*Financial Instruments with Characteristics of Equity* project) (Nov 2023)
2. Exposure draft proposing amendments to IFRS 3 and IAS 36 (*Business Combinations—Disclosures, Goodwill and Impairment* project) (H1 2024)

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# Changes to the work plan

1. Moved *Equity Method* project to standard-setting work plan
2. Added maintenance project *Power Purchase Agreements* to the work plan
3. Changed name of project *Climate-related Risks in the Financial Statements* to *Climate-related and Other Uncertainties in the Financial Statements*
4. Decided to stop the work on the *Extractive Activities* project and remove the 'temporary' status of IFRS 6

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# Stakeholder engagement

IFRS Foundation Conference June 2023	<ul style="list-style-type: none"><li>• 448 attendees (56% in person) from 67 jurisdictions – highest attendance on record since 2014</li><li>• Paid event, open to anyone</li></ul>
World Standards-setters Conference Sept 2023	<ul style="list-style-type: none"><li>• 128 attendees (100% in person) from 69 jurisdictions</li><li>• Free event for typically two delegates from the national standard-setter in each jurisdiction</li></ul>
FASB–IASB education meeting Sept 2023	Continued bi-lateral engagement

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# Connectivity

Connectivity	Connections in our processes	Connections in our products	Connections in general purpose financial reports
<ul style="list-style-type: none"><li>• Connected panel at IFRS Foundation Conference</li><li>• <a href="#">Webcast: Connections between accounting and sustainability disclosures</a></li><li>• Progress on IASB's project on climate-related risks in the financial statements</li><li>• Continued sharing of staff expertise</li><li>• Continued embedding of process</li></ul>			



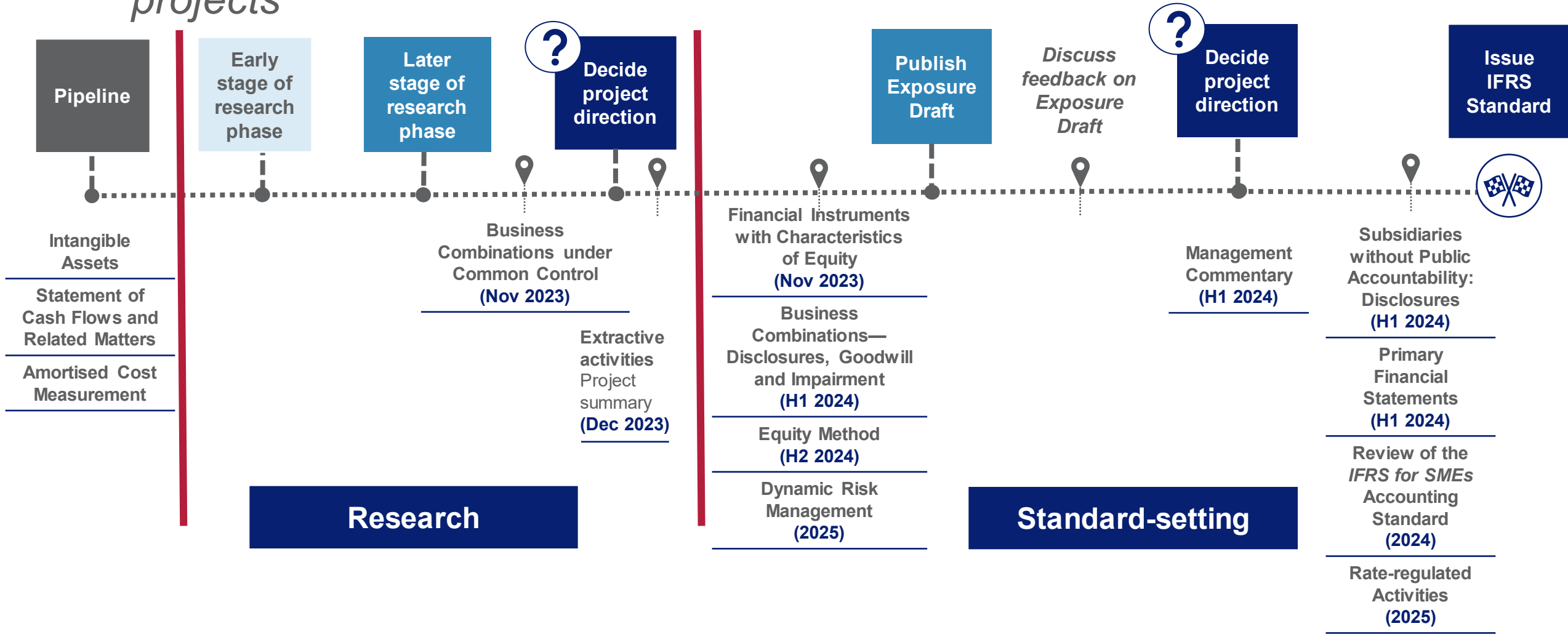


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## Snapshot of what is on the horizon

**Dates represent expectation for next milestone**

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



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## Snapshot of what's on the horizon

### *Post-implementation reviews*

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#### Recently completed

PIR of IFRS 9—Classification and Measurement

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#### Feedback analysis

PIR of IFRS 9—Impairment

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#### Out for comment\*

PIR of IFRS 15 *Revenue from Contracts with Customers*

PIR of IFRS 16 *Leases*

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#### Forthcoming

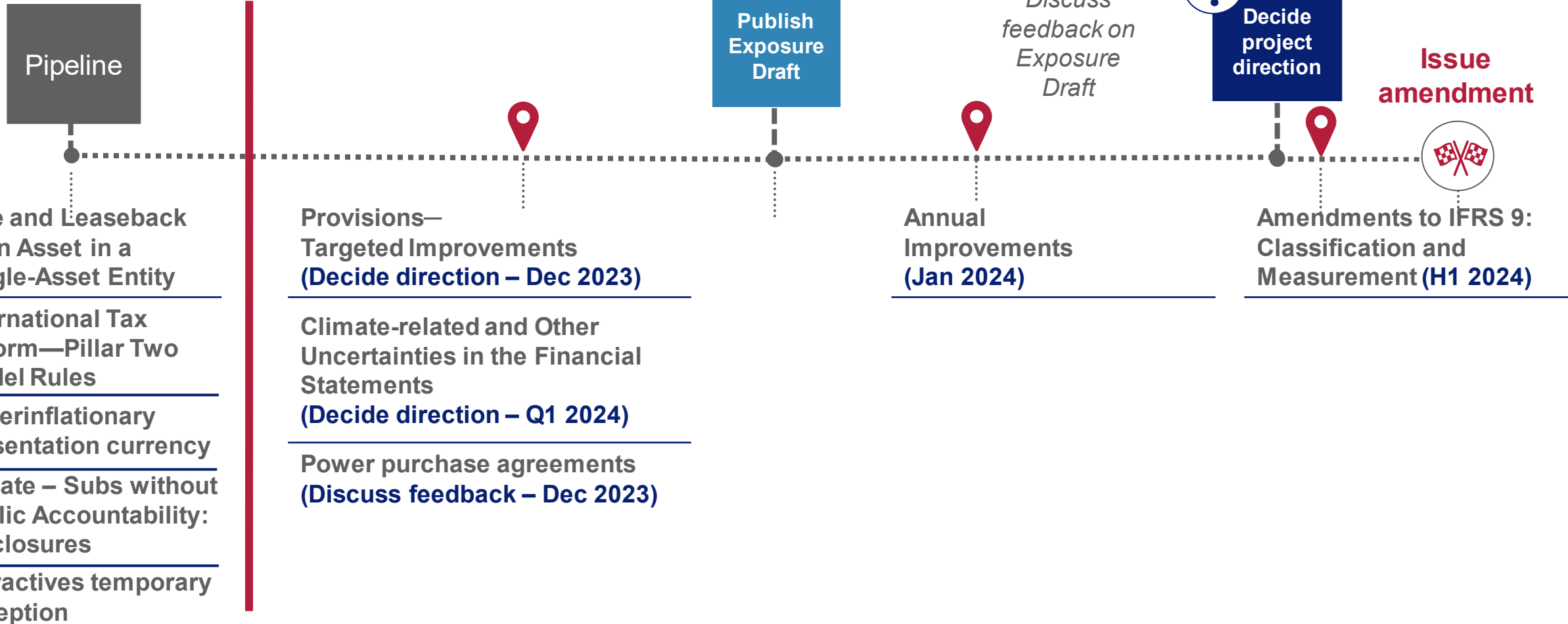
PIR of IFRS 9—Hedge Accounting

\* At the time of the Advisory Council meeting the comment period will have ended on 27 October 2023.

**Dates represent expectation for next milestone**

# Snapshot of what's on the horizon

## *Maintenance projects*





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Key forthcoming  
publications in H1 2024:  
*Primary financial statements*

⊕ New IFRS Accounting Standard

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## Key messages



Investors'  
demand for better  
information



Communication in  
financial  
statements



Basis for analysis



Enhanced  
transparency

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## IFRS 18 – the new requirements



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:** Q2 2024

**Effective date:** 1 January 2027

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## Who will the requirements affect?



**All stakeholders in all industries in jurisdictions that apply IFRS Accounting Standards**

Will impact:

- how **companies** present and disclose information, but not their bottom-line financial performance
- the quality of information, including digital information, available for **investors**
- the scope of information subject to assurance by **auditors** and enforcement by **regulators**



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## Categories and subtotals in the statement of profit or loss

### Investors' concerns

Companies' statement of profit or loss vary in content and structure



Difficulty comparing financial performance



### IFRS 18 introduces

Three defined categories to provide a consistent structure of the statement of profit or loss:

- operating
- investing
- financing

Two new required subtotals to enable analysis:

- operating profit
- profit before financing and tax



# Statement of profit or loss – general corporate

Revenue

Cost of goods sold

**Gross profit**

Other operating income

Selling expense

Research and development expenses

General and administrative expenses

Other operating expenses

**Operating profit**

Share of the profit from associates and joint ventures

Other investment income

**Profit before financing and income tax**

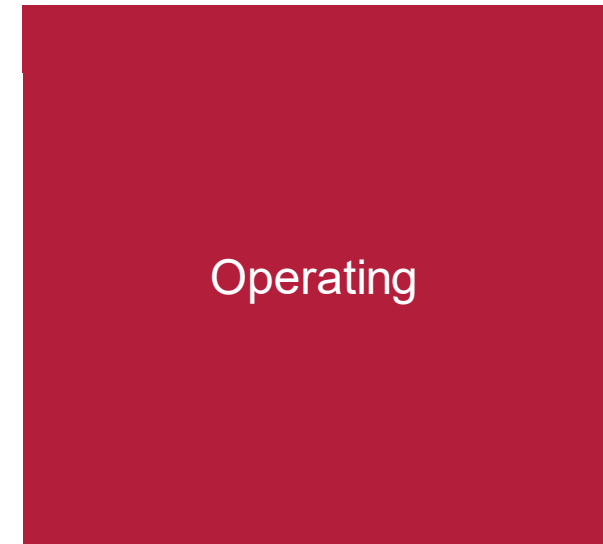
Interest expense on borrowings and lease liabilities

Interest expense on pension liabilities

**Profit before tax**

Income tax expense

**Profit for the year**



*Line items illustrate what is classified in each category and do not necessarily denote line items that a company would present. An entity would present line items that provide a useful structured summary of its income and expenses.*

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## MPMs

### Investors' concerns

MPMs are useful

**BUT**

Lack of transparency of  
how these measures are  
calculated



### IFRS 18 introduces

Requirement to disclose in a single note:

- Statement that the MPM reflects management's view
- Explanation of why the MPM is reported
- Reconciliation back to IFRS-defined number
- Explanation of any changes to the MPM



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## Grouping – aggregation and disaggregation – of information

### Investors' concerns

Some companies don't provide enough detailed information

**AND**

Important information is obscured



### IFRS 18 introduces

- Enhanced requirements for grouping of information
- Guidance on whether information should be in the primary financial statements or the notes
- Disclosures about items labelled as 'other'





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Key forthcoming  
publications in H1 2024:  
*Subsidiaries without Public  
Accountability: Disclosures*

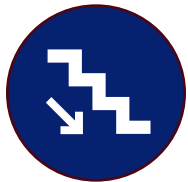
⊕ New IFRS Accounting Standard

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## Key facts about the future Standard



Optional IFRS Accounting Standard



Simplified preparation of financial statements for eligible subsidiaries while maintaining the usefulness for their users



Reduced disclosure requirements



**Publication date:** Q2 2024  
**Effective date:** 1 January 2027

## Who can apply the future Standard?

### Eligible subsidiaries

An eligible subsidiary is an entity:

- that does **not have public accountability**; and
- whose parent prepares consolidated financial statements available for public use that comply with IFRS Accounting Standards.

### What is public accountability



Equity or debt instruments traded in public market

- IFRS 8 *Operating Segments*
- IAS 33 *Earnings per Share*



Hold assets entrusted to them by their customers

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## Benefits of applying the future Standard



**Reduced cost of preparing financial statements**



**Simplification of the reporting process**



**Improved application of IFRS Accounting Standards**



**Subsidiary's financial statements focused on their users**



**Systemic long-term benefits in the reporting ecosystem**



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Key forthcoming  
publications in H1 2024:  
*Business Combinations—  
Disclosures, Goodwill and  
Impairment*

⊕ New Exposure Draft

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# Business Combinations—Disclosures, Goodwill and Impairment

## Project summary



Improve information about business combinations at a reasonable cost



A package of disclosure requirements about business combinations



Changes to the impairment test of cash-generating units containing goodwill

### **Better information for better decisions**






– increases comparability, transparency and usefulness of information



**Exposure draft publication date:**  
H1 2024

# Business Combinations—Disclosures, Goodwill and Impairment

Disclosures about business combinations—IASB decisions

	All material business combinations	Only 'strategic' business combinations
<i>Information as at acquisition date</i>	 <p>Expected synergies</p> <ul style="list-style-type: none"> <li>• Exemption - <b>YES</b></li> </ul>  <p>Strategic rationale</p> <ul style="list-style-type: none"> <li>• Exemption - <b>NO</b></li> </ul>	 <p>Objectives and targets</p> <ul style="list-style-type: none"> <li>• Exemption - <b>YES</b></li> </ul>
<i>Information after acquisition date</i>		 <p>Performance - Actuals</p> <ul style="list-style-type: none"> <li>• Exemption - <b>NO</b></li> </ul>  <p>Performance - Statement</p> <ul style="list-style-type: none"> <li>• Exemption - <b>YES</b></li> </ul>

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# Business Combinations—Disclosures, Goodwill and Impairment

## Subsequent accounting for goodwill—IASB decisions



Improving the effectiveness of the impairment test



Reducing the cost and complexity of the impairment test



Retain impairment-only model for goodwill

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# Digital financial reporting

# Context – where we’ve been

## Digital financial reporting – strategic framework



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## Appendix: Detailed descriptions of projects



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## Standard-setting projects



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## 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 publication date:**  
Q4 2023

# Dynamic Risk Management (DRM)

## Objective

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

## Project update

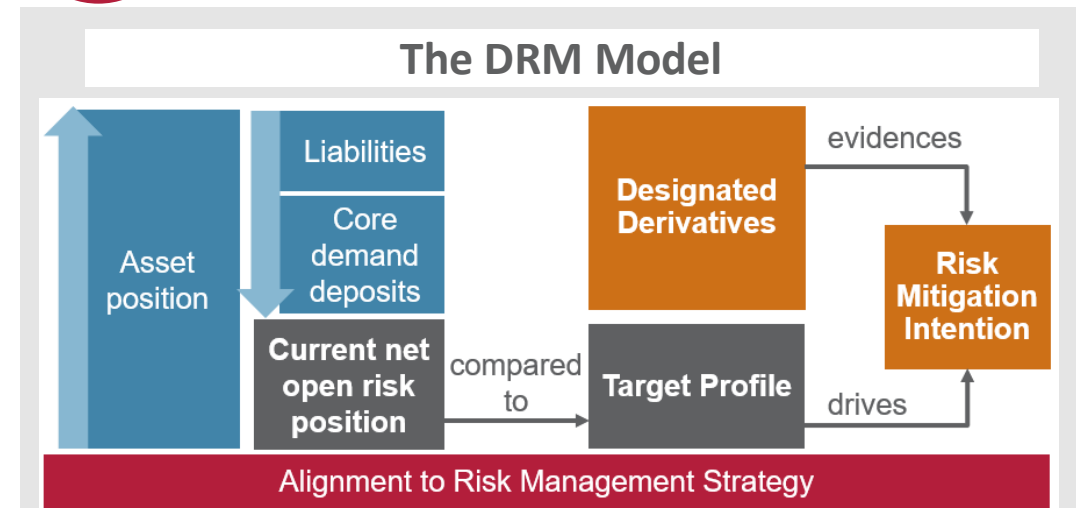
✓ From April 2023 to September 2023 tentative decisions were made on the determination of the risk mitigation intention, construction of benchmark derivatives, use of hedged exposures and the criteria for designated derivatives in the DRM model

## Next steps

The IASB will continue its deliberation on the topics identified in the July 2022 project plan



## What is it about?



A DRM adjustment is recognised in the statement of financial position to represent the extent to which the **designated derivatives** successfully mitigated the variability from the **risk mitigation intention**, and achieved the entity's **target profile**

## 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

# Management Commentary

<p><b>Features of the proposals in the Exposure Draft</b></p>	<ul style="list-style-type: none"> <li><b>A</b> Focus on information needs of <b>investors</b> and <b>creditors</b></li> <li><b>B</b> Disclosure objectives + supporting guidance</li> <li><b>C</b> Would bring together in one report information about <b>financial, sustainability</b> and <b>other</b> matters fundamental to entity's long-term prospects</li> </ul>
<p><b>Evolving landscape since the publication of the Exposure Draft</b></p>	<ul style="list-style-type: none"> <li>• Integrated Reporting Framework now part of the IFRS Foundation's materials, following the merger of the Value Reporting Foundation into the IFRS Foundation</li> <li>• ISSB's consultation on its agenda priorities, asking stakeholders about priority of a project on integration</li> <li>• ISSB's standards published in June 2023, establishing new connections between sustainability reporting and financial statements</li> </ul>
<p><b>Next steps</b></p>	<ul style="list-style-type: none"> <li>• IASB's decision-making on hold until additional feedback available through ISSB's consultation on agenda priorities</li> <li>• Possible Management Commentary project direction - joint work with ISSB or an IASB-only project laying the groundwork for future joint work</li> <li>• IASB-ISSB to meet jointly in preparation for:             <ul style="list-style-type: none"> <li>• ISSB's deciding on the priorities for its next two-year workplan, including priority of the potential project on integration in reporting, and</li> <li>• IASB deciding on the direction of the Management Commentary project</li> </ul> </li> </ul>

# Review of the *IFRS for SMEs* Accounting Standard

The IASB:

- is proposing to **update** the *IFRS for SMEs* Accounting Standard **to reflect some improvements that have been made in full IFRS Accounting Standards**
- will consider in a future review whether to update the Standard for new IFRS requirements, for regulatory assets and regulatory liabilities and IFRS 16

## Next steps

- Continue discussing feedback on the Exposure Draft
- The third edition of the IFRS for SMEs Accounting Standard is expected end of 2024



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## Rate-regulated Activities



Develop a holistic model for the accounting of rate regulation



Main proposals:

- ✓ Address differences in timing
- ✓ Reflect compensation in right period



Finish redeliberations

### Significant progress made on redeliberations regarding:

- Scope
- Total allowed compensation
- Recognition and measurement

### To be discussed:

- Discount rate
- Items affecting regulated rates only when related cash is paid or received
- Presentation and disclosure



IFRS Standard  
publication date: 2025

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# Research project

# Business Combinations under Common Control

## Objective

Develop reporting requirements to reduce diversity in practice and improve transparency

## Project update

In September 2023 the IASB discussed feedback, staff's analysis of that feedback and staff's initial views on:

- whether to change project direction; and
- if so, whether to develop disclosure-only requirements or discontinue the project

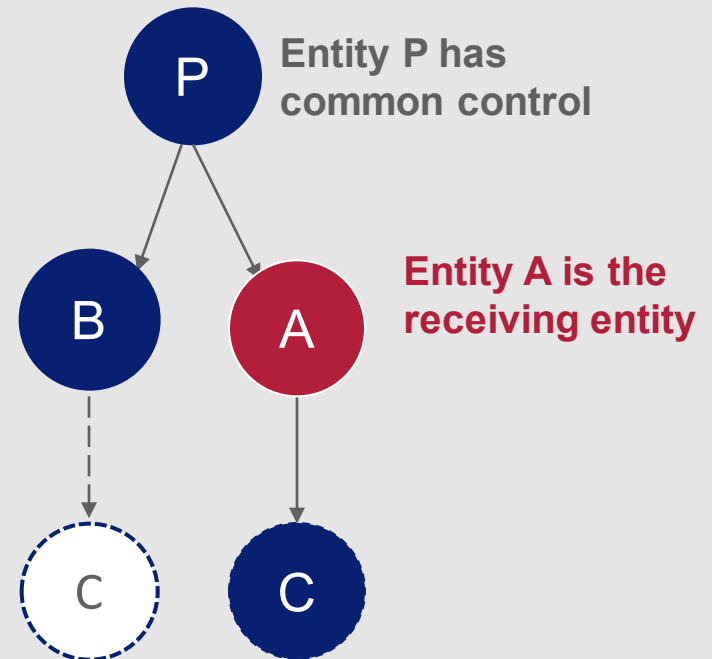
## Next steps

Decide project direction— expected November 2023



## What is it about?

Acquisition method or book-value method







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# Post-implementation reviews



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## 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

Will examine:

- general approach to recognition of ECL
- significant increases in credit risk
- measurement of ECL
- credit-impaired financial assets
- simplified approach
- loan commitments and financial guarantee contracts
- credit risk disclosures
- interaction with other requirements

### Next milestone

- RFI comment period ended on 27 September 2023.
- Analysis of feedback on the RFI

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# 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

Will examine:

- identifying the performance obligations
- determining the transaction price
- determining the timing of revenue recognition
- principal versus agent considerations
- licensing
- disclosure requirements
- transition requirements
- interaction with other IFRS Accounting Standards
- convergence with US GAAP Topic 606

## Next milestone

- Comments on [Request for Information](#) due 27 October 2023

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## Maintenance and consistent application

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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

- Clarify whether and when an entity recognises provisions for obligations it could avoid through its future actions—using concepts from the *Conceptual Framework*
- Clarify which costs to include in measure of a provision
- Specify more precisely the rate to use to discount future cash flows to their present value.

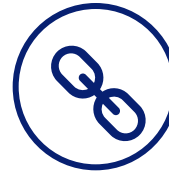
## Next milestone

- Decide project direction in Q4 2023

## Climate-related and Other Uncertainties in the Financial Statements



- Improve transparency on how financial information about climate-related and other uncertainties is communicated in the financial statements
- Explore development of illustrative examples and targeted amendments to improve disclosures



Complementing the work of the [International Sustainability Standards Board \(IFRS S2\)](#), helping investors to connect information included in different parts of general purpose financial reports

### This project will not seek to:



- develop an Accounting Standard on climate-related risks or accounting requirements for pollutant pricing mechanisms;
- broaden the objective of financial statements or the definitions of assets and liabilities.



**Decide project direction:**  
Q1 2024

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# Power Purchase Agreements (PPAs)

## Objective

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

## Project scope

- Own-use requirements for physical PPAs
- Hedge accounting requirements for Virtual PPAs

## Next steps

- IASB will discuss feedback in Dec 2023

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# 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

- Comment period for Exposure Draft closes 11 December 2023



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# Amendments to IFRS 9: Classification and Measurement

## Objective

- Narrow-scope amendments in response to the Post-implementation Review of IFRS 9 Classification and Measurement

## Areas of focus

- Contractual cash flow characteristics of financial assets
- Derecognition of financial liabilities settled through electronic cash transfers
- Disclosure requirements for equity instruments for which fair value changes are presented in OCI

## Next milestone

- Comment period ended 19 July 2023
- Analysis of feedback and redeliberations of proposed amendments
- Final amendments to be issued in H1 2024

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# Digital reporting



# This period (since last Advisory Council meeting)

IFRSAT = IFRS Accounting Taxonomy  
PTU = Proposed Taxonomy Update

IFRS Accounting Standards	IFRS Accounting Taxonomy	Digital ecosystem partners
<b>Fundamental activities</b>		

- Update the IFRSAT for changes to IFRS Accounting Standards**
- A PTU for amendments to IAS 12, IAS 21, IAS 7 and IFRS 7 was published (October 2023)
  - A PTU relating to the PFS project is expected to be published in H1 2024

IFRS Accounting Standards	IFRS Accounting Taxonomy	Digital ecosystem partners
<b>First wave (priority) activities</b>		

Information required by Standards meets users' digital consumption needs	Improved Taxonomies	Optimal adoption
<p><b>Consideration of digital representation when drafting IFRS Standards</b></p> <ul style="list-style-type: none"> <li>• Digital reporting implications continue to be considered as part of standard setting projects, in particular the <i>Primary Financial Statements</i> (PFS) project</li> </ul> <p><b>Research how users' needs are changing in light of increased digital consumption and address implications in standard-setting</b></p> <ul style="list-style-type: none"> <li>• Work has commenced to identify ways users' needs are changing and possible implications on the standard-setting process</li> <li>• Materials are being developed to help improve consideration of digital reporting in the standard-setting process</li> </ul>	<p><b>Common practice updates</b></p> <ul style="list-style-type: none"> <li>• A PTU for the common practice review of financial instrument disclosures (IFRS 7) is expected to be published in November 2023</li> </ul> <p><b>Representing relationships/context digitally</b></p> <ul style="list-style-type: none"> <li>• Options to represent relationships/context digitally are being explored as part of the PFS project</li> <li>• The use of categorial elements in the IFRSAT is being considered</li> </ul> <p><b>Improved navigability and data validation</b></p> <ul style="list-style-type: none"> <li>• Options for providing a taxonomy viewer are being explored</li> <li>• Waiting for capacity to progress further work</li> </ul> <p><b>Stakeholder engagement and reviews of digital financial reports to identify issues and root causes</b></p> <ul style="list-style-type: none"> <li>• Waiting for capacity to undertake targeted stakeholder engagement and review of digital financial reports</li> </ul> <p style="text-align: center;"><b>Monitor for technological disrupters</b></p> <p><b>Horizon scan for technological disrupters that affect the need for digital taxonomies</b></p> <ul style="list-style-type: none"> <li>• The staff continue to monitor for technological disrupters</li> </ul>	<p><b>Engage with digital ecosystem stakeholders to gain momentum towards the digital vision and encourage large markets to transition from current to optimal adoption</b></p> <ul style="list-style-type: none"> <li>• We continue to engage with the increasing number of jurisdictions that are moving towards our digital vision</li> </ul> <p><b>Support regulators adopting IFRSAT to do so in the optimal way</b></p> <ul style="list-style-type: none"> <li>• Work has commenced to update the IFRS Taxonomy regulator guide. An updated guide is expected to be published in H1 2024</li> </ul> <p><b>Updating jurisdictional profiles to help inform adoption activities</b></p> <ul style="list-style-type: none"> <li>• The staff continue to internally track adoption of digital financial reporting and IFRSAT</li> </ul> <p><b>Encourage public statements of support from international policy-makers</b></p> <ul style="list-style-type: none"> <li>• We continue to engage with international policy-makers to encourage statements of support of IFRS digital taxonomies</li> </ul>

# This period (since last Advisory Council meeting)

IFRSAT = IFRS Accounting Taxonomy  
PTU = Proposed Taxonomy Update

IFRS Accounting Standards

IFRS Accounting Taxonomy

Digital ecosystem partners

Other activities

- The staff continue to consider connectivity with the ISSB's work on digital financial reporting
- The remit of the IFRS Taxonomy Consultative Group (ITCG) was expanded from 1 August to advise both the IASB and ISSB on their taxonomy related activities
  - In August 2023, seven ITCG members retired, nine were newly appointed and four were re-appointed
- The staff are developing a policy document to facilitate more efficient taxonomy development

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