Meeting summary

Accounting Standards Advisory Forum

Date **28 September 2023**
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This document summarises a meeting of the Accounting Standards Advisory Forum (ASAF), a group of nominated members from national organisations and regional bodies involved with accounting standard-setting. The ASAF supports the IFRS Foundation and the International Accounting Standards Board (IASB) in their objectives, and contributes towards the development, in the public interest, of high-quality, understandable, enforceable and globally accepted IFRS Accounting Standards.

ASAF members who attended the meeting

Region	**Members**
Africa	Pan African Federation of Accountants (PAFA)
Asia-Oceania (including one at large)	Accounting Regulatory Department, Ministry of Finance PRC (ARD)* Accounting Standards Board of Japan (ASBJ) Asian-Oceanian Standard-Setters Group (AOSSG) Korea Accounting Standards Board (KASB)
Europe (including one at large)	Accounting Standards Committee of Germany (ASCG) Autorité des normes comptables (ANC) EFRAG UK Endorsement Board (UKEB)
The Americas	Canadian Accounting Standards Board (AcSB) Financial Accounting Standards Board, United States (FASB) Group of Latin American Accounting Standard-Setters (GLASS)*

* Remote participation via videoconference.

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Agenda planning and feedback from previous ASAF meetings

1. This session discussed the proposed topics for the next ASAF meeting, which is scheduled to take place on 4–5 December 2023. Participants agreed to include on the agenda the projects on:

    (a) Primary Financial Statements; and

    (b) Climate-related and Other Uncertainties in the Financial Statements.

Rate-regulated Activities

Purpose of the session

2. The purpose of this session was:

    (a) to update ASAF members on the status of the project;

    (b) to update ASAF members on the redeliberations of the Exposure Draft *Regulatory Assets and Regulatory Liabilities* (Exposure Draft); and

    (c) to seek ASAF members' views on whether the IASB's tentative decisions in Q1 and Q2 2023 on total allowed compensation, recognition, derecognition and measurement help to address stakeholders' feedback on the proposals.

Project update

3. The ASBJ representative said the planned publication of the prospective Accounting Standard in H2 2025 was later than expected by the ASBJ's stakeholders. The representative also asked whether the IASB would re-expose the proposals and whether the prospective Accounting Standard would have an effective date earlier than 18–24 months from the date of publication.

4. The IASB staff said that finalising the Accounting Standard is time-consuming because it involves extensive stakeholder outreach. The staff also said that the IASB would decide whether re-exposure is needed only once it has completed its technical redeliberations. Changes to the proposals in response to feedback would not

necessarily require re-exposure. One of the main changes to the proposals will be the new requirements dealing with the direct (no direct) relationship concept.[1] This change responds to stakeholders' feedback and the IASB is doing extensive outreach to gather feedback on this concept. The IASB will give entities sufficient time to implement the prospective Accounting Standard and would consider permitting earlier application.

The IASB's tentative decisions in Q1 and Q2 2023

Total allowed compensation

5. ASAF members generally supported the IASB's tentative decisions related to performance incentives (including long-term performance incentives).

6. The ASCG representative said questions might be raised about the allocation of performance incentives over a performance period and the relationship between this allocation and the revenue recognition requirements in IFRS 15 *Revenue from Contracts with Customers*.

7. A few ASAF representatives suggested that the IASB consider:

   (a) how the tentative decisions might be applied to some emerging performance incentives such as those dealing with green targets (EFRAG and UKEB representatives); and

   (b) providing examples to illustrate how the tentative decisions would apply to common performance incentives (AOSSG and ARD representatives).

Recognition

8. ASAF members generally supported the IASB's tentative decisions related to:

   (a) the recognition threshold;

   (b) enforceability and recognition; and

   (c) timing of recognition.

[1] Agenda Paper 9D discussed at the December 2022 IASB meeting.

The recognition threshold

9. The AcSB representative said that, in accounting for regulatory assets and regulatory liabilities subject to high outcome uncertainty, there could be some confusion between the proposed recognition threshold of 'more likely than not' and the 'highly probable' threshold used in IFRS 15 to constrain the measurement of variable consideration. The ARD representative asked for more guidance on the judgement of 'more likely than not'.

Enforceability and recognition

10. A few ASAF members asked for further guidance on the assessment of enforceability. The ANC representative suggested that the prospective Accounting Standard include guidance on enforceability based on some of the clarifications suggested in the staff paper on this topic.[2]

Timing of recognition

11. A few ASAF members said the timing of recognition might be unclear, for example:

    (a) if an entity's financial reporting period is not aligned with its regulatory reporting period and the entity is entitled to receive an amount that accumulates beyond the financial reporting period (ASCG); or

    (b) if a regulatory asset or regulatory liability arises from items included in an entity's regulatory capital base and that base has no direct relationship with the entity's property, plant and equipment (UKEB).

Derecognition

12. ASAF members generally supported the IASB's tentative decisions on derecognition.

Measurement

13. ASAF members generally supported the IASB's tentative decisions related to estimating uncertain future cash flows.

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[2] Agenda Paper 9C discussed at the February 2023 IASB meeting.

Next steps

14. The IASB will consider feedback from ASAF members when developing the prospective Accounting Standard.

Power Purchase Agreements

Purpose of the session

15. The purpose of the session was to assist the IASB in determining whether there is a timely and efficient standard-setting solution to challenges stakeholders have raised relating to accounting for power purchase agreements (PPAs).

16. ASAF members were asked for their views and input on two questions:

    (a) *prevalence*—whether accounting for PPAs is a widespread problem that is expected to materially affect entities' financial statements; and

    (b) *scope*—how any potential narrow-scope amendments to IFRS 9 could be ringfenced to limit the risk of unintended consequences.

Prevalence

17. Most ASAF members agreed that PPAs are becoming more prevalent as part of the transition to renewable ('green') energy arising from commitments by entities to reduce their carbon emissions.

18. The KASB and ARD representatives commented that in their jurisdictions PPAs are relatively rare, mainly because electricity is provided through state-owned entities. The AOSSG representative commented that, although PPAs are not common in Asia, they are common in New Zealand and Australia. The ASBJ representative said that it was difficult to comment on the prevalence of the arrangements because it is not clear what the definition of a PPA is.

19. The representatives from the FASB and AcSB commented that both physical and virtual PPAs were common in their jurisdictions. The GLASS representative said that in Latin America, only physical PPAs are common. The representative from AcSB said

that long-term PPAs are particularly prevalent when considering renewable energy projects because they can provide security of financing for the electricity producers..

20. With regard to the prevalence of PPAs in Europe, the representatives from the ASCG, EFRAG, UKEB and ANC commented that both physical and virtual PPAs are either already very common in their jurisdictions or are becoming increasingly common. These representatives also noted that both physical and virtual PPAs are used in various industries.

21. Some representatives commented on the expected effects of PPAs on entities' financial statements:

    (a) the ASCG representative said that the quantification of the effects from PPAs on the financial statements vary depending on the stakeholder spoken to, but would mainly be based on the fair value of these contracts.

    (b) the EFRAG representative said a standard-setting solution was needed for both physical and virtual PPAs. He said companies are delaying investments because of the uncertainty of the accounting outcome either with respect to the own use exception with respect to physical PPAs or the application of hedge accounting with respect to virtual PPAs.

    (c) the AcSB representative said that although the effects of PPAs that are accounted for as derivatives are identifiable in the financial statements, the effects of those accounted for as executory contracts (for example by applying the own use exception in IFRS 9 *Financial Instruments*) are included as part of entities' revenue or operating costs and are therefore less visible.

Scope

22. Several ASAF members commented that entities enter into PPAs only to supply or purchase energy, not for trading purposes. Therefore in their view fair value accounting does not provide decision-useful information for investors. Some members also noted that physical delivery of energy can be difficult to achieve, particularly across borders, and therefore many entities can enter only into virtual PPAs. Most ASAF members generally supported the IASB's decision to include both physical and virtual PPAs in the project scope.

23. The AcSB and AOSSG representatives said that although entities are in some circumstances limited to one type of PPA, the purpose and economic substance of physical and virtual PPAs are similar. According to those representatives, any standard-setting solution should result in the same accounting treatment for both types of contracts.

24. The AcSB representative also suggested whether the discussion about ringfencing of any standard-setting solution was premature and suggested the desired outcome should be determined first before deciding on the scope.

25. ASAF members generally agreed that any ringfencing solution should be based on the unique characteristics and market structure of the non-financial item. The ASCG, UKEB and EFRAG representatives discussed comments from their constituents regarding which characteristics could be used for ringfencing a potential standard-setting solution, and acknowledged that agreeing on a set of characteristics could be a challenge. The EFRAG and ANC representatives said that despite the challenges, finding a timely solution is of the utmost importance.

Next steps

26. The staff will continue its research activities and plans to bring a summary to the IASB for discussion at a future meeting.

Equity Method

Purpose of the session

27. The purpose of the session was to ask ASAF members for views on the implications of applying the IASB's tentative decisions for investments in associates to:

    (a) investments in subsidiaries in separate financial statements— including on the two alternative discussed in Agenda Paper 13A; and

    (b) investments in joint ventures.

Investments in subsidiaries in separate financial statements

28. Some representatives supported entities continuing to apply the same equity method as described in IAS 28 *Investments in Associates and Joint Ventures* when a parent opts to account for its investments in subsidiaries in its separate financial statements using the equity method, that is, the IASB should not introduce different requirements for when the equity method is applied to subsidiaries (AcSB, EFRAG, KASB, PAFA, UKEB).

29. The EFRAG and UKEB representatives said creating two versions of the equity method (Alternative 2 in Agenda Paper 13A) would introduce unnecessary complexity in IFRS Accounting Standards.

30. Some representatives said the use of the equity method for investments in subsidiaries in separate financial statements is not widespread in their jurisdictions (AcSB, ASCG, KASB and PAFA).

Investments in joint ventures

31. Some representatives supported the IASB technical staff analysis that the rationale for the IASB's tentative decisions for investments in associates also holds for investments in joint ventures, therefore the IASB should apply its tentative decisions on application questions for investments in associates to investments in joint ventures(AcSB, ANC, ASBJ, EFRAG and UKEB).

32. The ANC representative commented that disclosing gains or losses on transactions between a joint venturer and its joint venture could result in providing commercially sensitive information.

Other comments

33. The KASB representative suggested the IASB should consider, as part of the transition requirements, permitting an investor to reconsider its accounting policy choice for investments in subsidiaries, joint ventures and associates in separate financial statements.

34. The GLASS representative suggested the IASB should retain the requirements in IAS 28 for investments in subsidiaries in separate financial statements. The representative

said the tentative decision that an investor would recognise the full gain or loss on all transactions with its equity-accounted investments would increase the differences between separate and consolidated financial statements, which could affect dividend distribution and taxable income amounts in some jurisdiction.

35. A few ASAF members commented on the IASB's tentative decisions for investments in associates:

(a) The ARD and ASBJ representative disagreed with the tentative decision that an investor would recognise the full gain or loss on all transactions with its associate.

(b) The ARD representative said the tentative decision that an investor would recognise the bargain purchase gain on an additional interest in an associate in profit or loss would not reflect the economic substance of the purchase if that purchase is part of a bundled transaction.

Next steps

36. The IASB will continue discussing the implications of applying its tentative decisions to investments other than those in associates accounted for using the equity method.

Primary Financial Statements

Purpose of the session

37. The purpose of the session was to update ASAF members on the Primary Financial Statements project and to obtain input from ASAF members on:

(a) whether their jurisdictions have laws or regulations that require entities to provide comparative information for more than one comparative period in their financial statements; and

(b) whether those laws and regulations permit an entity to provide only one year of comparative information when a new IFRS Accounting Standard is applied.

Laws and regulations on disclosure of additional comparative information

38. Many representatives said that the laws and regulations in their jurisdictions generally require entities to provide comparative information for one comparative period (AcSB, ANC, AOSSG, ARD, ASBJ, ASCG, EFRAG, GLASS, PAFA and UKEB). Two representatives also mentioned that summarised additional comparative information is required in documents published outside financial statements or in regulatory filings (ASBJ and KASB).

39. Many representatives said that laws, regulations or stock exchange requirements in their jurisdictions would require an entity to provide comparative information for two comparative periods if it is in the process of an Initial Public Offering (IPO) (AcSB, ANC, AOSSG, ARD, ASCG, EFRAG, GLASS, PAFA and UKEB). However, an entity may be required to apply the same IFRS Accounting Standard in all periods presented (AcSB). Generally, IFRS Accounting Standards would have been adopted before initiating the IPO (AcSB, FASB and UKEB).

40. The FASB representative said that regulations in the US require entities to provide two comparative periods for all primary financial statements except the statement of financial position. Some representatives said that some entities in their jurisdictions are dual-listed in that jurisdiction and the US and therefore have to comply with US regulation (ANC, ASCG, EFRAG and UKEB).

41. The ANC representative mentioned that transitional relief for additional comparative information would be helpful. Without it, entities that are required to provide two or more years of comparative information would need to start preparing to apply the Standard immediately.

Next steps

42. The IASB will consider the feedback from ASAF members in a future meeting. The staff plan to discuss steps to support implementation and consistent application of the new IFRS Accounting Standard with ASAF members at the meeting in December 2023.

IAS 12 Pillar Two—Sharing information on implementation

Purpose of the session

43. The purpose of the session was to provide ASAF members an opportunity to exchange information and experiences on the implementation of the Pillar Two model rules in their countries or jurisdictions.

Summary of the meeting

44. ASAF members exchanged information and experiences on the implementation of the Pillar Two model rules in their countries and jurisdictions and related effects on financial reporting.