23 February 2024
Agenda Paper 6

IASB General Update

Executive Summary

Project Type	Monitoring
Project Scope	Various

Purpose of the paper

This paper provides the Board with an update on projects the Secretariat is currently monitoring, including the work of the IFRS Interpretations Committee.

As agreed with the Board, the Secretariat monitors projects being undertaken by the IASB and IFRS Interpretations Committee. This is undertaken to inform the Board about the progress and decisions being made by the IASB on active projects. Discussion by the Board may also help inform interactions with international standard setter meetings, including the IASB's Accounting Standards Advisory Forum (ASAF).

Summary of the Issue

Topics addressed in this paper include topics discussed by the IASB at its January 2024 meeting as well as topics that are on the ASAF Agenda for the March 2024 meeting.

Topics for discussion:

- Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*
- Rate-regulated Activities
- Amendments to the Classification and Measurement of Financial Instruments
- Post-implementation Review of IFRS 9 – Impairment

Topics for noting:

- Climate-related Matters
    - Power Purchase Agreements
    - Climate-related and Other Uncertainties in the Financial Statements
- Potential Connectivity Matters
- Subsidiaries without Public Accountability: Disclosures and Updating the Subsidiaries without Public Accountability Standard
- IFRIC Update

UK Endorsement Board

Questions for the Board
Topics for discussion
Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers* (Appendix A)
1. Does the Board have any questions/comments on: a) the overall PIR feedback on IFRS 15 as a whole? b) the IASB's plan for the next phase of the project?
2. Does the Board agree with the respective priorities suggested by IASB staff in relation to the two UKEB recommendations in its FCL on the topic of 'principal versus agent considerations'?
3. Does the Board have any questions/comments: a) on the topics for discussion by the IASB at the February and March 2024 IASB meetings? b) that we should raise at the March 2024 ASAF meeting in relation to the topics to be discussed by the IASB in February and March 2024?
Rate-regulated Activities (Appendix B)
1. Do Board members have any views on the topics for which questions are expected to be posed at ASAF?
2. Do Board members have any questions or comments on the Rate-regulated Activities update?
Amendments to the Classification and Measurement of Financial Instruments (Appendix C)
3. Does the Board have any comments or questions on the *Financial Instruments Classification and Measurement: Amendments* update?
4. Does the Board have any questions they would like raised when the IASB staff present this project at the March ASAF meeting?
Post-implementation Review of IFRS 9 – Impairment (Appendix D)
1. Does the Board have any comments on the feedback to the IASB described in the paper?
2. [Subject to further information becoming available]. Does the Board have any comments on the March 2024 Interpretations Committee questions?
Topics for noting
Do Board members have any questions or comments on the topics for noting?
IFRIC Update

UK Endorsement Board

Do Board members agree that the UKEB will NOT undertake further work on [Presentation of cash flows from margin calls for certain contracts for the sale or purchase of commodities] at this point in time?
Recommendation
N/A
Appendices
Appendix A: Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers* Appendix B: Rate-regulated Activities Appendix C: Amendments to the Classification and Measurement of Financial Instruments Appendix D: Post-implementation Review of IFRS 9 – Impairment Appendix E: Climate-related Matters (including Power Purchase Agreements and Climate-related and Other Uncertainties in the Financial Statements) Appendix F: Potential Connectivity matters Appendix G: Subsidiaries without Public Accountability: Disclosures and Updating the Subsidiaries without Public Accountability Standard Appendix H: Interpretations Committee Update Appendix I: List of IASB Projects

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Appendix A: Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*

UKEB Project Status: Active Monitoring **IASB Next Milestone:** Feedback Statement (expected H2 2024)	UKEB project page UKEB Final Comment Letter (Published 26 October 2023)

Purpose of this update

A1. In June 2023, the IASB published its Request for Information: IFRS 15 *Revenue from Contracts with Customers* (RFI), to seek stakeholders' views on the requirements in IFRS 15, with a comment period ending on 27 October 2023. Our response to the IASB was submitted on 26 October 2023. The IASB received 74 responses to the RFI.

A2. In this paper we:

a) ask the Board for their input on the questions for the March 2024 Accounting Standards Advisory Forum (ASAF) meeting; and

b) provide feedback on:

i. the 23 January 2024 IASB meeting, including a summary of the PIR feedback on IFRS 15 as a whole and the plan for the next phase of the project and when each topic will be discussed;

ii. the topics to be discussed at the February 2024 IASB meeting;

iii. the topics to be discussed at the March 2024 IASB meeting.

ASAF March 2024 meeting

A3. The IASB is seeking views from ASAF members on:

a) the IASB's discussions held on 23 January 2024 regarding the overall feedback on the PIR of IFRS 15; and

b) IFRS 15 topics to be discussed at the IASB meetings in February 2024 and March 2024.

A4. Those topics are detailed in the table in A19 below.

UKEB Final Comment Letter

A5. The UKEB Final Comment Letter (FCL), in response to the RFI, stated:

> **UKEB Recommendations–Overall assessment** (FCL Paragraph 5)
>
> Based on our conclusions, … there are no high priority matters for the IASB to address. However, there are a small number of areas, set out, … where we suggest that the Standard could be improved to reduce diversity in application if the IASB decides to pursue other amendments as a result of feedback received.

A6. The two areas where the UKEB FCL made recommendations relate to:

a) Principal versus agent considerations.

b) Determining the transaction price.

A7. These topics are set out below, along with the IASB staff recommendations, where known, or feedback received from other stakeholders as part of the PIR of IFRS 15.

January 2024 IASB meeting

A8. At its January 2024 meeting, the IASB staff presented a summary of the feedback on the RFI, based on the 74 responses received and outreach meetings held. In addition, the IASB staff presented a plan for the next phase of the project. The IASB was not asked to make any decisions. The overall feedback received on the Standard as a whole is very positive.

Objective of IFRS 15, core principle and five-step revenue recognition model

A9. Consistent with the views expressed in the UKEB FCL, overall, the PIR feedback on the objective, core principle and five-step revenue recognitions model is very positive. Almost all respondents said IFRS 15 has achieved its objective and is working well. Respondents raised no fundamental questions ('fatal flaws') about the objective and the core principle of the Standard.

A10. Many respondents—and almost all users of financial statements in outreach meetings—said that IFRS 15 has improved the usefulness of revenue information, enhancing comparability among entities within the same industry, among industries and among entities in various capital markets. Many stakeholders attributed some of these improvements to the significant level of convergence between the IASB and FASB requirements.

A11. Respondents identified specific areas of application challenges, mostly in areas that require significant judgement in applying the requirements in IFRS 15 to complex fact patterns, which in some cases leads to inconsistent outcomes among entities. Many respondents observed that although applying IFRS 15 was initially challenging, entities have now developed accounting policies. Consistent with the UKEB comment letter, most feedback focused on:

a) the guidance on principal versus agent considerations;

b) identifying performance obligations; and

c) licensing.

Understandability and accessibility

A12. For most of the remaining challenges, respondents preferred that the IASB provide application guidance, illustrative examples and/or educational materials rather than a significant amendment to IFRS 15.

Ongoing costs and benefits

A13. Consistent with feedback received by the UKEB, most respondents to the IASB said that transition to IFRS 15 was challenging and costly, particularly for some industries such as telecommunications, construction and software. Respondents reported that for most entities incremental costs decreased over time and are now at an acceptable level.

A14. Again, consistent with the UKEB FCL, respondents said ongoing costs relate mainly to assessing new contracts and contract modifications (which may sometimes require expert advice), ongoing employee training and maintaining systems (including manual adjustments) for complying with the requirements. A few standard-setters and accounting bodies said that ongoing costs vary depending on the volume, diversity and complexity of an entity's contracts and costs remain significant in some industries, for example, telecommunications. Overall, most respondents expressed a view that the benefits of IFRS 15 outweigh the costs of implementing and applying the Standard.

Convergence with US GAAP

A15. The UKEB FCL made the following recommendation, regarding the current level of convergence with US GAAP:

> **UKEB Recommendations–Convergence with US GAAP** (FCL Paragraph 5)
>
> c) We recommend that the IASB and the FASB continue to work together to ensure that IFRS 15 and Topic 606 remain substantially converged.

A16. Consistent with the UKEB FCL, almost all respondents said that it is important to retain at least the current degree of convergence between IFRS 15 and the FASB ASC Topic 606 *Revenue from Contracts with Customers*. Some respondents also requested the IASB and the FASB work together if any significant changes to requirements are considered. The FASB received similar feedback on convergence in its PIR of Topic 606[1]. Consequently, in deciding whether to take action on its PIR findings, the IASB will consider how any actions will affect the degree of convergence when discussing each topic.

A17. The IASB and the FASB joint education session (planned for 21 June 2024) will consider the findings and tentative decisions arising from the respective PIRs. The IASB will then consider the observations made at the joint discussion in making final decisions on the Standard overall and on whether to take action on any of the matters.

A18. To help identify whether there may be an issue with remaining substantially converged with US GAAP, for each of the topics discussed below where our FCL made recommendations, we note the current level of convergence.

Question for the Board		
1.	a)	Does the Board have any questions/comments on the overall PIR feedback on IFRS 15 as a whole?

Plan for PIR Phase 2

A19. As indicated in the table below[2], the IASB staff plan to present papers by topic[3], with staff analysis and recommendations, starting in February 2024 with the three most commonly raised topics:

Topics for discussion	**Expected timing[4]**
Quarter 1 2024	
1. Identifying performance obligations in a contract 2. Principal versus agent considerations 3. Licensing	21 February 2024

[1] Details of the FASB PIR of Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) can be found here.
[2] Information extracted from Staff paper Agenda 6C 23 January IASB meeting.
[3] There is no plan to discuss transition requirements, since feedback indicated that the requirements and reliefs provided on transition to IFRS 15 achieved a good balance between costs for preparers and benefits for users.
[4] The timing of papers on specific topics may change depending on the IASB staff's further analysis of the feedback.

Topics for discussion	Expected timing[4]
4. Determining the transaction price 5. Determining when to recognise revenue 6. Disclosure requirements	March 2024
Quarter 2 2024	
7. Applying IFRS 15 with other IFRS Accounting Standards 8. Other matters	April 2024
9. Academic literature review[5]	May 2024
10. Summary discussion—Joint IASB–FASB education session	21 June 2024
Quarter 3 2024	
11. Overall assessment of IFRS 15 12. Summary discussion—IASB only	July 2024

A20. The UKEB made recommendations in our FCL relating to two of the above topics, one to be discussed at the February 2024 IASB meeting (topic 2: Principal versus agent considerations) and one to be discussed at the March 2024 IASB meeting (topic 4: Determining the transaction price). A summary of feedback from the PIR on these topics is covered below.

A21. In this paper we have not provided feedback on the other topics where the UKEB FCL did not make any recommendations. Secretariat will however monitor the discussions and provide feedback to the board at future meetings, if relevant.

A22. Annex 1 sets out the criteria that the IASB will follow to assess whether overall, the Standard is working as intended and what action, if any, to take as well as the priority of each matter.

A23. Overall stakeholder feedback indicates little interest in fundamental changes to the Standard. Instead, for most application matters respondents asked the IASB to consider providing additional up-to-date illustrative examples, application guidance and/or educational materials[6] to help entities apply the requirements in new or more complex situations and improve consistency in applying IFRS 15.

5 The IASB plan to provide an updated academic literature review to help assess whether IFRS 15 as a whole is working as intended.

6 Paragraph 5 of Staff paper Agenda 6C January 2024 IASB meeting

Question for the Board		
1.	b)	Does the Board have any questions/comments on the IASB's plan for the next phase of the project?

February 2024 IASB meeting

Principal versus agent considerations

A24. The UKEB FCL made two recommendations regarding this topic in response to the RFI.

> **UKEB Recommendations–Principal versus agent considerations** (FCL Paragraph 5)
>
> b) In the context of principal versus agent considerations, we recommend that the IASB:
>
> i. expands the indicators of control (IFRS 15 paragraph B37) to cover indicators that are more relevant to services and intangibles;
>
> ii. elevates paragraph BC385H from the Basis for Conclusions to the Standard, to highlight the importance of the primary assessment of transfer of control and that the indicators of control are secondary in the assessment.
>
> This would minimise the risk that the control framework for principal versus agent considerations is inappropriately applied and ensure greater consistency in practice.

A25. The first recommendation will be proposed by IASB staff to add as a topic to consider in the next agenda consultation.

A26. The second recommendation will be proposed to be discussed further by the IASB at a later date.

IASB staff recommendations

> **IASB staff recommendations—Principal versus Agent considerations[7]:**
>
> Based on the analysis … the [IASB] staff recommend the IASB:

[7] Paragraph 4 and 5 of Staff paper Agenda 6B IASB February 2024 meeting

(a) classify as **low priority** the matter raised by respondents in relation to assessing control over services and intangible assets and consider the matter in the **next agenda consultation**;

(b) take **no further action** on application matters related to:

(i) the relationship between the concept of control and the indicators in paragraph B37A;

(ii) identifying a customer of a supplier that sells its goods or services through an intermediary;

(iii) identifying performance obligations in arrangements involving principal versus agent determinations;

(iv) disclosure requirements about principal versus agent determinations; and

(v) other aspects of principal versus agent determinations described in Appendix A of staff paper 6B February 2024.

The staff also recommend the IASB **discuss later** whether to add some **explanations from paragraphs BC385H and BC385E of the Basis for Conclusions to the Standard**, along with possible clarifications of other aspects of IFRS 15**.** These explanations would help to clarify some aspects of matters (b)(i) and (b)(ii) [above] and, combined with the other possible clarifications, might result in sufficient improvement to IFRS 15 to warrant standard-setting[8].

A27. On matters where no further action is suggested, although more guidance was requested by stakeholders, feedback does not provide evidence of fundamental questions about the clarity and suitability of the principles in the requirements, of significant diversity in application or significant ongoing costs. The feedback received does not suggest that the matters are pervasive or have substantial consequences on revenue information provided in financial statements.

Convergence with US GAAP

A28. IFRS 15 requirements on principal versus agent considerations are converged with the requirements in the FASB's ASC Topic 606[9].

A29. The FASB also identified challenges in determining whether an entity is a principal or an agent as a major application matter[10].

8 The UKEB secretariat notes that the IASB will not discuss this topic until 21 February, so at the time of writing this paper, the priority of any action has not yet been determined.

9 Paragraph 7 of Staff paper Agenda 6B February 2024 IASB meeting.

10 Paragraph 12 of Staff paper Agenda 6B February 2024 IASB meeting.

Identifying performance obligations in a contract

A30. The UKEB FCL did not make any recommendations to the IASB related to this topic.

IASB staff recommendations

> **IASB staff recommendations—Identifying performance obligations**[11]
>
> Based on the analysis, the [IASB] staff recommend the IASB take no further action on application matters raised by respondents including items related to:
>
> a) applying the notion of 'distinct';
>
> b) identifying a promise to transfer goods or services;
>
> c) convergence with FASB ASC Topic 606; and
>
> d) other aspects of identifying performance obligations in a contract.
>
> The staff also recommend that the IASB **discuss later** whether to add some explanations from paragraphs BC105 and BC116K of the Basis for Conclusions to the Standard, along with possible clarifications of other aspects of IFRS 15. These explanations would help clarify some aspects of matter (a) …., and combined with the other possible clarification, might result in sufficient improvement to IFRS 15 to warrant standard-setting[12].

Licencing

A31. The UKEB FCL did not make any recommendations to the IASB related to this topic.

IASB staff recommendations

> **IASB staff recommendations—Licencing**[13]
>
> Based on the analysis, the [IASB] staff recommend the IASB take no further action on matters raised by respondents related to:
>
> a) accounting for licence renewals;
>
> b) determining the nature of a licence;

11 Paragraph 4 and 5 of Staff Paper Agenda 6A of the February 2024 IASB meeting.
12 The UKEB secretariat notes that because the IASB has not discussed this topic yet the priority of any action has not yet been determined.
13 Paragraph 4 of Staff Paper Agenda 6C of the February 2024 IASB meeting.

> c) determining the scope of licensing guidance;
>
> d) accounting for sales-based or usage-based royalties; and
>
> e) other aspects of licensing.

March 2024 IASB meeting

Determining the transaction price

A32. The UKEB FCL made two recommendations relating to this topic in response to the RFI.

> **UKEB Recommendations—Determining the transaction price** (FCL Paragraph 5)
>
> a) In relation to the determination of the transaction price, we recommend that the IASB clarifies in what circumstances:
>
> i. consideration payable to a customer (that does not relate to a distinct good or service) should be netted against revenue; and
>
> ii. net negative revenue should be reclassified and presented as an expense.
>
> This would reduce any potential for diversity in practice.

IASB papers

A33. At the time of writing, the IASB March 2024 meeting papers have not yet been published. A verbal update will be provided at the Board

RFI feedback

A34. Some respondents identified consideration payable to a customer as a major application matter.

Convergence with US GAAP

A35. Regarding the date of measurement of non-cash consideration (with some entities measuring it at contract inception, some when the consideration is received, and others when the related performance obligation is satisfied), most of the respondents commenting on this item suggested the IASB consider the FASB's amendment to Topic 606 which requires non-cash consideration to be measured at contract inception.

Questions for the Board	
2.	Does the Board agree with the respective priorities suggested by IASB staff in relation to the two UKEB recommendations in its FCL on the topic of 'principal versus agent considerations'?
3.	Does the Board have any questions/comments: a) on the topics for discussion by the IASB at the February and March 2024 IASB meetings? b) that we should raise at the March 2024 ASAF meeting in relation to the topics to be discussed by the IASB in February and March 2024?

Next steps

A36. The IASB will continue to discuss the specific topics set out in the table in paragraph A19 above, as well as seek further feedback at the March ASAF meeting.

A37. The UKEB Secretariat will continue to monitor the IASB discussions and update the board as necessary.

A38. We expect the IASB to finalise its decisions in the third quarter of 2024 and publish a project report and feedback statement shortly thereafter.

Annex 1 – Appendix A: Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*

A39. As a result of a PIR[14], the IASB decides:

a) whether overall, a Standard is working as intended; and

b) whether to take action on any specific application matters raised by stakeholders.

A40. In Phase 2 of the PIR, the IASB will first consider specific application matters and then to decide whether overall IFRS 15 is working as intended. Specifically:

a) first, the IASB assesses whether the findings from the PIR provide evidence that:

i. there are **fundamental questions** about the clarity and suitability of the new requirements;

ii. the **benefits to users** of financial statements of the information arising from applying the requirements **are significantly lower than expected** (for example, there is significant diversity in application); or

iii. the **costs** of applying the new requirements and auditing and enforcing their application are **significantly greater than expected**.

b) then, if the findings provide evidence that any of the characteristics described in (a) are present, the IASB determines the **prioritisation** of the matter as high, medium or low based on the extent to which evidence indicates:

i. the matter has **substantial consequences**;

ii. the matter is **pervasive**;

iii. the matter **can be addressed by the IASB** or the IFRS Interpretations Committee;

iv. the **benefits** of an action are **expected to outweigh the costs**. To

[14] The IASB's description for Post-implementation reviews (PIRs) on its website sets out a framework for deciding whether and when to take further action in response to specific application matters identified in the PIR. This framework will be followed in phase 2 of the PIR of IFRS 15.

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determine this, the IASB considers the extent of disruption and operational costs from change and importance of the matter to users.

A41. Depending on the above assessment[15]:

a) **high priority matters** would be addressed as soon as possible. This category is expected to be used rarely, for those matters:

i. that relate to the core objective or principles of a new requirement that lead the IASB to conclude in the PIR that the new requirement is not working as intended; or

ii. for which most of the prioritisation characteristics are present to a large extent, the benefits of any action are expected to exceed the costs and solutions are needed urgently.

b) **medium priority matters** would be added to the IASB's **research pipeline** or the **IFRS Interpretations Committee's pipeline**. This category consists of those matters for which most of the prioritisation characteristics are present to a large extent and for which the benefits of any action are expected to exceed the costs. The IASB will endeavour to make pipeline projects active before the next agenda consultation.

c) **low priority matters** would be considered in the next agenda consultation and explored if the IASB decides, in its deliberations on the feedback to that agenda consultation, to take action. This category consists of those matters for which:

i. **some of the prioritisation characteristics** are present to some extent; and

ii. the remainder of the prioritisation characteristics are not met or there is insufficient information to conclude whether the characteristic is present.

d) **no action matters**. This category consists of those matters for which few or none of the prioritisation characteristics are met. Matters in this category will not be explored unless:

i. stakeholders identify the matters as a priority in their feedback on a future agenda consultation; and

ii. the IASB decides, in its deliberations on the agenda consultation feedback, to take action.

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15 The action plan is set out in full paragraphs 5 and 6 of the Staff paper Agenda 6 (February 2024 IASB meeting).

UKEB
UK Endorsement Board

Appendix B: Rate-regulated Activities

Topic for discussion

UKEB Project Status: Monitoring **IASB Next Milestone:** Continued redeliberations on remaining topics throughout 2024.	UKEB Project page UKEB Final comment letter (Published July 2021)

Purpose of this update

B1. This paper asks the Board for input on the questions expected to be asked of Accounting Standards Advisory Forum (ASAF) members at its March 2024 meeting.

ASAF March 2024 meeting

B2. The IASB staff will provide a project update on its Exposure Draft *Regulatory Assets and Regulatory Liabilities* (ED) and seek ASAF members' views on the IASB's tentative decisions from Q3 and Q4 2023.

B3. The topics on which tentative decisions have been made in Q3 and Q4 2023 are:

a) Measurement — Credit and other risks.

b) Boundary of the regulatory agreement.

c) Presentation.

d) Unit of account and offsetting.

e) Items affecting the regulated rates only when the related cash is paid or received.

B4. During Q3 and Q4 2023, the IASB staff also provided feedback[1] from their survey on the direct (no direct) relationship concept.

UKEB high level message

B5. The UKEB continues to have concerns about the fact that entities with no direct relationship between their property, plant and equipment (PPE) and regulatory

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capital base (RCB) will not be able to recognise adjustments that go directly to the RCB, resulting in those entities recognising fewer adjustments as regulatory assets or regulatory liabilities than entities with a direct relationship.

B6. The UKEB Secretariat, together with members of the Rate-regulated Activities Technical Advisory Group (RRA TAG), is in the process of developing a "top-down model" to possibly recognise differences in timing that go directly to the RCB. It is intended to be discussed at the 27 March 2024 RRA TAG meeting. This is the day before the 28 March UKEB Board meeting.

Measurement — Credit and other risks[2]

IASB tentative decisions

B7. The IASB tentatively decided that the proposed Standard would:

a) Retain the requirement proposed in the ED that an entity estimating future cash flows arising from a regulatory asset or a regulatory liability:

i. reflects in the estimates the uncertainty about the amount or timing of future cash flows; and

ii. assesses whether the entity or its customers bear this uncertainty in future cash flows.

b) Specify that if an entity bears credit risk, the entity:

i. estimates uncollectible amounts considering the net cash flows that will arise from the recovery of regulatory assets and the fulfilment of regulatory liabilities; and

ii. allocates the estimates of uncollectible amounts to regulatory assets only.

c) Provide no additional guidance on how an entity accounts for:

i. credit risk if the entity is compensated for this risk; and

ii. demand risk; and

d) Retain the requirement proposed in the ED that an entity's estimates of future cash flows arising from a regulatory liability do not reflect the entity's own non-performance risk.

2 UKEB October 2023 IASB General Update paper

UKEB Secretariat response

B8. In its Final Comment Letter (FCL), the UKEB did not comment on demand risk or credit risk with respect to measurement.

B9. Feedback from the RRA TAG at its December 2023 meeting[3] is that credit risk is not hugely significant. Demand risk is typically mitigated by the regulators allowing revenue adjustments for under-recovery of allowed revenue. RRA TAG members therefore consider the tentative decisions to be reasonable.

Boundary of the regulatory agreement[4]

IASB tentative decisions

B10. The IASB tentatively decided that the prospective Accounting Standard would:

a) Retain the proposed guidance in the ED on rights to renew or cancel a regulatory agreement and clarify that those rights might be explicit or implicit.

b) Retain the proposed guidance in the ED on compensation for cancellation of a regulatory agreement and clarify that the guidance also applies to other circumstances in which termination occurs.

c) Include the principles in paragraph 35(c) of IFRS 15 *Revenue from Contracts with Customers* that relate to an entity's right to payment for performance completed to date. An entity would use those principles to help it assess whether there exists an enforceable present right to receive, or an enforceable present obligation to pay, compensation on termination of a regulatory agreement for an amount comprising unrecovered regulatory assets and unfulfilled regulatory liabilities.

d) Retain the proposed requirements in the ED on reassessment of and changes to the boundary of a regulatory agreement.

UKEB Secretariat response

B11. The Secretariat is of the view that the tentative decisions address the concerns raised by the UKEB in its FCL.

B12. The Secretariat notes that the IASB had tentatively decided at its February 2022[5] meeting that the boundary of a regulatory agreement does not refer to the end of

3 RRA TAG meeting summary – December 2023
4 UKEB November 2023 IASB General Update paper
5 IASB meeting summary – February 2022

the current regulatory period, and that the boundary is not determined by the end of the current regulatory period.

B13. The Secretariat notes that the IASB staff are bringing a paper[6] to the IASB's February 2024 meeting which sets out recommendations on how the final Accounting Standard could articulate the guidance on the boundary of a regulatory agreement. The IASB staff paper recommends that the final Accounting Standard acknowledges that an entity may have a right to operate that is indefinite. It also recommends that in deciding which cash flows are within the boundary (and therefore included in the measurement of a regulatory asset or regulatory liability), an entity considers its right to operate and its right to recover (fulfil) a regulatory asset (liability) (either through future regulated rates or through compensation on termination of a regulatory agreement).

Presentation[7]

IASB tentative decisions

B14. The IASB tentatively decided that the prospective Accounting Standard would:

a) Require an entity to classify all regulatory income minus all regulatory expense (regulatory income or regulatory expense) as revenue.

b) Require an entity to present regulatory income or regulatory expense as a separate line item in the statement(s) of financial performance.

c) Omit the proposed amendment to paragraph 82 of IAS 1 that would have required an entity to present regulatory income or regulatory expense as a separate line item immediately below revenue.

d) Retain the proposals to require an entity to include regulatory interest income within regulatory income and regulatory interest expense within regulatory expense.

e) Amend the prospective IFRS 18 Accounting Standard *Presentation and Disclosure in Financial Statements* (prospective PFS Standard) to clarify that regulatory interest is classified in the operating category.

f) Retain the proposal to require an entity to present in its statement of financial position:

i. line items for regulatory assets and regulatory liabilities; and

ii. current and non-current regulatory assets and current and non-current regulatory liabilities as separate classifications by applying

6 IASB AP9A – February 2024
7 UKEB January 2024 IASB General Update paper

paragraphs 66 and 69 of IAS 1, except when the entity presents all assets and liabilities in order of liquidity.

UKEB Secretariat response

B15. The Secretariat welcomes the IASB's tentative decisions on presentation. This topic is expected to be discussed at a future RRA TAG meeting.

Unit of account and offsetting[8]

IASB tentative decisions

B16. The IASB tentatively decided that the prospective Accounting Standard would:

a) Clarify that the unit of account is the right or obligation arising from a difference in timing or from a group of differences in timing. The differences in timing included in that group would:

i. be created by the same regulatory agreement;

ii. have similar expiry patterns; and

iii. be subject to similar risks.

b) Omit the proposal in paragraph 71 of the ED that would have permitted an entity to offset regulatory assets and regulatory liabilities in the statement of financial position.

UKEB Secretariat response

B17. The FCL did not express any views on the unit of account and offsetting. The Secretariat is planning to bring the topic to the March 2024 RRA TAG meeting.

Items affecting regulated rates only when the related cash is paid or received[9]

IASB tentative decisions

B18. The IASB tentatively decided that the prospective Accounting Standard would:

a) Retain the proposed concept that differences in timing that arise from differences between regulatory and accounting criteria represent enforceable present rights or enforceable present obligations. Those rights

[8] UKEB January 2024 IASB General Update paper
[9] UKEB January 2024 IASB General Update paper

or obligations meet the proposed definitions of regulatory assets and regulatory liabilities.

b) Retain the measurement requirements proposed in paragraph 61 of the ED for items that affect regulated rates only when cash is paid or received.

c) Retain the requirements proposed in paragraph 69 of the ED to present specified regulatory income and regulatory expense in other comprehensive income.

d) Clarify that an entity is required to reclassify regulatory income or regulatory expense presented in other comprehensive income to profit or loss if IFRS Accounting Standards require the entity to reclassify the related expense or income to profit or loss.

e) Include no additional presentation requirements for other comprehensive income. An entity would apply the requirements in IAS 1 or the prospective PFS Standard.

UKEB Secretariat response

B19. The Secretariat welcomes the IASB's tentative decisions on this topic. This topic is expected to be discussed at a future RRA TAG meeting.

Next steps

B20. The IASB is continuing its redeliberations of the feedback received on the ED at future meetings which will include the following topics:

a) Discount rate.

b) Disclosure.

c) Amendments to other IFRS Accounting Standards.

d) Effective date and transition.

e) Other matters.

B21. The UKEB is continuing to monitor the IASB's work on the ED.

Questions for the Board	
1.	Do Board members have any views on the topics for which questions are expected to be posed at ASAF?
2.	Do Board members have any questions or comments on the Rate-regulated Activities update?

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Appendix C: Amendments to the Classification and Measurement of Financial Instruments

UKEB Project Status: Active Monitoring **IASB Next Milestone**: Final Amendment (Q2 2024)	**UKEB project page** **UKEB Final Comment Letter (Published July 2023)**

Amendments to the classification and measurement of financial instruments

C1. In January 2024 the IASB continued its deliberations on the Exposure Draft (ED) *Amendments to the Classification and Measurement of Financial Instruments*. At this meeting the general requirements for the assessment of contractual cashflows and the requirements for non-recourse and contractually linked features were discussed. Two tentative agenda decisions were made.

C2. Several times during the IASB discussion references were made to using the Basis for Conclusions for the clarifications being discussed (for example, for help in understanding what would be an "investment in particular assets", or clarification of certain points related to the junior debt discussion on contractually linked instruments). In the Secretariat's view, it is preferable for the IASB not to place reliance on the Basis for Conclusions for important guidance or clarifications: requirements should be sufficiently clear without reference to the Basis for Conclusions.

General requirements – assessment of contractual cash flows

Amount of compensation an entity receives

C3. As reported to the November 2023 UKEB meeting, the IASB staff agreed with feedback received from stakeholders that the ED wording in paragraph B4.1.8A on the "magnitude" of changes in cashflows was not helpful to the assessment of contractual cashflows. The IASB staff now recommend that the proposals related to the "magnitude" of changes be replaced with the following proposal:

General requirements IASB proposal
Refining the proposals in paragraph B4.1.8.A to clarify that "the amount of compensation an entity receives may be an indication that the entity is being compensated for something other than basic lending risk or costs".

C4. It was noted in the IASB discussion that this works well alongside the other ED proposals that explain that, even though the solely payments of principal and interest (SPPI) assessment focusses on what a lender is being compensated for, rather than how much compensation is received, an entity may still need to consider the amount of compensation in cases where it is not clear what the entity is being compensated for.

Significance of the fair value of the contractual term at initial recognition

C5. As reported to the November 2023 UKEB meeting, the IASB staff had previously responded to stakeholder feedback that the proposed "specific to the debtor" criteria to assess whether an arrangement represents basic lending had shortcomings. In response the staff recommended removing the "specific to the debtor" criteria, and instead proposed that, when assessing whether assets had cash flows that were SPPI, the fair value of the contractual feature (contingent event) that gives rise to the change in contractual cashflows must be "insignificant" at initial recognition.

C6. Subsequent IASB discussion highlighted several reasons why the "insignificant" test may not be a good indicator that contractual cashflows are SPPI over the life of the instrument. For example, an asset with cash flows based on contingent event(s) could have significant potential gains and losses that net to an "insignificant" fair value number when considered in total.[1]

C7. In response the IASB staff have updated the proposed amendment to remove the "insignificant" criterion and instead focus on whether the cashflows arising due to a contingent feature are significantly different from those on a similar asset without such a contingent event.

General requirements IASB proposal
Instead of requiring that a contingent event should be specific to the debtor as set out in paragraph B4.1.10A of the Exposure Draft, specifying that, if the nature of a contingent event is not directly related to a change in basic lending risks or costs, a financial asset has contractual cash flows that are solely payments of principal and interest if:

1 Similar concerns had been expressed at the Financial Instruments Working Group meeting on 16 January 2024.

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a)	Irrespective of the probability of the contingent event occurring, the contractual cashflows before and after any contingent event(s), when considered in isolation, are solely payments of principal and interest; and
b)	The contractual cash flows arising from a contingent event are not significantly different from the cash flows on a similar financial asset without such a contingent event and do not represent an investment in particular assets or cashflows.

Examples to illustrate the clarified requirements

C8. The IASB staff proposed updating the examples in the ED to reflect the agreed changes to the proposals as follows:

a) expanding the analysis of Instrument EA to include analysis reflecting the updated recommendations described in paragraph 7 above; and

b) updating the fact pattern for Instrument I to provide a clearer example of a contractual feature that results in SPPI cashflows, and does not require the advanced analysis described in paragraph 7 above.

C9. Additional examples (requested by some stakeholders) will not be provided as the IASB staff do not consider these would provide additional insight into applying the proposals.

General requirements IASB proposal
To update the analyses of the proposed examples in the Exposure Draft to illustrate the application of the changed requirements.

C10. Thirteen of fourteen board members tentatively agreed to finalise this package of general requirement proposals for the assessment of contractual cashflows.

Non-recourse and contractually linked features

C11. The UKEB comment letter broadly supported the proposals for financial instruments with non-recourse and contractually linked features. For non-recourse features the letter highlighted that the inclusion of a new "and" test may provide a narrower interpretation than existing practice. For contractually linked features the letter requested clarification as to whether both the non-recourse and contractually linked requirements are intended to apply to contractually linked instruments [B4.1.20 – B4.1.26] and regarding the implication that lease receivables would always meet the cashflow characteristics test [B4.1.23].

C12. The IASB staff recommend finalising the proposed requirements subject to requiring that for instruments with contractually linked features the junior debt instrument is held by the debtor (sponsoring entity) throughout the life of the transaction [B4.1.20A].

C13. This change focuses on the ED's clarification that some structured lending arrangements that involve only the lender (senior debt) and a sponsor/borrower (who holds a junior debt instrument in the structure to provide additional credit protection to the lender), are not contractually linked instruments. Stakeholder feedback expressed concern that this could give rise to structuring opportunities, for example if the junior debt was later sold to a third party. The new proposal aims to help prevent the inappropriate application of the requirement.

C14. The staff also propose other minor drafting suggestions to improve clarity including:

a) Remove the reference to "throughout the life of the instrument" [B4.1.16A].

b) Explain that the purpose of the look through assessment is to understand the link between the underlying assets and the contractual cashflows of the financial asset [B4.1.17].

c) Feedback had been received that in certain circumstances it may be unclear whether an entity needs to apply the non-recourse requirements or the contractually linked requirements (or both). To avoid unintended consequences the staff will consider respondents' drafting suggestions when finalising the amendments" [B4.1.20].

d) Making explicit that in the structured lending transactions described in paragraph 12 above, all debt instruments, including the junior debt instrument, need to be assessed by applying the general SPPI requirements instead of applying the CLI requirements [B4.1.20A].

e) Refine the wording of the proposals to ensure they cannot be interpreted to suggest that leave receivables always have SPPI cash flows [B4.1.23].

Non-recourse and contractually linked features IASB proposal
To finalise the proposed amendments in the ED subject to: a) Requiring, in relation to paragraph B4.1.20A of the Exposure Draft, that the junior debt instrument is held by the debtor (the sponsoring entity) throughout the life of the transaction; and b) Minor drafting suggestions to clarify the proposed amendments.

C15. All fourteen board members tentatively agreed to finalise these proposals.

Next steps

C16. The IASB will continue its discussions on this topic. According to the IASB workplan, the IASB expects to finalise the amendments in Q2 2024. The UKEB Secretariat will continue to monitor the IASB discussions.

C17. At the March 2024 Accounting Standards Advisory Forum (ASAF) meeting the IASB staff will provide an overview of key decisions made by the IASB and will clarify any questions ASAF members may have about final amendments to be made to IFRS 9.

Question for the Board	
1.	Does the Board have any views on the IASB tentative decisions described above?
2.	Does the Board have any questions they would like raised when the IASB staff present this project to the March ASAF meeting?

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Appendix D: Post-implementation Review of IFRS 9 - Impairment

UKEB Project Status: Active Monitoring	UKEB project page
IASB Next Milestone: Project Summary (Q3 2024)	UKEB Final Comment Letter (published September 2023)

Feedback received from the post- implementation review of IFRS 9 - Impairment

D1. In November 2023 the IASB reviewed feedback received from the Post-implementation Review of IFRS 9 – Impairment (the PIR). No decisions were made.

Overview of feedback

D2. Overall, the post-implementation review (PIR) feedback was considered very positive. Almost all respondents agreed that the impairment requirements in IFRS 9 *Financial Instruments*:

a) result in more timely recognition of credit losses compared to IAS 39 *Financial Instruments: Recognition and Measurement*. They said applying the requirements helped resolve the ‘too little, too late’ problem identified during the financial crisis; and

b) work as intended with no fundamental questions (‘fatal flaws’).

D3. Although the PIR feedback did not identify any fatal flaws, respondents identified specific matters where entities experience application challenges and diversity in practice, mostly in areas that require use of judgement. Respondents also expressed concerns over the lack of consistency in the credit risk disclosures.

D4. The IASB note that most PIR feedback focussed on:

a) application issues arising from the interaction between the impairment requirements and the requirements in IFRS 9 for modifications, derecognition and write-off ;and

b) diversity in application of, and potential improvements to, the disclosure requirements on credit risk in IFRS 7 *Financial Instruments: Disclosures*.

D5. Respondents generally suggested the IASB makes specific improvements, mainly in the form of application guidance or illustrative examples. In their view, major amendments are not justified in the light of the overall positive experience with the impairment requirements and the significant implementation costs incurred.

Specific feedback

The general approach to recognising expected credit losses

D6. While almost all respondents supported the general approach in IFRS 9 to the recognition of expected credit losses (ECL), two key themes were identified in the specific feedback:

a) **Intragroup lending**. Many respondents said the cost of applying the general approach to intragroup loans often outweighed the benefits gained by investors. Respondents said these transactions are often not based on commercial terms and entities lack reliable data that would provide an adequate basis to recognise ECL. Some respondents suggested the IASB provide application guidance on this matter, while others suggested an exemption or simplification of the requirements for intragroup lending.

b) **Initial recognition**. Some respondents observed that the requirement to recognise at least a 12-month ECL at each reporting date results in double counting when a financial instrument is first recognised as expected losses are priced into the initial fair value, and also provided for in the initial ECL requirement. There were mixed views as to how to solve this. A few respondents suggested the purchased or originated credit-impaired (POCI) approach should apply to all purchased assets, and some respondents said the costs of any action to resolve this matter would likely outweigh the benefits.

Significant increase in credit risk (SICR)

D7. Many stakeholders, including accounting firms, standard-setters and regulators, provided feedback that the SICR requirements were not always applied consistently. They suggested the IASB provide application guidance or illustrative examples on key areas of diversity. Respondents noted three key areas where further guidance would be helpful:

a) what constitutes a **significant** increase in credit risk;

b) the use of collective assessment for SICR; and

c) applying SICR to certain specific fact patters, such as the draw-down of a credit card.

Measuring expected credit loss

D8. Feedback noted diversity in practice when measuring ECL, particularly in relation to forward-looking scenarios, post-model adjustments (PMAs), loan commitments and financial guarantees. Some respondents specifically commented on the need to consider the effects of climate-related risks and suggested the IASB explicitly state that an entity is required to reflect these effects in the measurement of ECL.

D9. Respondents requested the IASB provide further application guidance, and many noted that the key conclusions from the IFRS Transition Resource Group discussions could usefully be incorporated into IFRS 9.

The simplified approach

D10. Some respondents observed that non-financial institutions experience application challenges, such as including forward-looking information in a provision matrix. Further application guidance or educational material may be helpful to promote consistency.

D11. Some respondents suggested that the IASB should extend the scope of the simplified approach to other financial instruments (such as intragroup loans) to reduce the cost of applying the general approach to those instruments.

Purchased or originated credit impaired (POCI) financial assets

D12. Respondents identified key application challenges including:

a) **Assessing whether a modified financial asset is originated credit-impaired**. Some respondents observed diversity in how entities assess whether modification arising from a restructured asset results in derecognition of the original asset and recognition of a new asset, and whether that asset represents an originated credit-impaired asset. They noted that whether the original asset continues to be recognised or a new asset is recognised could have a material effect on the related ECL amount.

b) **Accounting for improvements in credit risk after initial recognition of a POCI financial asset**. Some respondents said that there is diversity in how entities recognise the effect of these improvements in the statement of financial position—some recognise it as a negative entry to the ECL allowance, others recognise it as an adjustment to the gross carrying amount of a POCI financial asset. This can affect metrics such as ECL coverage ratios.

Interaction of the impairment requirements with other requirements

D13. This topic is one of the areas where the IASB received the most feedback. Respondents identified several challenges and application questions when applying the IFRS 9 impairment requirements alongside the IFRS 9 requirements for modifications, write-offs and derecognition. Some respondents also raised questions about the interaction of the IFRS 9 requirements with the revenue recognition requirements in IFRS 15 *Revenue from Contracts with Customers*, and the requirements regarding the unguaranteed residual of a finance lease in IFRS 16 *Leases*.

D14. Most feedback related to two questions:

a) does the reason for any cash shortfall (credit vs non-credit) affect the accounting outcome, including presentation of losses; and

b) what is the order in which entities shall apply the IFRS 9 requirements, i.e. are the requirements for derecognition, modification or impairment applied first?

Respondents noted that differing views or judgements on these questions could have significant consequences for application of the impairment requirements, including determining SICR, assessing whether an asset is POCI, the timing of loss recognition and presentation in the statement of profit or loss.

Credit risk disclosures

D15. This was the other area where a high volume of feedback was received. Most respondents said the requirements were not applied consistently. The quantity, quality and level of disaggregation of information disclosed by different entities varied significantly, reducing comparability between similar entities. Most feedback focussed on:

a) **Post model adjustments**. Inconsistency in the information provided that would identify material PMAs, the reasons for using PMAs, and the plans to unwind PMAs. Suggestions to improve this disclosure included adding specific disclosure requirements, or explicitly stating that PMAs are within the scope of disclosure requirements in IFRS 7.

b) **Sensitivity analysis**. Respondents noted that IFRS 7 has no specific requirements to disclose information about the sensitivity of the ECL allowance to changes in key assumptions. It was suggested the IASB add specific requirements for an ECL sensitivity analysis to assist investors better understand and analyse the effects of uncertainties in the ECL.

c) **Determining SICR**. Respondents reported deficiencies in disclosure for the significant judgement entities made in determining SICR, including disclosure of the quantitative and qualitative factors used and the level of disaggregation by product or geography.

Next steps

D16. The IASB will continue its discussions on the PIR. According to the IASB workplan, the IASB expects to publish a project summary in Q3 2024. The IASB staff paper sets out a plan to finalise staff analysis and recommendations as follows:

Topics for discussion	Expected timing
General approach to recognising expected credit loss (ECL)	February 2024
Determining significant increase in credit risk	February 2024
Measuring ECL.	Q1/Q2 2024
Purchased or originated credit impaired.	Q2 2024
Interaction of impairment requirements with other requirements.	Q2 2024
Credit risk disclosures	Q2 2024
Other matters.	Q2 2024

D17. The UKEB Secretariat will continue to monitor the IASB discussions.

D18. At the 25-26 March 2024 ASAF meeting IASB staff will provide a project update and seek ASAF members' views on the list of application questions to be discussed at the IFRS Interpretations Committee meeting on 5-6 March 2024. [The next UKEB Board meeting is on 28 March 2024].

D19. At the time of writing the Interpretations Committee questions are not yet available. The IASB staff have indicated the questions will be published shortly before the UKEB February Board meeting, and if so the Secretariat will provide a verbal update to the Board. The questions, when published, will be available on the Interpretations Committee meeting webpage.

Questions for the Board
1. Does the Board have any comments on the feedback to the IASB described above?

2.	[Subject to further information becoming available]. Does the Board have any comments on the March 2024 Interpretations Committee questions on IFRS 9 impairment that they wish to provide to the March ASAF meeting?

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Appendix E: Climate-related matters

Power Purchase Agreements

UKEB Project Status: Monitoring. **IASB Next Milestone:** Exposure Draft April 2024	

E1. A verbal update on the IASB's January 2024 discussion of Power Purchase Agreements (PPAs) was provided at the January 2024 UKEB Board meeting. The key points noted were as follows:

a) IFRS S2 *Climate-related Disclosures* paragraphs 34 to 36 requires entities to disclose their progress towards net zero commitments. Increasingly, entities are entering into PPAs for the supply of renewable electricity, validated by third-party renewable energy certificates (RECs).

b) Energy contracts can often be "*settled net in cash*" (IFRS 9 *Financial Instruments* paragraph 2.4). If so, in order to meet the own use exception and to avoid accounting for the contract as a derivative, an entity has to demonstrate that the contracts were "*entered into and continue to be held for the purpose of receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements.*"

c) Stakeholders have requested the IASB maintains the relevance of IFRS 9 *Financial Instruments* by adapting the 'own use' requirements to accommodate the growing use of PPAs.

E2. The proposed Application Guidance as drafted would not apply to all renewable PPAs, as observed at the January ASAF meeting. Defining the unique characteristics of PPAs in relation to weather excluded a number of renewable energy sources that do not depend on weather, such as geothermal energy, hydroelectricity and biomass. The hedging requirements for this complex area were currently at an early stage. Discussion centred on whether standard-setting in this area should be principle- or rule-based.

E3. The IASB February Board meeting papers indicate that IASB staff will consult further based on feedback from outreach and ASAF, and plan to bring refinements to the potential amendments to the March 2024 IASB Board meeting for discussion and decisions on project direction. The IASB work plan has been updated to reflect April 2024 as the expected date of publication of an exposure draft.

E4. An education session on PPAs and Pollutant Pricing Mechanisms (see below) is scheduled for the March 2024 private Board meeting, with a Project Initiation Plan planned to follow in April 2024 for review and approval.

Pollutant Pricing Mechanisms

UKEB Project Status: Monitoring. **IASB Next Milestone:** 31 March IASB survey of ASAF members on project priority.	

E5. The Pollutant Pricing Mechanisms (PPM) project is currently on the IASB Reserve List[1] and will only be added to the IASB work plan if additional capacity becomes available before the IASB's next five-yearly agenda consultation.

E6. The IASB has recently requested feedback via a survey from Accounting Standards Advisory Forum (ASAF) members, by the end of March 2024, to reassess the priority for a PPM project.

E7. The IASB are seeking further information from members on the following areas.

a) The prevalence of PPMs.

b) The types of entities affected by PPMs.

c) The significance of PPMs to the financial position, financial performance and cash flows of IFRS reporters.

d) The accounting issues arising from PPMs including whether there is diversity in practice or other deficiencies in the accounting.

e) The importance of information about PPMs to users of financial statements and whether any deficiency in the accounting adversely affects the usefulness of that information.

E8. The UKEB Sustainability Working Group and Advisory Groups have been consulted for feedback which will be summarised and presented for consideration at the March UKEB meeting.

[1] IASB Reserve List projects

Climate-related and Other Uncertainties in the Financial Statements project

UKEB Project Status: Monitoring. **IASB Next Milestone:** Decide project direction Q2 2024.	

The *Climate-related and Other Uncertainties in the Financial Statements*[2] project was last discussed at the IASB December 2023 meeting. Please refer to the January IASB General Update for a summary of the project actions, status and next steps.

E9. In relation to the project action for IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the UKEB issued a comment letter[3] to IFRIC noting that whilst the tentative agenda decision goes some way to closing the user needs gap it was unlikely to fully address it. The UKEB expects to write separately to the IASB to set out those remaining concerns.

E10. The IASB staff intend to provide a project update at the March ASAF meeting and seek members' views. At the time of writing the ASAF paper was yet to be published so the specific questions for ASAF members are not known. The ASAF papers will appear in due course on this link.

Next steps

E11. The IASB will continue to discuss possible targeted actions to improve the application of IFRS Accounting Standards for climate-related and other uncertainties.

2 IASB December 2023 Agenda paper 14
3 IFRS Interpretations Committee – Tentative Agenda Decision: Climate-related Commitments (IAS 37)

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Appendix F: Potential connectivity matters

F1. The UKEB's role is to consider the overlap between IASB and ISSB issued standards, in other words the connectivity between these standards so that "a coherent and comprehensive system of general-purpose financial reporting that includes sustainability related financial information and financial statements" (ISSB RfI page 16) is achieved.

F2. The IASB currently has several projects that may have implications for connectivity between IFRS Accounting Standards and IFRS Sustainability Disclosure Standards. This update focuses on recent discussions on IASB projects which may have potential connectivity issues:

a) Management Commentary.

F3. At the end of this paper, a table sets-out IASB projects that may also be impacted by sustainability matters and the potential connectivity issues.

Management Commentary

UKEB Project Status: N/a **IASB Next Milestone:** Decide Project Direction Q2 2024	

F4. The UKEB monitors the IASB's Management Commentary project to see whether it is added to the IASB's active agenda and could include discussions on connectivity matters.

F5. The International Integrated Reporting Council (IIRC) met on 30 January 2024 to discuss the outcome of the joint IASB and ISSB discussion on a potential integration in reporting project. The joint boards had indicated that while this project was important it was not considered a top priority by stakeholders for the ISSB to address in its initial two-year workplan.

F6. The Chair of the IASB attended the IIRC and noted that the joint board discussion had helped the IASB appreciate that a wider stakeholder group was engaged in management commentaries and that feedback gathered by the ISSB Agenda Consultation would be helpful in determining the future direction of the *Management Commentary* project.

F7. The UKEB Comment Letter[1] regarding the ISSB Agenda Consultation noted that the proposed integration in reporting project 'should not be premised on introducing a new framework and should be considered at a standard level, not on the basis of the IASB's draft *Management Commentary* Practice Statement that does not form part of the mandatory standards (and is not directly implemented by most jurisdictions that use its standards).'

F8. At the IASB and ISSB joint meeting on 25 January 2024 the board members discussed stakeholder feedback from the ISSB Agenda Consultation on a potential research project on 'integration in reporting' and connectivity but they did not discuss the status of future direction of the *Management Commentary* project.

F9. If the ISSB deprioritises a research project on integration in reporting the IASB will need to consider how, if at all, it advances the Management Commentary project. The UKEB Secretariat will continue to observe both the IASB and ISSB meetings and update the UKEB on the respective projects.

1 Request for Information: ISSB Consultation on Agenda Priorities UKEB Comment Letter paragraph 39 (August 2023)

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Other IASB projects with possible connectivity matters to consider

F10. The table below summarises IASB projects potentially impacted by sustainability matters.

Project	Description	IASB status and next steps	UKEB Staff view
Amendments to the Classification and Measurement of Financial Instruments (IFRS 9)	The IASB project will provide application guidance and require additional disclosures for ESG-linked product features.	Final Amendment Q2 2024.	Stakeholders support clarification and consistent application of the measurement for ESG-linked products.
Climate-related and Other Uncertainties in the Financial Statements	Explore developing examples to illustrate how to apply requirements in IFRS Accounting Standards to reporting the effects of climate-related and other uncertainties.	Decide project direction April 2024.	Stakeholders are encouraged that the project has mobilised but have concerns that the scope may be too narrow to fully meet their needs.
Intangibles	The Intangibles project is currently on the IASB Reserve List[2] but would only be added to the work plan if additional capacity becomes available before the IASB's next five-yearly agenda consultation.	–	For example, Emissions Trading Schemes (ETS) can be accounted for as intangible assets.

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Project	Description	IASB status and next steps	UKEB Staff view
Management Commentary	See description above.	Decide project direction Q2 2024.	Stakeholders have expressed concerns that Practice Statements are not an effective means to achieve improved disclosures.
Pollutant Pricing Mechanisms (PPM)	The PPM project is currently on the IASB Reserve List[3] but would only be added to the work plan if additional capacity becomes available before the IASB's next five-yearly agenda consultation.	–	Part of the work on Power Purchase Agreements (PPA) has highlighted that accounting for Renewable Energy Certificates (RECs) is scoped out of the IASB PPA project. However, RECs are closely linked to PPMs. See UKEB February 2024 IASB General Update Appendix 6E Climate-related and Other Uncertainties in the Financial Statements.
Post-implementation Review of IFRS 9 Impairment	A post-implementation review to determine if the new standard is working as intended.	Feedback Statement expected Q3 2024.	Stakeholders have expressed an interest in how IFRS 9 has been applied to climate-related risks in the measurement of expected credit loss allowances.

Project	Description	IASB status and next steps	UKEB Staff view
Power Purchase Agreements (PPA)	Potential narrow-scope amendments to including amending the requirements in IFRS 9 *Financial Instruments* with respect to the 'own-use' and hedge accounting requirements.	ED expected April 2024.	Education session for the UKEB planned for March 2024. UKEB discussed in January 2024. Paper 7.A IASB General Update – Power Purchase Agreements.
Primary Financial Statements (PFS)	The PFS project may improve the information entities provide about items subject to specific risks.	Final Standard expected April 2024.	Users consider information relating to an entity's progress toward climate transition is useful, regardless of quantum. They would prefer this information was not lost via aggregation.
Provisions—Targeted Improvements	The IASB is developing proposals to clarify specific aspects in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*	ED expected H2 2024.	We suggest that the IASB consider including an assessment of stakeholder feedback received on the IFRIC TAD on IAS 37. Please refer to UKEB Agenda Item 5 at the February 2024 meeting.

Appendix G: Subsidiaries without Public Accountability: Disclosures and Updating the Subsidiaries without Public Accountability Standard

UKEB Project Status: Monitoring **IASB Next Milestone:** IFRS Accounting Standard (expected April 2024)	UKEB project page UKEB Final Comment Letter **(Published February 2022)**

Purpose of this update

G1. In January 2024 the Board was informed about the IASB's tentative decisions on how the proposed disclosure requirements in the forthcoming IFRS Accounting Standard 19 *Subsidiaries without Public Accountability: Disclosures* (IFRS 19) will be updated for the forthcoming IFRS Accounting Standard 18 *Presentation and Disclosure in Financial Statements* (IFRS 18).

G2. This update:

a) informs the Board about the IASB's presentation on IFRS 19 at the March 2024 ASAF meeting;

b) presents a summary of the outcome of the IASB's discussions of the sweep issues at the January 2024 IASB meeting; and

c) presents the disclosure requirements that the IASB tentatively agreed at its January 2024 meeting to propose in the 'catch-up' Exposure Draft (catch-up ED) it expects to publish after issuing IFRS 19.

ASAF March 2024 meeting

G3. The IASB staff will provide ASAF members with an educational session in anticipation of the publication of IFRS 19 expected in April 2024.

G4. We understand there will be no questions for ASAF members at this session.

January 2024 IASB meeting— Sweep issues

Background

G5. At its October 2023 meeting, the IASB considered the more judgemental changes proposed to the disclosure requirements in the ED as a result of ensuring the language used in the forthcoming standard is the same as that used in IFRS Accounting Standards[1].

G6. At the January 2024 meeting, the IASB staff highlighted further judgmental changes that were identified in finalising the drafting of the forthcoming standard.

Summary of changes

G7. The table below summarises the changes to the proposed disclosure requirements in the ED tentatively agreed by the IASB.

Section	Paragraph in ED	Changes	Rationale
IFRS 15	96	Amend the wording in this paragraph.	To match the language in paragraph 120 of IFRS 15.
IFRS 16	106(d)	Withdraw the proposed requirements to disclose 'the loss allowance for uncollectable lease payments receivable'.	This disclosure is not required in IFRS 16. The credit risk disclosure requirements based on IFRS 7 already requires the entity to disclose this information.
	106(d)	Add a requirement based on paragraph 58 of IFRS 16 for a lessee to disclose a maturity analysis of lease liabilities separate from the maturity analyses of other financial liabilities.	The IASB tentatively decided to require a maturity analysis for financial liabilities based on paragraph 39 of IFRS 7, and subsequently decided to delete the proposed requirement in paragraph 100(d) of the ED to disclose a maturity for lease liabilities as otherwise the requirements would be duplicated. However, to be consistent with the requirements in IFRS 16, the IASB tentatively decided to add a requirement to disclose a maturity analysis of

[1] See paragraph D4 of Agenda Paper 6: Appendix D of the November 2023 UKEB meeting.

Section	Paragraph in ED	Changes	Rationale
			lease liabilities separately from other financial liabilities according to the requirement based on paragraph 39 of IFRS 7.
IFRS 16	100(e)	Delete the proposed requirement to disclose 'a general description of the lessee's significant leasing arrangements'	This requirement was based on paragraph 20.13(c) of the *IFRS for SMEs* Accounting Standard.
		Amend the lead sentence to require the disclosure of qualitative or quantitative information about the features listed in subparagraphs (a)-(d) of paragraph 59 of IFRS 16.	To match the requirements in paragraph 59 of IFRS 16.
	100(f)	Delete the proposed requirement to disclose 'a general description of the lessor's significant leasing arrangements'.	This requirement was based on paragraph 20.23(f) of the *IFRS for SMEs* Accounting Standard.
		Amend the lead sentence to require the disclosure of qualitative or quantitative information about the features listed in subparagraphs (a) and (b) of paragraph 92 of IFRS 16.	To match the requirements in paragraph 92 of IFRS 16.
IAS 12	147(c)	Amend the requirement.	To match the requirement in paragraph 81(c) of IAS 12.
IAS 36	191	Amend the requirement.	To match the requirement in paragraph 127 of IAS 36.

January 2023 IASB meeting— Catch-up ED

Background

G8. In December 2023 the Board was provided with an update on the IASB's project plan for the catch-up ED[2].

G9. At its January 2024 meeting, the IASB considered disclosure requirements to propose in the catch-up ED in relation to disclosure requirements in:

a) IFRS 7 *Financial Instruments: Disclosures* and IAS 7 *Statement of Cash Flows* as a result of the Supplier Finance Arrangements project;

b) IAS 12 *Income Taxes* as a result of its International Tax Reform—Pillar Two Model Rules project; and

c) IAS 21 *The Effects of Changes in Foreign Exchange Rates* as a result of the Lack of Exchangeability project.

G10. In deciding on the disclosure requirements to propose in the catch-up ED, the IASB applied its agreed approach to maintenance of the Subsidiaries standard[3].

IASB tentative decisions

G11. The table below outlines the disclosure requirements the IASB tentatively decided to propose in the catch-up ED[4].

2 See paragraphs F1—F8 Agenda Paper 6: Appendix F of the December 2023 UKEB meeting.
3 See paragraphs G3—G5 Agenda Paper 7: Appendix G of the December 2023 UKEB meeting.
4 The IASB staff analysis of all of the disclosure requirements for the topics listed in paragraph C9 of this paper can be found in the Appendix of IASB Agenda paper 32 (January 2024)

Standard	Topic	Paragraph reference	Disclosure requirements to be proposed in the catch-up ED	Rationale
IAS 7	Supplier finance arrangements	44G	Supplier finance arrangements are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid. These arrangements provide the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements. Arrangements that are solely credit enhancements for the entity (for example, financial guarantees including letters of credit used as guarantees) or instruments used by the entity to settle directly with a supplier the amounts owed (for example, credit cards) are not supplier finance arrangements	This explains what a supplier finance arrangement is. Although it is a disclosure guidance it is part of the disclosure requirements section.
		44H	To meet the objectives in paragraph 44F, an entity shall disclose in aggregate for its supplier finance arrangements: a. the terms and conditions of the arrangements (for example, extended payment terms and security or guarantees provided). However, an entity shall	The detailed requirements in the sub-paragraphs give information on commitments and on disaggregation, both of which are identified as important to users in the principles for reducing disclosures.

Standard	Topic	Paragraph reference	Disclosure requirements to be proposed in the catch-up ED	Rationale
IAS 7	Supplier finance arrangements	44H	disclose separately the terms and conditions of arrangements that have dissimilar terms and conditions. b. as at the beginning and end of the reporting period: i. the carrying amounts, and associated line items presented in the entity's statement of financial position, of the financial liabilities that are part of a supplier finance arrangement. ii. the carrying amounts, and associated line items, of the financial liabilities disclosed under (i) for which suppliers have already received payment from the finance providers. iii. the range of payment due dates (for example, 30–40 days after the invoice date) for both the financial liabilities disclosed under (i) and comparable trade payables that are not part of a supplier finance arrangement. Comparable trade payables are, for example, trade payables of the entity within the same line of business or jurisdiction as the financial liabilities disclosed under (i). If ranges of payment due dates are wide, an entity shall disclose	

Standard	Topic	Paragraph reference	Disclosure requirements to be proposed in the catch-up ED	Rationale
IAS 7	Supplier finance arrangements	44H	explanatory information about those ranges or disclose additional ranges (for example, stratified ranges). c. the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed under (b)(i). Examples of non-cash changes include the effect of business combinations, exchange differences or other transactions that do not require the use of cash or cash equivalents (see paragraph 43).	
IAS 12	International Tax Reform—Pillar Two Model Rules	88A	An entity shall disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes (see paragraph 4A).	This provides information about the entity's accounting policy choices.
		88B	An entity shall disclose separately its current tax expense (income) related to Pillar Two income taxes	This satisfies the principle of disaggregation.
		88C	In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an entity shall disclose known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation.	Information about measurement uncertainties is important to users of eligible subsidiaries' financial statements.

Standard	Topic	Paragraph reference	Disclosure requirements to be proposed in the catch-up ED	Rationale
IAS 12	International Tax Reform—Pillar Two Model Rules	88D	To meet the disclosure objective in paragraph 88C, an entity shall disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. This information does not have to reflect all the specific requirements of the Pillar Two legislation and can be provided in the form of an indicative range. To the extent information is not known or reasonably estimable, an entity shall instead disclose a statement to that effect and disclose information about the entity's progress in assessing its exposure.	This paragraph is in the nature of guidance and as such does not merit inclusion in the catch-up ED. However, the IASB tentatively decided to include this requirement in the Subsidiaries standard because it requires specific information, it is easier to implement and the last sentence provides information that indicates the extent to which Pillar Two is relevant to the entity. The information provided by this paragraph would be useful to users.
IAS 21	Lack of exchangeability	57B	Paragraphs A18–A20 specify how an entity applies paragraph 57A.	This paragraph works together with Paragraph A19 and A20 of Appendix A in setting out the disclosure requirements by way of cross-reference.
		Paragraph A19 of Appendix A	In applying paragraph 57A, an entity shall disclose: a. the currency and a description of the restrictions that result in that currency not being exchangeable into the other currency; b. a description of affected transactions;	The disclosure requirements in sub-paragraphs (a)— (d) give information about measurement uncertainties, and in sub-paragraph (e) about accounting policy choices,

Standard	Topic	Paragraph reference	Disclosure requirements to be proposed in the catch-up ED	Rationale
IAS 21	Lack of exchangeability	Paragraph A19 of Appendix A	c. the carrying amount of affected assets and liabilities; d. the spot exchange rates used and whether those rates are: i. observable exchange rates without adjustment (see paragraphs A12–A16); or ii. spot exchange rates estimated using another estimation technique (see paragraph A17); e. a description of any estimation technique the entity has used, and qualitative and quantitative information about the inputs and assumptions used in that estimation technique; and f. qualitative information about each type of risk to which the entity is exposed because the currency is not exchangeable into the other currency, and the nature and carrying amount of assets and liabilities exposed to each type of risk.	Although sub paragraph (f) does not satisfy any of the principles for reduced disclosures, two IASB members were of the view that this disclosure is important. This is because it provides entity-specific information that would be helpful to users in understanding the impact of a currency not being exchangeable into the other currency.

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Standard	Topic	Paragraph reference	Disclosure requirements to be proposed in the catch-up ED	Rationale
IAS 21	Lack of exchangeability	Paragraph A20 of Appendix A	When a foreign operation's functional currency is not exchangeable into the presentation currency or, if applicable, the presentation currency is not exchangeable into a foreign operation's functional currency, an entity shall also disclose: a. the name of the foreign operation; whether the foreign operation is a subsidiary, joint operation, joint venture, associate or branch; and its principal place of business; b. summarised financial information about the foreign operation; and c. the nature and terms of any contractual arrangements that could require the entity to provide financial support to the foreign operation, including events or circumstances that could expose the entity to a loss.	The information in these disclosure requirements should be readily available to eligible subsidiaries because it would also be necessary for other reporting. In particular sub paragraph (c) requires information that informs users about obligations, commitments and contingencies, identified as of particular interest to users of subsidiary financial statements.

G12. At future IASB meetings the IASB staff plan to present papers for new or amended IFRS Accounting Standards in scope of the catch-up ED, as follows:

Standard	Topics for discussion	Expected timing
IFRS 9	Forthcoming *Amendments to the Classification and Measurement of Financial Instruments*	February 2024
IFRS XX	Rate Regulated Activities	March 2024
IFRS 18	Presentation and Disclosure in Financial Statements	TBD

Next steps

G13. The IASB is expected to publish IFRS 19 in April 2024.

G14. The UKEB Secretariat will continue to monitor the IASB discussions and provide updates to the Board on the catch-up ED which is expected to be published after the issue of IFRS 19.

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Appendix H: Interpretations Committee update

UKEB Project Status: Monitoring **IASB Next Milestone:**	

Background

H1. The UKEB's Due Process Handbook notes that the UKEB expects to respond to a limited number of tentative agenda decisions published by the IFRS Interpretations Committee (Interpretations Committee). Some factors to consider when deciding whether to respond may be:

a) the degree of impact of the tentative agenda decision on UK companies (for example, in cases where the tentative agenda decision is expected to affect a significant number of UK companies);

b) disagreement with the Interpretation Committee's analysis; or

c) usefulness of the explanations and clarifications included in the tentative agenda decision.

H2. The next Interpretations Committee meeting will be on 5-6 March 2024.

H3. The following table summarises a matter that has been added to the Interpretations Committee pipeline.

MATTERS RECEIVED BUT NOT YET PRESENTED TO THE INTERPRETATIONS COMMITTEE	
Topic	Presentation of cash flows from margin calls for certain contracts for the sale or purchase of commodities
Standard	IAS 7
Question*	ESMA seeks clarification on whether the cash flows resulting from margin calls on certain centrally cleared contracts to purchase or sell commodities at a predetermined price at a specified time in the future should be classified as cash flows from operating activities or whether another classification (i.e., as cash flows from financing activities) is compliant with the requirements of IAS 7

Comment	The Secretariat is not aware of specific concerns regarding this matter in the UK. The Secretariat has contacted the Financial Reporting Council to ask if they are aware of concerns and will update the Board if they raise material concerns. The Secretariat's preliminary assessment is that the matter is unlikely to impact a significant number of UK companies and therefore recommends that the UKEB monitors the issue but undertakes no further work at this time.

*This provides a summary only, please review the IFRS Website for the full details

Question for the Board	
1.	Do Board members agree that the UKEB will NOT undertake further work on this matter at this point in time?

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Appendix I. List of IASB projects

This Appendix provides a list of all IASB projects[1], including links to the IASB project page and, where relevant, to the UKEB project page and any UKEB reports or comment letters. Items highlighted in grey are changed from the last report.

List of IASB projects	
Amendments to the Classification and Measurement of Financial Instruments	
UKEB Project Status: Influencing (completed) **IASB Next Milestone:** Final Amendment Q2 2024	UKEB project page UKEB Project Initiation Plan (Published May 2023) UKEB Final Comment Letter (Published July 2023) UKEB Feedback Statement (Published July 2023) UKEB Due Process Compliance Statement (Published October 2023)
Annual Improvements (Amendments to IFRS Accounting Standards: IAS 7, IFRS 1, IFRS 7, IFRS 9, IFRS 10)	
UKEB Project Status: Influencing	UKEB project page

[1] This list does not include projects related to the IFRS Interpretations Committee or IASB's projects outside the UKEB's work remit (such as the Second Comprehensive Review of the *IFRS for SMEs* Accounting Standard).

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List of IASB projects	
IASB Next Milestone: Exposure Draft Feedback February 2024	UKEB Project Initiation Plan (Published October 2023) UKEB Final Comment Letter (Published December 2023) UKEB Feedback Statement (Published December 2023) UKEB Due Process Compliance Statement (Published January 2024)
Business Combinations under Common Control	
UKEB Project Status: Monitoring **IASB Next Milestone:** Project Summary April 2024	UKEB project page UKEB Final Comment Letter (Published August 2021) UKEB Feedback Statement (Published August 2021)
Business Combinations—Disclosures, Goodwill and Impairment	
UKEB Project Status: Monitoring **IASB Next Milestone:** Exposure Draft March 2024	UKEB project page UKEB Final comment Letter on the Discussion Paper (Published January 2021) UKEB Feedback Statement (Published March 2021) UKEB Report: Subsequent Measurement of Goodwill - A Hybrid Model (Published September 2022)

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List of IASB projects	
Climate-related and Other Uncertainties in the Financial Statements	
UKEB Project Status: Monitoring **IASB Next Milestone:** Decide Project Direction April 2024	
Climate-related Commitments (IAS 37)	
UKEB Project Status: Influencing **IASB Next Milestone:** Tentative Agenda Decision Feedback March 2024	UKEB project page UKEB Project Initiation Plan (Published February 2024) UKEB Final Comment Letter (Published February 2024)
Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures	
UKEB Project Status: Monitoring **IASB Next Milestone:** IFRS Accounting Standard April 2024	UKEB project page UKEB Project Initiation Plan (Published October 2021) UKEB Final Comment Letter (Published February 2022) UKEB Feedback Statement (Published February 2022) UKEB Due Process Compliance Statement (Published March 2022)

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List of IASB projects	
Dynamic Risk Management	
UKEB Project Status: Monitoring **IASB Next Milestone:** Exposure Draft H1 2025	
Equity Method	
UKEB Project Status: Monitoring **IASB Next Milestone:** Exposure Draft H2 2024	
Financial Instruments with Characteristics of Equity	
UKEB Project Status: Monitoring **IASB Next Milestone:** Exposure Draft Feedback Q2 2024 Submit letter by: 29/03/24	UKEB project page UKEB Project Initiation Plan (Published October 2023) UKEB Draft Comment Letter (Published February 2024)
Post-implementation Review of IFRS 15 Revenue from Contracts with Customers	
UKEB Project Status: Influencing (completed) **IASB Next Milestone:** Feedback Statement H2 2024	UKEB project page UKEB Project Initiation Plan (Published June 2023)

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List of IASB projects	
	UKEB Draft Comment Letter (Published July 2023) UKEB Final Comment Letter (Published October 2023) UKEB Feedback Statement (Published October 2023) UKEB Due Process Compliance Statement (Published November 2023)
Post-implementation Review of IFRS 9—Impairment	
UKEB Project Status: Influencing (completed) **IASB Next Milestone:** Feedback Statement Q3 2024	UKEB project page UKEB Project Initiation Plan (Published June 2023) UKEB Draft Comment Letter (Published August 2023) UKEB Final Comment Letter (Published September 2023) UKEB Feedback Statement (Published September 2023) UKEB Due Process Compliance Statement (Published October 2023)
Power Purchase Agreements	
UKEB Project Status: Monitoring **IASB Next Milestone:** Exposure Draft April 2024	

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List of IASB projects	
Primary Financial Statements	
UKEB Project Status: Monitoring **IASB Next Milestone:** IFRS Accounting Standard April 2024	UKEB project page UKEB Final Comment Letter (Published September 2020) UKEB Feedback Statement (Published October 2020)
Provisions—Targeted Improvements	
UKEB Project Status: Monitoring **IASB Next Milestone:** Exposure Draft H2 2024	
Rate-regulated Activities	
UKEB Project Status: Monitoring **IASB Next Milestone:** IFRS Accounting Standard 2025	UKEB project page UKEB Final Comment Letter (Published August 2021) UKEB Feedback Statement (Published April 2022)
Updating the Subsidiaries without Public Accountability: Disclosures Standard	
UKEB Project Status: Monitoring	

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List of IASB projects	
IASB Next Milestone: Exposure Draft Q2 2024	
Use of a Hyperinflationary Presentation Currency by a Non-hyperinflationary Entity (IAS 21)	
UKEB Project Status: Monitoring **IASB Next Milestone:** Exposure Draft Q3 2024	