UK Endorsement Board

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 Pollutant Pricing Mechanisms, a project on the IASB's reserve list, in addition to topics discussed by the IASB at its February 2024 meeting and the IFRS Interpretations Committee at its March 2024 meeting.

Topic for discussion:

- Pollutant Pricing Mechanisms – IASB survey response

Topics for noting:

- Power Purchase Agreements
- Amendments to the Classification and Measurement of Financial Instruments
- Post-implementation Review of IFRS 9 – Impairment
- Equity Method
- Subsidiaries without Public Accountability: Disclosures
- Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*
- Rate-regulated Activities
- Annual Improvements
- Interpretations Committee update

Decisions for the Board
Topic for discussion
Pollutant Pricing Mechanisms – IASB survey response (Appendix A)
1. Does the Board have any comments on the approach to, or responses in, the UKEB draft survey submission to the IASB?
2. Does the Board wish to suggest any options for the IASB to consider to create capacity for a Pollutant Pricing Mechanisms (PPM) project?
3. Subject to addressing any comments raised during the March 2024 UKEB meeting, does the Board approve the survey response for submission to the IASB?
Topics for noting
Do Board members have any questions or comments on the topics for noting?
Recommendation
The Secretariat recommends that the Board approves the PPM IASB survey response for submission to the IASB, subject to any amendments agreed during the March 2024 UKEB meeting.
Appendices
Appendix A: Pollutant Pricing Mechanisms – IASB survey response
Appendix B: Power Purchase Agreements
Appendix C: Amendments to the Classification and Measurement of Financial Instruments
Appendix D: Post-implementation Review of IFRS 9 – Impairment
Appendix E: Equity Method
Appendix F: Subsidiaries without Public Accountability: Disclosures
Appendix G: Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*
Appendix H: Rate-regulated Activities
Appendix I: Annual Improvements
Appendix J: Interpretations Committee update
Appendix K: List of IASB Projects

UK Endorsement Board

Appendix A: Pollutant Pricing Mechanisms – IASB survey response

Topic for discussion

UKEB Project Status: Monitoring. **IASB Next Milestone:** 29 March survey submission to IASB.	

Purpose of this update

A1. The IASB has requested survey-based feedback from Accounting Standards Advisory Forum (ASAF) members regarding the prevalence and nature of Pollutant Pricing Mechanisms (PPMs) in their jurisdictions and any associated accounting issues.

A2. This paper summarises the UKEB Secretariat's desk-based analysis (refer Annex A of this paper), stakeholder feedback and the populated draft survey (refer Annex B of this paper). The IASB has requested survey responses by 29 March 2024.

A3. Given the PPM project is currently not an active IASB project, the Secretariat's assessment is that the response to the IASB is covered under section seven of the UKEB Due Process Handbook[1] on 'Thought leadership and research programme'.

Standard setting and Pollutant Pricing Mechanisms

A4. The IASB published IFRIC 3 *Emission Rights*[2] in 2004 to address the accounting for emissions schemes, but this was withdrawn in July 2005. Stakeholders were concerned principally by the proposal to measure allowances on hand at cost and the corresponding emissions liability at fair value.[3] These mismatches led the European Financial Reporting Advisory Group (EFRAG) to conclude that following IFRIC 3 would result in artificial volatility of earnings in EU companies, and consequently issued a negative endorsement advice.

A5. In June 2005, at the request of the European Commission, the IASB withdrew the interpretation, despite continuing to consider IFRIC 3 to be the most appropriate

[1] Due Process Handbook UK Endorsement Board (December 2022)
[2] IFRIC issues guidance on accounting for greenhouse gas emissions and scope of leasing standard. (December 2004) IAS Plus website
[3] See, for example, EFRAG May 2005 endorsement advice.

guidance. After the withdrawal of IFRIC 3, the IASB initiated a joint project with the US Financial Accounting Standards Board (FASB) to find a better solution.

A6. That project focused on cap-and-trade schemes and the Boards reached some tentative decisions about what the assets and liabilities in the schemes were, when to recognise them and how to measure them. However, the project was suspended in 2010 due to time and resource constraints.

A7. There is currently no accounting guidance within IFRS specifically on accounting for emissions allowances. In the meantime, alternative approaches have been presented as guidance in both the professional and academic literature.

A8. Respondents to the IASB's 2021 *Third Agenda Consultation*[4] identified a project on Pollutant Pricing Mechanisms (PPM) as a high priority. At the time, the IASB decided not to add a project on PPM to its work plan, concluding that other projects were of higher priority[5].

A9. A PPM project was added to the IASB reserve list[6] but these projects are only added to the IASB work plan if additional capacity becomes available before the IASB's next five-yearly agenda consultation.

A10. PPMs and adjacent schemes appear to be increasing in significance globally as governments and entities consider using them to achieve net zero commitments. In addition, a rise in demand has resulted in increased costs of carbon credits and other similar credits. Further, regulators are indicating that free credit allowances may be wound down in the near to medium term.

IASB request for feedback

A11. The IASB is aware that PPMs are increasing in prevalence and the potential deficiencies in the accounting for these mechanisms. The IASB has therefore requested feedback from Accounting Standards Advisory Forum (ASAF) members to help it reassess the priority of a PPM project.

A12. The IASB has requested feedback regarding:

a) The nature of carbon markets and entities that generate or issue carbon credits.

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

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4 In March 2021 the IASB published a Request for Information on the Third Agenda Consultation to determine a workplan for 2022 to 2026. Please refer to the Third Agenda Consultation Feedback Statement (page 31) issued in July 2022 for more information on stakeholder feedback regarding PPMs.

5 The IASB noted that a PPM project would need to interact with the work of the International Sustainability Standards Board (ISSB) regarding disclosures of the types of mechanisms.

6 IASB reserve list (March 2024.)

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

A13. In addition, a follow up question was received from the IASB requesting information on Renewable Energy Certificates (RECs). RECs are not a PPM but rather a pricing mechanism for renewable energy.

A14. The submission date for the responses to the survey is 29 March 2024.

Approach

A15. The UKEB Secretariat conducted desk-based analysis and engaged with UK Government regarding existing PPM schemes. In addition, the outcomes of the desk-based analysis (refer Annex A) and IASB survey questions were discussed with members of the Sustainability Working Group (SWG)[7] and the Preparer (PAG)[8], Investor (IAG)[9] and Accounting Firms and Institutes (AFIAG)[10] Advisory Groups. This feedback provided the basis for the draft survey response (refer Annex B).

A16. The following paragraphs provide a summary of the Secretariat's analysis and of the stakeholder feedback contained in the draft survey response, for each section of the survey in turn.

Summary of survey sections, Secretariat's analysis, and stakeholder views

Compliance and voluntary carbon schemes

A17. The first and second sections of the IASB survey request information regarding compliance and voluntary carbon schemes[11].

A18. Compliance schemes that operate the UK include the UK Emissions Trading Scheme (ETS), which applies to aviation, energy intensive industries and the power generation sector, the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), which applies to aviation and the Packaging Recovery Notes scheme, which applies to waste processing and recycling.

A19. Voluntary schemes in the UK include the Woodland Carbon Code and the Peatland Code which provide validation and verification of the amount of carbon sequestered. One woodland or peatland carbon unit equals one tonne of CO_2 equivalent removed from the atmosphere by a certified project; a pending

7 https://www.endorsement-board.uk/sustainability-working-group-swg
8 https://www.endorsement-board.uk/pag-advisory-group
9 https://www.endorsement-board.uk/investors-advisory-group-iag
10 https://www.endorsement-board.uk/afiag-advisory-group
11 For detailed responses please refer to Annex B survey questions 1.1 (compliance schemes) and 2.1 (voluntary schemes) provide an overview of these schemes in the UK.

issuance unit represents a promise to deliver a woodland or peatland carbon unit in the future.

A20. For context, a carbon credit is a verifiable unit that represents the removal of a set amount of CO^2 or other Greenhouse Gas (GHG) and can be traded. Compliance carbon markets, in which carbon credits are used to demonstrate compliance requirements, are generally distinguished from voluntary carbon markets, in which businesses trade carbon credits to meet voluntary emission targets[12]. Voluntary carbon credits are often called carbon offsets.

The significance of pollutant pricing mechanisms to UK IFRS reporters

A21. The IASB survey requested information regarding the number, prevalence and types of IFRS reporters impacted by PPMs[13].

UKEB analysis

A22. The UK Emissions Trading Schemes (ETS), a mandatory scheme which replaced the UK's participation in the European Union Emissions Trading Scheme are estimated to be worth approximately €36.4 billion[14] (£31 billion). Research by the World Bank indicates that the UK ETS covers between 20% and 40% of the UK's total Greenhouse Gas (GHG) emissions[15].

A23. Research by PwC estimated that in 2022, FTSE 350 companies publicly reported purchases of voluntary carbon credits totalling £38 million[16].

A24. Based on high-level UKEB data analysis of the FTSE 350's recent Annual Reports, balances related to both compliance and voluntary credit schemes were recognised in the financial statements of entities from a range of sectors, notably energy providers and higher-emission sectors such as aviation.

A25. This analysis indicated that while approximately 35% of the entities referred to carbon credits or offsets within their Annual Reports, only 5% referred to them within their financial statements. Approximately 25% referred to forms of Renewable Energy Certificates (RECs) within their Annual Reports with approximately 2% referring to these in the financial statements.

12 PwC ViewPoint In depth INT2023-02 IFRS Financial reporting considerations for entities participating in the voluntary carbon market; ISDA, Accounting for Carbon Credits, October 2023; KPMG 3.3.160; EY International GAAP chapter 17 11.4; Deloitte DART C9 3.3.8-1A and C12 8.7.

13 For detailed responses please refer to Annex B IASB survey questions 1.2 – 1.6 (compliance schemes) and 2.2 – 2.6 (voluntary schemes).

14 Reuters, 12 February 2024, Global carbon markets value hit record $949bln last year – LSEG.

15 World Bank, State and Trends of Carbon Pricing 2023.

16 PwC 2023 The Challenge of accessing high-quality carbon offsets as part of the Net Zero transition.

Stakeholder feedback

A26. Most stakeholders considered that the significance and prevalence of both statutory and voluntary pricing mechanism schemes were increasing and that such schemes were likely to become more material in the short to medium term. This was due to the reliance of preparers on using this mechanism to achieve net zero commitments, to the price of carbon credits increasing and the assumption that governments would phase out 'free' statutory carbon allowances.

Accounting issues arising from pollutant pricing mechanisms

A27. In this section the IASB requested information regarding accounting approaches adopted, observations of diversity in practice and evidence for a lack of useful information for users as a consequence[17].

UKEB analysis

A28. The Secretariat prepared an illustrative study of disclosures based on a non-representative sample of listed aviation entities. The analysis illustrated how ten UK and European IFRS reporters accounted for carbon credits from a compliance emissions trading scheme in their Annual Report and Accounts.

A29. The analysis was used in stakeholder discussions and indicated that the amount of emissions trading certificates disclosed had increased significantly (refer Figure One, Annex A), that there appears to be diversity in practice in both the measurement basis for compliance carbon credits (refer Figure Two, Annex A) and the classification of those credits (refer Figure Three, Annex A).

Stakeholder feedback

A30. Stakeholders noted current diversity in practice in accounting for compliance and voluntary carbon credit schemes. They observed that credits issued under compliance schemes, such as the UK Emissions Trading Scheme, were often accounted for either within working capital or as intangible assets and measured using different approaches. Stakeholders further observed that cash flows from credits could be shown under either investing or operating activities.

A31. Accounting treatments for voluntary carbon credits included accounting for them as donations on a cash basis. Current challenges included valuing natural features for which there was little valuation guidance, defining units, establishing the point of asset recognition and hedge accounting.

A32. Investors in particular highlighted difficulties with voluntary carbon schemes, such as additionality, carbon leakage, uncertainty of permanence and double counting.

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17 For detailed responses please refer to Annex B IASB survey questions 1.7 – 1.10 (compliance schemes) and 2.7 – 2.10 (voluntary schemes).

Entities that generate or issue credits

A33. The third section of the survey requested information on IFRS reporting entities (excluding government bodies) that generate or issue credits that can be used to offset emissions made by other entities[18].

UKEB analysis

A34. We are aware that some entities do issue or generate credits, but our initial assessment did not identify any IFRS reporting entities engaged in this activity.

Stakeholder feedback

A35. A stakeholder advised that they were aware of at least one FTSE 100 entity that is in the initial stages of establishing a fund with land restoration as its asset base to generate carbon credits. It was noted that due to the lack of guidance, there were challenges in accounting for the investment costs of that fund. Stakeholders have advised that they were aware of similar types of restoration schemes that were in the early stages of development.

Renewable Energy Certificates (RECs)

A36. The IASB survey initially excluded other environmental pricing mechanisms. However, the IASB sent an additional request for comments specifically regarding Renewable Energy Certificates (RECs)[19]. RECs are a type of environmental pricing mechanism which present similar accounting challenges to PPMs. RECs are often closely linked to power purchase agreements but are not in scope of the IASB project on *Power Purchase Agreements*[20].

UKEB analysis

A37. Our initial analysis of FTSE 350 Annual Report data indicated that RECs appeared in approximately 25% of Annual Reports and in approximately 2% in the financial statements.

Stakeholder feedback

A38. Stakeholders also observed diversity in practice. In the absence of IASB guidance, stakeholders noted some entities accounted for RECs on a cash basis, even when financially material. Other stakeholders had observed RECs accounted for as host contracts, with power purchase agreements as embedded derivatives. It was

18 For survey responses please refer to Annex B IASB survey questions 3.1 and 3.9.
19 Please refer the grey box 'Renewable Energy Certificates (RECs)' which has been added to the final page of the IASB survey in Annex B.
20 See the January and February 2024 IASB General Update papers for an update on that project.

noted that some accounting firm guidance suggested RECs should be accounted for as intangible assets.

IASB capacity

A39. The IASB survey did not seek feedback on options to create capacity for a PPM project. However, stakeholders recognised the capacity challenge for the IASB to mobilise an additional project and made a range of suggestions including:

a) Taking over capacity from IFRS 18 *Primary Financial Statements*, which is nearing completion.

b) Incorporating a PPM project within the *Intangibles* project.

c) Deprioritising the projects on *Business Combinations – Disclosures, Goodwill and Impairment, Equity Method*, *Rate-regulated Activities*, *Dynamic Risk Management* and *Hyperinflation.*

d) Absorbing capacity from the discontinued project on *Business Combinations under Common Control*.

e) Discontinuing the *Annual Improvements* project.

Next steps

A40. ASAF members have been asked to submit the survey on PPMs to the IASB by 29 March 2024.

Questions for the Board
1. Does the Board have any comments on the approach to, or responses in, the UKEB draft survey submission to the IASB? 2. Does the Board wish to suggest any options for the IASB to consider to create capacity for a PPM project? 3. Subject to addressing any comments raised during the March 2024 UKEB meeting, does the Board approve the survey response for submission to the IASB?

UK Endorsement Board

Annex A: Desk-based analysis

1. Annex A sets out a summary of the Secretariat's desk-based analysis relating to UK compliance and voluntary carbon markets, other environmental impact pricing schemes and an illustrative study of aviation industry disclosures.

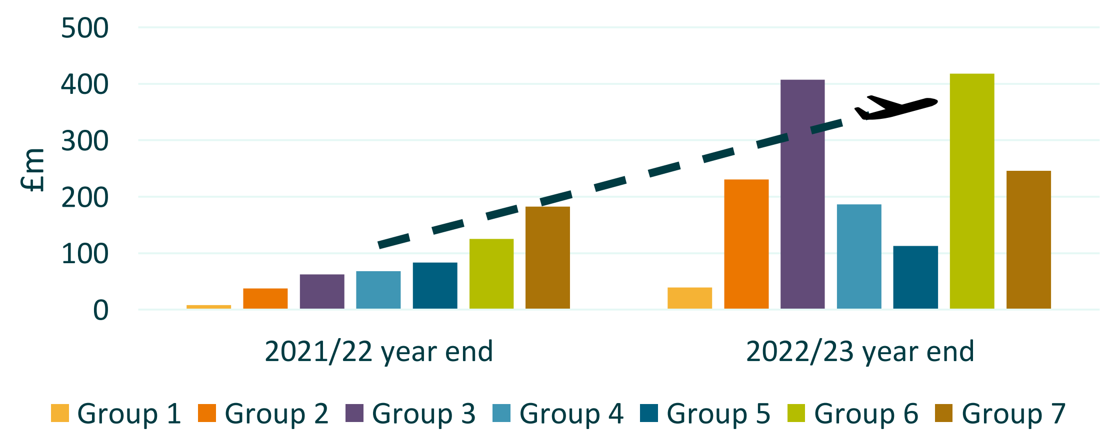
Aviation industry analysis *(non-representative sample)*

2. The Secretariat undertook desk-based analysis of how ten UK and European IFRS reporters from the aviation industry accounted for allocated and purchased carbon credits from a compliance emissions trading scheme in their annual report and accounts for the period ended in either December 2022 or March 2023.

Increasing in significance

3. Seven of the ten groups disclosed their emissions trading certificates separately. The average amount of emissions trading certificates disclosed increased from £79 million in 2021/22 to £234 million in 2022/23 (see Figure 1).

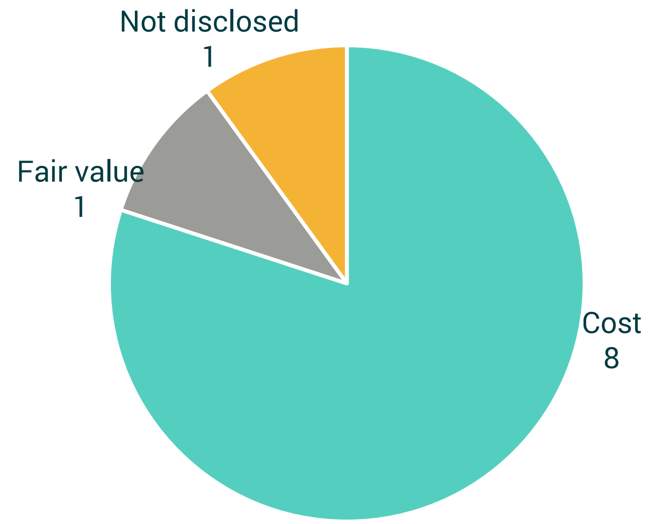
Figure 1: Amount of emissions trading certificates disclosed by UK and EU aviation groups in their 2022/23 financial statements prepared under IFRS (£)



Diversity in practice

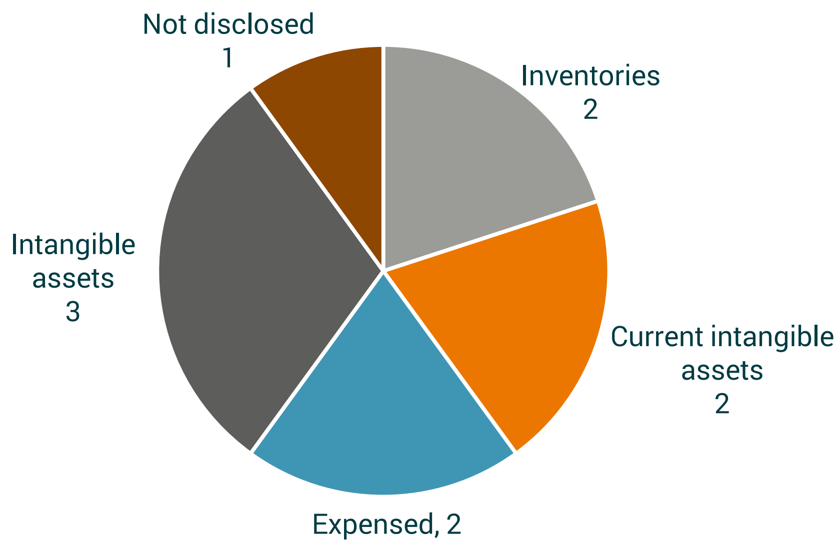
4. The sample indicates that there is diversity in practice in accounting for compliance carbon credits, especially in classification. From the review of those ten groups' financial statements, eight measured carbon credits at cost, one measured them at fair value, and one did not disclose the measurement basis (see Figure 2).

Figure 2: Measurement basis used for carbon credits in the 2022/23 financial statements of UK and EU aviation groups reporting under IFRS



5. Four groups classified carbon credits as some form of current asset (inventory or current intangible asset); two expensed them; three classified them as non-current intangible assets; and one did not disclose the classification basis (see Figure 3).

Figure 3: Classification of carbon credits in the 2022/23 financial statements of UK and EU aviation groups reporting under IFRS



6. This difference in classification could potentially result in differences in classification within the cash flow statement, as cash flows relating to non-current intangible assets would be classified as cash flows from investing activities,

whereas cash flows relating to current assets are likely to be classified as cash flows from operating activities.[21]

[21] We did not identify direct evidence of this within the airline industry although we did see this difference in our wider review.

Annex B: IASB PPM survey draft response

[*NB this paper includes UKEB responses but in the IASB survey format*]

Background

Many respondents to the IASB's Third Agenda Consultation, identified a project on pollutant pricing mechanisms as a high priority. Applying its criteria for adding a project to its work plan, the IASB also concluded that this project is a high priority. However, the IASB decided not to add a project on pollutant pricing mechanisms to its work plan, concluding that other projects were of higher priority.

As part of its ongoing activities, the IASB monitors financial reporting developments and practice and stands ready to address urgent or emerging accounting issues that arise between agenda consultations.

Since completing the Third Agenda Consultation, several stakeholders have suggested that we should prioritise a pollutant pricing mechanism project. They argue that pollutant pricing mechanisms are increasing in prevalence and that there are deficiencies in the accounting for these mechanisms.

Purpose of the questionnaire

As mentioned at the December 2023 ASAF meeting, we would like ASAF members' help to gather more information about:

- The prevalence of pollutant pricing mechanisms.
- The types of entities affected by pollutant pricing mechanisms.
- The significance of pollutant pricing mechanisms to the financial position, financial performance and cash flows of IFRS reporters.
- The accounting issues arising from pollutant pricing mechanisms including whether there is diversity in practice or other deficiencies in the accounting.
- The importance of information about pollutant pricing mechanisms to users of financial statements and whether any deficiency in the accounting adversely affects the usefulness of that information.

This information will help the IASB to assess whether the situation has changed since the Third Agenda Consultation such that the IASB now needs to prioritise a project on pollutant pricing mechanisms ahead of other projects on its work plan.

Structure of the questionnaire

There are three sections to the questionnaire:

- **Section 1: Compliance schemes**— seeks information about pollutant pricing mechanisms that IFRS reporting entities within your jurisdiction are required to participate in by law or other

means. Examples of such schemes include carbon taxes and emissions trading schemes—for example, the European Union Emissions Trading Scheme.
- **Section 2: Voluntary schemes**—seeks information about pollutant pricing mechanisms that IFRS reporting entities within your jurisdiction participate in on a voluntary basis, for example through the voluntary purchase of carbon credits.
- **Section 3: Entities that generate or issue credits**— seeks information about IFRS reporting entities that generate or issue credits that can be used to offset emissions made by other entities.

Next steps

Please provide your response to the questionnaire to Rachel Knubley (rknubley@ifrs.org) by **29th March 2024**.

If you have any questions on any aspects of the questionnaire, please also contact Rachel Knubley.

We plan to present the results of the questionnaire to a future ASAF meeting.

We would like to thank you very much for your help in completing this questionnaire.

Section 1: Compliance schemes

This section seeks information about pollutant pricing mechanisms that IFRS reporting entities within your jurisdiction are required to participate in by law or other means (compliance schemes). Examples of such schemes include carbon taxes and emissions trading schemes—for example, the European Union Emissions Trading Scheme.

If you are responding on behalf of more than one jurisdiction, it would be helpful to have the information separately for each jurisdiction.

Question 1.1

Please provide a brief description of any compliance schemes that operate in your jurisdiction, including a description of the rights and obligations that arise for IFRS reporting entities that participate in these schemes. Alternatively, please provide a link to where information about such schemes can be found (ideally in English).

Answer 1.1:
- The UK Emissions Trading Scheme (ETS), which applies to aviation, energy intensive industries and the power generation sector;
- The Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), which applies to aviation; and
- The less significant Packaging Recovery Notes scheme, which applies to waste processing and recycling.

Question 1.2

Do significant numbers of IFRS reporting entities in your jurisdiction participate in compliance schemes? If possible, please indicate the percentage of companies in you jurisdiction that participate in these schemes.

Answer 1.2: The UK Emissions Trading Scheme (ETS) was estimated to be worth approximately €36.4bn[1] (£31bn) at the end of 2023. Research by the World Bank indicates that the UK ETS covers between 20% and 40% of the UK's total emissions[2]. UK entities with European-based qualifying subsidiaries would also be expected to participate in the EU equivalent.

Based on high-level UKEB data analysis of the FTSE 350's most recent annual reports, balances related to *both* compliance and voluntary credit schemes were recognised in the financial statements of entities from a range of sectors, notably energy providers and higher-emission sectors such as aviation.

UKEB data analysis indicated that approximately 5% of the FTSE 350 entities referred to compliance carbon credits or offsets within their Annual Reports but only 5% referred to them within the financial statements. Note 5% refers to the number of 'carbon credit' references in the financial statements and that this could relate to either compliance or voluntary schemes.

As references to pollutant pricing mechanisms within the Annual Report were more common, the numbers of entities participating in these schemes may be significantly higher. However, this suggests that those entities did not consider their compliance scheme activity sufficiently relevant to an understanding of the entity's financial position and performance.

Question 1.3

Please describe the types of IFRS reporting entities that are required to participate in these compliance schemes. For example, what industry do they operate in, are they listed or unlisted entities, what size of entity is required to participate?

Answer 1.3: Entities in industries including aviation, oil and gas, utilities, building materials, metal, chemical and paper processing or production are required to participate in the UK ETS. See the detailed list of regulated activities in addition to aviation. The scheme is scheduled to expand to cover the domestic maritime sector from 2026.

Ultra-small emitters (under 2,500 CO_2e per annum) do not have to participate in the UK ETS; small emitters (lower than 25,000CO_2e per annum, roughly equivalent to the annual energy use of 2,300 homes) are subject to emissions targets rather than having obligations to surrender allowances.

CORSIA is a scheme for international airlines.

Entities in the waste processing and recycling sectors are required to participate in the packaging recovery notes scheme.

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1 Reuters, 12 February 2024, Global carbon markets value hit record $949bln last year – LSEG.

2 World Bank, State and Trends of Carbon Pricing 2023.

Question 1.4

How significant are the financial effects of these schemes to the financial position, financial performance and cash flows of the entities affected?

Answer 1.4: The **UK Emissions Trading Schemes** (ETS) was estimated to be worth approximately €36.4bn[3] (£31bn) at the end of 2023. Research by the World Bank indicates that the UK ETS covers between 20% and 40% of the UK's total emissions[4].

Stakeholders indicated that the financial effects of these schemes were material or significant to entities with emissions-heavy activities.

Pricing can be volatile. The price of UK emission trading allowances increased significantly from 2021 to 2023. Entities have until now received free allowances from government. However, as free allowances are being phased out under the EU emissions trading scheme by 2027 and being progressively reduced in the UK[5] at a rate which exceeds that at which entities are reducing their emissions, they are likely to become increasingly significant for an increasing number of entities.

CORSIA
CORSIA was sometimes mentioned alongside the UK ETS. As more countries join CORSIA, it is likely to become increasingly significant for an increasing number of aviation entities.

Packaging recovery notes
One stakeholder observed that one FTSE 100 entity's balance in respect of packaging recovery notes was not yet material, but neither was it considered to be insignificant.

Question 1.5

Are there plans to introduce new compliance schemes or expand the scope of existing compliance schemes in your jurisdiction?

☐ I'm not aware of such plans.

☒ Yes, there are such plans.

If the answer is Yes, please provide details:

Answer 1.5: In July 2023 the **UK ETS** authority announced that ETS allowances available for purchase from government would reduce by 45% between 2023 and 2027. As of March 2024, the UK government is consulting on changes to the ETS scheme, including on the timetable for phasing out free allowances.

The UK government has committed to introduce a Carbon Border Adjustment Mechanism (CBAM), to protect against the risk of carbon leakage by applying an effective carbon price, i.e. the price after the

3 Reuters, 12 February 2024, Global carbon markets value hit record $949bln last year – LSEG.
4 World Bank, State and Trends of Carbon Pricing 2023.
5 The Government has stated the number of carbon allowances will fall from 69 million in 2024 to 24 million in 2030.

impact of free allowances and other support mechanisms, to products being imported into a jurisdiction with a domestic carbon price.

The CBAM is expected to apply to the Scope 1 and Scope 2 emissions of "*some of the most emissions-intensive industrial goods imported to the UK from the aluminium, cement, ceramics, fertiliser, glass, hydrogen, iron and steel sectors*", i.e. those sectors in scope of the UK ETS which manufacture goods. The government is expected to consult further in 2024 and is targeting an implementation date of 2027.

CORSIA
The UK is part of CORSIA, which is currently in Phase 1 (2024 to 2026). All International Civil Aviation Organisation countries are expected to join Phase 2 which will begin in 2027. Further legislation is currently awaited to clarify the relationship between the UK ETS and CORSIA which are currently running in parallel.

Packaging Recovery Notes
The UK government is reviewing its 2022 consultation on packaging recovery notes.

Question 1.6

Is there guidance in your jurisdiction on how to account for these schemes?

☒ No (then go to Question 1.7)

☐ Yes

If the answer is Yes, please describe or provide a link to any such guidance (ideally in English):

Answer 1.6: n/a

Question 1.7

If there is no guidance on how to account for these schemes, please describe the main accounting approaches used in your jurisdiction to account for these schemes.

Answer 1.7: Based on our limited analysis of how ten UK and European IFRS reporters from the aviation industry accounted for statutory allowances as well as a review of leading accounting firm guidance, we observe the following UK approaches to accounting for these schemes:

Recognition

- There is diversity in practice as to whether allowances are recognised under IAS 2 *Inventories* or IAS 38 *Intangible Assets*, and in respect of the latter, whether they are recognised as current or non-current assets.
- Entities may also consider the emission allowances they own as reimbursement rights under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Measurement

- There is diversity in practice as to whether allowances are initially measured at cost or fair value and whether they are subsequently measured at cost or fair value.
- We have also observed at least one entity account for purchased allowances at cost and allocated allowances at fair value.
- From a high-level review of accounting firm guidance in this area there appears to be a range of approaches which differ from the approach in IFRIC 3.

Cash flow statement

- The diversity in recognition affects the cash flow statement. Allowances may be either classified under cash flows from operating activities or from investing activities.

Question 1.8

Are you aware of diversity in practice or other deficiencies in the accounting for these schemes in your jurisdiction?

☐ I'm not aware of diversity in practice or other deficiencies.

☒ Yes, I'm aware of diversity in practice or other deficiencies (then go to Question 1.9).

Question 1.9

If diversity in practice or other deficiencies exist, do you have evidence that these deficiencies adversely affect the usefulness of information provided to users of financial statements?

☐ I don't have such evidence.

☒ Yes, I have such evidence.

If the answer is Yes, please describe that evidence:

Answer 1.9: Users were concerned about the lack of comparability within industries and across sectors.

Users commented that if entities did not present disaggregated information, users could not adjust for the items without asking for further information, when, for example, establishing adjusted EBITDA.

Question 1.10

Have you conducted, or do you plan to conduct, any research in this area?

☐ No

☒ Yes

If the answer is Yes, please describe the research conducted or planned:

Answer 1.10: The UKEB Secretariat undertook desk-based analysis of how ten UK and European IFRS reporters from the aviation industry accounted for allocated and purchased carbon credits from a compliance emissions trading scheme in their annual report and accounts for the period ended in either December 2022 or March 2023.

Increasing in significance

Seven of the ten groups sampled disclosed their emissions trading certificates separately. The average amount of emissions trading certificates disclosed increased from £79m in 2021/22 to £234m in 2022/23

Diversity in practice

The sample indicates that there is diversity in practice in accounting for compliance carbon credits. From the review of those ten groups' financial statements, eight measured carbon credits at cost, one measured them at fair value, and one did not disclose the measurement basis.

Four groups classified carbon credits as some form of current asset (inventory or current intangible asset); two expensed them; three classified them as non-current intangible assets; and one did not disclose the classification basis.

This difference in classification could potentially result in differences in classification within the cash flow statement, as cash flows relating to non-current intangible assets would generally be classified as cash flows from investing activities, whereas cash flows relating to current assets are likely to be classified as cash flows from operating activities. Note – we did not identify direct evidence of this within the airline industry although we did see this difference in our wider review

Section 2: Voluntary schemes

This section seeks information about pollutant pricing mechanisms that IFRS reporting entities within your jurisdiction participate in on a voluntary basis—for example, through the voluntary purchase of carbon credits (voluntary schemes).

If you are responding on behalf of more than one jurisdiction, it would be helpful to have the information separately for each jurisdiction.

Question 2.1

Do IFRS reporting entities in your jurisdiction participate in voluntary schemes to reduce or offset their emissions?

☐ No

☒ Yes

If the answer is Yes, please describe the main types of schemes that operate in your jurisdiction including a description of the rights and obligations that arise for entities that participate in these schemes:

Answer 2.1:The Woodland Carbon Code and the Peatland Code are voluntary standards which provide validation and verification of the amount of carbon sequestered. One woodland or peatland carbon unit equals one tonne of CO^2 equivalent removed from the atmosphere by a certified project; a pending issuance unit represents a promise to deliver a woodland or peatland carbon unit in the future. Projects can sell their carbon units to third parties. The Hedgerow Carbon Code and the Saltmarsh Code are also expected to be introduced in the near future.

Other global voluntary market carbon offset standards are the Gold Standard, the Verified Carbon Standard and the UN Clean Development Mechanism. Each standard has its own label for their credits, but they provide a measure equivalent to one tonne of CO^2 equivalent removed from the atmosphere.

Entities such as My Carbon Plan, Forest Carbon, Carbon Neutral Britain and Carbon Footprint link carbon sequestration schemes, which they sometimes run, with those seeking to offset their carbon emissions.

There are a number of other schemes in the UK that would generally be classified as carbon taxes rather than carbon trading schemes, such as the Climate Change Levy, Carbon Price Support, Landfill Tax and the Landfill Tax Communities Fund Scheme.

Other environmental impact pricing schemes

Pricing schemes currently apply to a broader range of environmental impacts than pollutants such as carbon, and further pricing schemes are being developed.

Renewable energy certificates can be traded like carbon credits and present similar accounting challenges. They demonstrate that electricity comes from a renewable source. In the UK, Ofgem administers the following renewable energy certificate schemes:

(a) Renewables Obligation Certificates (ROCs) scheme – under this scheme, energy generators must produce a certain amount of renewable energy. If they do not, they must pay Ofgem to make up for the shortfall.
(b) Renewable Energy Guarantees of Origin (REGOs) scheme – under this scheme, a REGO is issued for every megawatt hour (MWh) of eligible renewable output.

Nature markets are at an early stage of development. The biodiversity net gain (BNG) scheme, mandatory in England since February 2024, measures the biodiversity of new developments in biodiversity units. Where developments do not meet the required BNG threshold, the developer must buy units from the government[6]. A BNG market is expected to develop.

The nutrient mitigation credit scheme, administered by Natural England, is designed to measure and offset the amount of nutrient pollution in water. It currently operates in a single catchment area but more are expected to be added.

Biodiversity credits and nature credits[7] are being developed voluntarily worldwide and are expected to be traded.

Question 2.2

Do significant numbers of IFRS reporting entities in your jurisdiction participate in voluntary schemes? If possible, please indicate the percentage of companies in your jurisdiction that participate in these schemes.

Answer 2.2: UKEB data analysis indicated that approximately 30% of the FTSE 350 entities referred to compliance carbon credits or offsets within their Annual Reports but only 5% referred to them within the financial statements. Note 5% refers to the number of 'carbon credit' references in the financial statements and that this could relate to either voluntary or compliance schemes.

Most stakeholders considered that the significance and prevalence of both statutory and voluntary pricing mechanism schemes was increasing and was likely to become more material in the short to medium term. This was due to the reliance of preparers on using this mechanism to achieve net zero commitments, the price of carbon credits increasing and the assumption that governments would phase out 'free' statutory carbon allowances.

6 See the price list for statutory biodiversity credits and the guide to purchasing offsite biodiversity net gains for additional context.

7 See, for example, the charity NatureFinance's paper on biodiversity credit markets. Biodiversity credits are, for example, being developed by RePlanet; nature credits, in the form of tokens, are offered by CreditNature.

Question 2.3

Is the prevalence of voluntary schemes in your jurisdiction increasing?

☐ No

☒ Yes

Question 2.4

Please describe the types of IFRS reporting entities that participate in these voluntary schemes. For example, what industry do they operate in, are they listed or unlisted entities, what size of entity participates?

Answer 2.4: Entities across the FTSE 350 participate in these voluntary schemes in order to reach net zero commitments.

The Woodland Code and Peatland Code schemes appear to be growing in size (see https://cdn.forestresearch.gov.uk/2023/09/Ch4_Carbon_FS2023.pdf and https://www.iucn-uk-peatlandprogramme.org/peatland-code/peatland-code-projects-summary).

Further schemes are expected to be introduced, including the Hedgerow Carbon Code and the Saltmarsh Code.

However, one aviation reporter stated that as of December 2022, it would no longer offer a voluntary offset scheme but seek to reduce its carbon emissions in other ways.

Other environmental impact pricing schemes

Demand for other environmental impact pricing schemes is increasing. The demand for renewable energy certificates is a factor in the need for a project on Power Purchase Agreements, for example.

Question 2.5

How significant are the financial effects of these schemes to the financial position, financial performance and cash flows of the entities affected?

Answer 2.5: From limited desktop review, voluntary schemes do not generally appear to be material. Research by PwC estimated that in 2022, FTSE 350 companies publicly reported purchases of voluntary carbon credits totalling £38m[8]. However, stakeholders considered this issue increasingly important, as target dates for net zero commitments begin to approach and carbon credits become increasingly material. Once the net zero commitment target date has passed, if an entity emitted carbon, it would recognise a liability that would require offsetting.

8 PwC 2023 The Challenge of accessing high-quality carbon offsets as part of the Net Zero transition.

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Question 2.6

Do these schemes give rise to accounting issues that are difficult to resolve?

☐ No

☒ Yes

If the answer is Yes, please describe the accounting issues that arise from these schemes:

Answer 2.6: There is currently diversity in practice in accounting for these schemes. Please see Q. 2.8. Current challenges include valuing natural features for which there is little valuation guidance, defining units, establishing the point of asset recognition and hedge accounting.

Question 2.7

Are you aware of diversity in practice or other deficiencies in the accounting for these schemes in your jurisdiction?

☐ I'm not aware of diversity in practice or other deficiencies.

☒ Yes, I'm aware of diversity in practice or other deficiencies (then go to Question 2.8).

Question 2.8

If diversity in practice or other deficiencies exist, do you have evidence that these deficiencies adversely affect the usefulness of information provided to users of financial statements?

☐ I don't have such evidence.

☒ Yes I have such evidence.

If the answer is Yes, please describe that evidence:

Answer 2.8: There are several methods for accounting for voluntary carbon credits. Alternatives described in accounting firm guidance, which covers the UK, include treating them as inventory, intangible assets, as part of the cost of another good or service or as advertising[9]. Users of accounts advised that they experienced difficulties in relation to additionality, carbon leakage, uncertainty of permanence and double-counting. It is particularly difficult to measure the voluntary carbon credits in relation to environmental activities such as peat bog restoration and strengthening river bends, whereas there is clear valuation and accounting guidance on growing trees, although other issues, such as uncertainty of permanence, remain.

9 Refer expenditure (KPMG 3.3.168 and 9, PwC InDepth 2023-02 2.2, EY Applying IFRS: Accounting for Climate Change pp. 58 to 62 and International GAAP manual Chapter 17.11.4, Deloitte DART C9 3.3.8)

Question 2.9

Have you conducted, or do you plan to conduct, any research in this area?

☒ No

☐ Yes

If the answer is Yes, please describe the research conducted or planned:

Answer 2.9: n/a

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Section 3: Entities that generate or issue credits

This section seeks information about IFRS reporting entities that generate or issue credits that can be used to offset emissions made by other entities. In responding to the questions in this section, please exclude information about entities—for example, governmental bodies—that do not report under IFRS Accounting Standards.

If you are responding on behalf of more than one jurisdiction, it would be helpful to have the information separately for each jurisdiction.

Question 3.1

Do IFRS reporting entities in your jurisdiction generate or issue credits (for example, carbon credits) that can be used to offset emissions made by other entities?

☒ No

☐ Yes

If the answer is Yes, please describe the nature of these credits, including the rights and obligations that arise from these credits:

Answer 3.1: As required, we have excluded government bodies that issue such credits in the UK. We have been informed that some UK entities are developing the capability to issue or generate credits, but we have not identified any significant disclosures in UK-listed IFRS reporters.

Question 3.2

Do significant numbers of IFRS reporting entities in your jurisdiction generate or issue such credits? If possible, please indicate the percentage of companies in your jurisdiction that generate or issue such credits.

Answer 3.2: In our initial assessment, we have not identified IFRS reporting entities generating or issuing such credits.

Question 3.3

Is the number of IFRS reporting entities in your jurisdiction that generate or issue credits increasing?

☐ No

☒ Yes

Answer 3.3: A stakeholder advised that they were aware of at least one FTSE 100 entity that is in the initial stages of establishing a fund with land restoration as its asset base to generate carbon credits. It was noted that due to the lack of guidance, there were challenges in accounting for the investment costs of that fund. Stakeholders have advised that they were aware of similar types of restoration schemes that were in the early stages of development.

Question 3.4

Please describe the types of IFRS reporting entities that generate or issue credits. For example, what industry do they operate in, are they listed or unlisted entities, what size of entity generates or issues these credits?

Answer 3.4: n/a – note our review was limited to FTSE 350 entities reporting under IFRS.

Question 3.5

How significant are the financial effects of these credits to the financial position, financial performance and cash flows of the entities affected?

Answer 3.5: Assumed to be limited at this stage.

Question 3.6

Does issuing or generating credits give rise to accounting issues that are difficult to resolve?

☐ No

☐ Yes

If the answer is Yes, please describe the accounting issues that arise from these activities:

Answer 3.6: please refer to the response in question 3.3.

Question 3.7

Are you aware of diversity in practice or other deficiencies in the accounting for these credits in your jurisdiction?

☒ I'm not aware of diversity in practice or other deficiencies.

☐ Yes I'm aware of diversity in practice or other deficiencies (then go to Question 3.8).

Question 3.8

If diversity in practice or other deficiencies exist, do you have evidence that these deficiencies adversely affect the usefulness of information provided to users of financial statements?

☐ I don't have such evidence.

☐ Yes I have such evidence.

If the answer is Yes, please describe that evidence:

Answer 3.8: n/a

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Question 3.9

Have you conducted, or do you plan to conduct, any research in this area?

☒ No

☐ Yes

If the answer is Yes, please describe the research conducted or planned:

Answer 3.9: n/a

Additional IASB question – issued post survey

Renewable Energy Certificates (RECs)

Following a post-survey request from the IASB to provide information on Renewable Energy Certificates (RECs), the section below provides information on the UK market structure, prevalence and accounting issues. Note RECs are not pollutant pricing mechanisms but rather a pricing mechanism for renewable energy and are therefore not included in section one or two of this survey.

UK market structure

Renewable energy generators can apply for and receive renewable energy certificates to be issued to them by the regulator, Ofgem. These can be sold to other entities which may then use them to offset their energy use, for example.

Prevalence

Approximately 25% of the FTSE 350 referred to forms of Renewable Energy Certificates within their Annual Reports and 2% referred to them within the financial statements.

Accounting issues

Entities appear to classify RECs either within working capital or as intangible assets. Stakeholders observed that it was difficult to account for the RECs which accompanied power purchase agreements, as they were generally not regarded as readily convertible to cash, whereas electricity generally was.

Stakeholders observed contracts for power purchase agreements being accounted for as embedded derivatives, with the RECs as the host contract.

Users noted that if entities did not present disaggregated information, users of accounts could not adjust for the items without asking for further information, when, for example, establishing adjusted EBITDA.

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Appendix B: Power Purchase Agreements

UKEB Project Status: Monitoring IASB Next Milestone: Exposure Draft May 2024	

February update

B1. As noted in the UKEB February IASB general update, the IASB staff are continuing to develop proposals and presented papers to the March 2024 IASB Board meeting for discussion and decision on project direction.

B2. The IASB work plan was updated to reflect the planned publication date of May 2024 for the Exposure Draft (ED) on Power Purchase Agreements (PPAs).

March update

B3. At the IASB meeting on 18 March 2024, the IASB took tentative agenda decisions on the forthcoming Exposure Draft.

B4. In that ED, the IASB is expected to propose amending the 'own use' exception, detailed at IFRS 9 paragraph 2.4, and the IFRS 9 hedge accounting requirements, together with accompanying disclosure and transition requirements for PPAs.[1]

B5. In relation to the 'own use' requirements, the IASB staff propose to limit the scope of the contracts included to those contracts for renewable electricity for which the source of production is nature-dependant, with the effect that the time or volume of supply cannot be guaranteed, and where volume risk, i.e. the risk that timing or volume does not align with demand, is "*substantially transferred*" to the purchaser. Examples provided include wind, solar and hydroelectricity. The IASB also proposes to provide guidance on determining whether contracts are in scope.

B6. In relation to the hedge accounting requirements, the IASB staff propose that if certain criteria are met, an entity is permitted to designate a variable nominal volume or quantity of forecast sales or purchases of renewable electricity as the hedged item in a cash flow hedge. These criteria are as follows:

1 Agenda Paper 3A *Scope and Own Use Requirements*; Agenda Paper 3B *Proposed Amendments to Hedge Accounting Requirements*; Agenda Paper 3C *Proposed Disclosure and Transition Requirements*.

a) The volume of the designated hedged item (e.g. for a seller, forecast sales, or for a purchaser, a component of an entity's highly probable forecast purchases of electricity) is specified as a proportion of the variable volume of the hedging instrument (e.g. a PPA).

b) The hedged item and hedging instrument are measured using the same volume assumptions, but other assumptions such as the pricing structure reflect the nature of the hedged item as renewable electricity.

c) For a purchaser, designated forecast purchases are highly probable if the entity has highly probable capacity that exceeds the estimated variable volume to be designated in the hedged item. For a seller, designated forecast sales are not required to be highly probable as the designated quantity of sales is certain to occur once produced.

B7. The IASB staff propose requiring the terms and conditions of relevant contracts to be disclosed, including the volume of renewable electricity bought or sold during the period, and the average spot price during the period. They also propose requiring entities to disclose either the fair value of contracts or information that enables investors to construct their own estimate of fair value. The latter should include, for example, the volume expected to be sold or purchased over the remainder of the contract and the assumptions supporting that analysis.

B8. The IASB staff propose that entities apply the amendments retrospectively. However, restatement of comparatives is not required. The hedge accounting requirements should be applied prospectively. Where an entity can consider existing arrangements without hindsight, it may alter the designation of an existing hedged item and it may also hedge relationships from the time the criteria would have been met.

B9. The IASB plans to publish the ED in May 2024 with a 90-day comment period.

Next steps

B10. At the April 2024 UKEB Board meeting the UKEB Secretariat plans to hold an education session before the public Board meeting on this topic, and to bring a Project Initiation Plan for the Board's review and approval.

UK Endorsement Board

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 February 2024 the IASB completed its deliberations on the Exposure Draft (ED) *Amendments to the Classification and Measurement of Financial Instruments*. Tentative agenda decisions were made on the following topics:

a) The disclosure requirements relating to contractual terms that could change the contractual cashflows of financial assets and financial liabilities not measured at fair value through profit and loss.

b) The effective date and transition requirements for the final amendments.

c) The due process steps taken and permission to begin the balloting process for the final amendments.

d) Which of the new or amended disclosure requirements should apply to the *Updating the Subsidiaries without Public Accountability Disclosures Standard* project (the Subsidiaries project).

C2. A verbal update on the above was provided to the February 2024 UKEB meeting.

Disclosure requirements for contractual terms that could change the contractual cashflows.

C3. Staff informed the IASB that they had received significant feedback expressing concern at the breadth of the proposed disclosures. In response the staff recommended finalising the proposed disclosure requirements in the ED subject to the following recommendations, which make the scope of disclosures more specific:

Contractual terms that could change the contractual cashflows	
a)	Referring to contractual terms that could change the amount of contractual cash flows based on a contingent event that is not directly related to a change in basic lending risks or costs (for example, the time value of money or credit risk) and including an example of a contractual term to which this disclosure requirement would apply.
b)	Not requiring an explicit disclosure of the range of possible adjustments but giving this as an example of the quantitative information about the adjustments to contractual cash flows that an entity should disclose.

C4. Fourteen of 14 members agreed with this recommendation.

Effective date and transition

C5. The IASB staff proposed:

Effective date and transition	
a)	An effective date of reporting periods beginning on or after 1 January 2026.
b)	Permitting entities to elect to early apply the amendments to the solely payments of principal and interest (SPPI) requirements together with the disclosure requirement in IFRS 7 relating to changes in contractual cash flows, without having to early apply the other amendments from the same date.

C6. The ED had previously specified that application would be retrospective, but with no need to restate comparatives. This remains unchanged.

C7. Eight of 14 members agreed with the effective date proposal. Some members suggested an effective date of 1 January 2027 would be more realistic to allow preparers sufficient time to make system changes in relation to the 'Derecognition of financial liabilities' section of the ED. Others expressed concern that delaying the effective date by a further year would be excessive, and set a poor precedent for future projects.

C8. All 14 members agreed with the proposal to allow early adoption of the SPPI requirements.

Due process steps

C9. The IASB staff confirmed they had undertaken all necessary due process activities, recommended the exposure draft not be re-exposed, and requested permission to start the balloting process. All 14 members agreed with the proposal.

C10. Two members indicated they will consider dissenting from the publication of the amendments. One member, from a preparer background, indicated this was due to the issue of the effective date; the reason for the other member to consider dissenting is not known.

Application to subsidiaries without public accountability

C11. The IASB will consider what elements of this project should be applied to the Subsidiaries without Public Accountability: Disclosures project. This matter is discussed in Agenda Paper 9: Appendix F.

Question on the January IASB vote: classification

The decision

C12. A report was provided to the February UKEB meeting on tentative agenda decisions made by the IASB during January 2024. One decision discussed by the IASB in January was a revised requirement to determine if contracts with contingent events comply with the SPPI requirements. The proposed new test requires that cashflows arising from a contingent event are “not significantly different from the cashflows on a similar financial asset without a contingent event”. Thirteen of 14 IASB members agreed with this. One member, from an investor background, did not agree. The February UKEB meeting requested further information on the reasons why one member did not agree with this proposal.

The reason for the disagreement

C13. Two reasons were provided for the disagreement:

a) Concern that the IASB may be creating a “signalling mechanism” to issuers to create something insignificant: the IASB should not condone insignificant mechanisms if it wants to impact sustainability in a meaningful way. If the cashflows are insignificant it is not clear how the ESG feature can make an economic difference.

b) Concern that the changes proposed are more than a clarification: in the member’s view, the previous clear link between measuring certain assets at amortised cost and an instrument having basic risks (interest rate risk, credit risk), is being removed. Although the other risks were required to be insignificant, the proposed amendment raises a question as to where the line is drawn. For example, why would a link to scope 2 emissions be acceptable for amortised cost requirements but a link to an equity index not?

A helpful byproduct

C14. In the ensuing discussion IASB staff provided their view of the difference between "de minimis", "insignificant" and "not significantly different". As reported in the verbal update to the February UKEB meeting, the staff consider "de minimis" to mean negligible, and "insignificant" to be something greater than de minimis. "Not significant" was described as "moving it up the scale" from insignificant, albeit with a lot of what was described as 'grey judgement' on the spectrum between insignificant and not significant.

Next Steps

C15. The IASB will prepare the final amendments for balloting. The final amendments are expected to be published in late Q2 2024. Prior to the amendments being published the Secretariat will commence planning for the project to consider adoption of the amendments in the UK.

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

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

D1. At its February meeting the IASB continued to review feedback received during the Post-implementation Review of IFRS 9 – Impairment (the PIR). The topics addressed at this meeting were:

a) feedback on the general approach to the recognition of expected credit loss (ECL);

b) feedback on determining significant increase in credit risk (SICR); and

c) a literature review update.

D2. Two tentative agenda decisions were made.

Feedback on the general approach to the recognition of ECL

D3. The general approach to the recognition of ECL requires an entity to record a 12- month loss allowance on a financial instrument if the credit risk on that instrument has not increased significantly since initial recognition. If the credit risk has increased significantly then a lifetime ECL is recorded.

D4. Almost all respondents to the IASB supported the general approach, saying there were no fatal flaws, and that the approach generally achieves an appropriate cost-benefit balance. Concerns regarding the general approach focussed largely on the application to intragroup financial instruments and purchased financial assets that are not credit-impaired.

Intragroup financial instruments

D5. This issue affects entities in jurisdictions where separate financial statements are prepared in accordance with IFRS Accounting Standards.

D6. Some respondents, from different stakeholder groups, said that the costs of applying the general approach to intragroup financial instruments exceed the benefits of the information to users. The risk of credit losses from these instruments was generally considered to be low, and the benefits to users limited as users primarily rely on consolidated financial statements.

D7. Respondents considered the root cause of the application issues to be:

a) the subjective terms and conditions of such transactions, which may not be on an arm’s-length basis, and

b) no experience of credit losses.

These characteristics make it challenging to apply the general approach to credit losses.

D8. Respondents suggested a mix of suggestions to resolve the application issues including:

a) extending the scope of the simplified method to intra-group lending;

b) removing intra-group lending from the scope of the IFRS 9 *Financial Instruments* impairment requirements or permitting the simplified method to be applied; and

c) adding application guidance or providing educational material.

D9. Some respondents highlighted similar concerns for other non-commercial financial instruments, such as loans to employees or sovereign debt.

D10. In relation to the feedback received IASB staff noted that:

a) The principles in IFRS 9 already allow an entity to adjust its ECL approach based on the characteristics of the instrument and availability of data. As measuring ECL need not be a complex analysis there should not be undue cost incurred. This is supported by the standard requiring the use of reasonable and supportable information that is available to an entity without undue cost or effort [B5.5.49 - B.5.5.54].

b) The assumption that intragroup transactions are low risk is unlikely to hold true for all such transactions. So an exemption from the ECL requirements is not an appropriate solution.

c) Moving to the simplified method would not help resolve the problem as feedback suggests one of the causes is lack of information about losses on such instruments. This would remain a problem when applying the simplified method.

d) While staff considered providing educational material they observed, and some respondents noted, that educational materials are not the best tool for changing behaviour or improving consistency.

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Purchased financial assets that are not credit impaired

D11. Some respondents observed that the requirement to recognise at least a 12-month ECL results in a double counting of loss expectations for purchased assets that are not credit-impaired. Loss expectations are reflected in the initial fair value and also in the 12-month ECL applied on initial recognition.

D12. Respondents acknowledged this issue was already considered when the IASB was developing the ECL model. They also considered the cost of standard setting would outweigh the benefits as the impact on the Income Statement is limited to the first reporting period following the purchase. Therefore, few respondents requested the IASB change the general approach only for purchased financial assets.

Tentative agenda decision

D13. The staff recommended that, based on the feedback received and the IASB's framework for deciding whether to take action in response to feedback on a post-implementation review, no further action be taken on the general approach to ECL. The staff plan to seek further input from the IFRS Interpretations Committee (Interpretations Committee) to obtain further evidence on whether the application challenges reported for intragroup lending financial instruments have substantial consequences, and seek views on actions the IASB could take to reduce application challenges. The IASB staff will also seek feedback on the Interpretations Committee topics at the March 2024 ASAF meeting.

D14. All 14 board members agreed with this recommendation.

Feedback on determining SICR

D15. Almost all respondents supported the principles-based approach to assessing whether significant increases in credit risk occurred, and noted no fundamental flaws in the requirements. Key feedback received included:

a) Many preparers noted the principles allow them the flexibility to align their SICR approach to credit risk stewardship and the characteristics of the instruments. In their view applying judgement is a necessary part of this process. Inherently this will lead to a variety of practices.

b) Many respondents (particularly regulators, some standard-setters and accounting firms) observed the requirements are not applied consistently, and the varying practices are not always justified by differences in credit risk management practices. As a result seemingly similar financial instruments may be allocated to different ECL stages and different loss amounts recognised.

c) Many respondents requested, or made suggestions for, additional application guidance or illustrative examples to support a more consistent assessment of “significance” when assessing SICR.

d) Respondents had mixed views on the fact that IFRS 9 does not define ‘default’. Some were concerned this leads to application challenges or inconsistent application, while others support this approach as it allows the definition to align to internal risk management or regulatory definitions.

e) Most respondents asked the IASB to carefully consider the incremental benefit of standard-setting activity in this area. Accounting policies and practices have developed following the introduction of IFRS 9, and changes could cause significant disruption. The also cautioned against prescriptive rules that could create “bright lines” in an attempt to improve comparability.

f) Some respondents (mostly regulators and some standard-setters) observed there is limited or inconsistent use of collective assessment of SICR in practice.

g) A few respondents (a standard-setter and a regulator) suggested incorporating educational material published at the start of the covid-19 pandemic into the standard to facilitate accessibility and enforcement.

D16. In relation to the feedback received IASB staff noted that:

a) Omitting reasonable and supportable available information is not consistent with the requirements of IFRS 9. Nor is using approaches that are not based on changes in credit risk since initial recognition. While principles based, IFRS 9 contains a number of clearly described objectives for measuring SICR. Staff concluded that the requests for additional guidance do not arise because the objectives or requirements of IFRS 9 are unclear, but rather seek to reduce the extent of judgement required in determining SICR. Approaches that would minimise the application of judgement would not necessarily capture the economic losses that occur due to changes in credit risk from initial expectations. So additional application guidance or illustrative examples would be of little incremental benefit, and other questions would continue to arise in future.

b) As SICR is fundamental to the impairment approach even limited amendments could create significant disruption.

c) Consideration was given to adding a more practical example illustrating how to collectively determine SICR. However, staff observed that feedback had indicated the complex nature of financial instruments makes them challenging to group collectively by shared characteristics. Therefore a further example was unlikely to result in increased use of collective assessment of SICR.

d) In relation to incorporating educational material published at the start of the covid-19 pandemic into the standard, staff noted the material simply highlighted the requirements of IFRS 9 without changing, removing or adding to them. They considered the cost of standard-setting activity to do so would outweigh the benefits.

e) It was noted that recommendations related to disclosure are not part of this discussion and will be considered at a later date.

D17. The IASB discussion noted that the review of judgemental areas always results in requests for further guidance. However, they agreed that caution was necessary regarding further guidance or re-examination of topics such as the definition of default. Concern was expressed that such actions could be disruptive, or lead to fundamental concepts in the standard being re-opened. It was observed that much of the feedback relates to enforcement of the standard, rather than indications that the standard is unclear. However, the feedback did not provide any evidence to suggest the cost of audit is significantly greater than expected when the standard was developed.

Tentative agenda decision

D18. Staff recommended that the IASB does not take further action on the requirements for determining SICR.

D19. Thirteen of 14 IASB members agreed with this recommendation.

D20. One member, from an investor background, did not agree. Having considered the academic paper which noted a diversity of approaches to determining credit losses (see paragraph D22 below), and the feedback received by the IASB (see paragraph D15b above), the member thought:

a) That part of the variety in approach could be explained by legitimate causes such as different approaches to credit risk management, but part of the variety was caused by the judgements used by entities “particularly the banks” to “game the system”.

b) That to avoid such practices the IASB should bring more rigour to the standard by restricting some judgemental areas. In particular, the IASB should consider introducing “another baseline” to ensure that, for the purposes of IFRS 9, loss assumptions could not be more lenient than those used for internal credit risk management purposes.

Literature review update

D21. The IASB staff provided an overview of nine academic papers relevant to the PIR.

D22. Key messages from the papers included:

a) Applying the ECL model in IFRS 9 improved the timeliness of the recognition of credit losses compared with the approach in IAS 39 *Financial Instruments: Recognition and Measurement*. However, one study indicated that the majority of credit losses are still recognised at the time of default.

b) Three studies found that IFRS 9 results in entities using a greater diversity of approaches to determine credit losses compared to the outcome under IAS 39. Two studies showed that the application of judgement created opportunities for earnings management.

c) Empirical evidence on post-model adjustments showed such adjustments are frequently used, especially during periods of economic turmoil. The authors concluded this indicated the ECL model cannot fully reflect expectations about credit losses in an environment of economic crisis.

d) Some studies documented what the authors believe to be unintended consequence of the ECL model, including increased credit monitoring of borrowers by banks, and reduced lending to risky borrowers.

D23. The IASB was not asked to make any decisions on the literature review.

Next steps

D24. Feedback on post-model adjustments (including their impact on SICR and ECL) will be considered holistically in a separate discussion. The IASB will continue to discuss the feedback received on other topics as shown in the table below. The UKEB Secretariat will continue to monitor IASB discussions.

Topics for discussion	Expected timing
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

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Appendix E: Equity Method[1]

UKEB Project Status: Active Monitoring **IASB Next Milestone:** Exposure Draft	

Background

E1. At its November 2023 meeting, the IASB completed its technical discussions on the application questions in the scope of the Equity Method project.

E2. At its February 2024 meeting, the IASB:

a) discussed clarifications on two topics arising from its tentative decisions in this project;

b) considered whether to add two further application questions to the project scope; and

c) decided whether to propose amendments to paragraph 10 of IAS 28 *Investments in Associates and Joint Ventures*.

Clarifications arising from the IASB's tentative decisions

E3. The table below summarises the two topics for which the IASB tentatively decided to clarify the implications of its previous tentative decisions in this project:

1 A condensed summary of the IASB's tentative decisions on application questions can be accessed here.

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Topic	Implication of IASB's tentative decisions	IASB's clarification
Investment in subsidiaries accounted for using the equity method—step acquisition	The IASB tentatively decided to propose that an investor, on obtaining significant influence, measures the cost of an investment at the fair value of the consideration transferred, including the fair value of any previously held interest in the associate. Consequently, the question that arises is whether this tentative decision applies in the following fact pattern where the parent entity applies the equity method to the investment before and after obtaining control, and: a) the parent held an equity interest in the subsidiary prior to obtaining control; b) the previously held interest is an associate or joint venture; and c) the parent has elected to apply the equity method to its investments both in associates and subsidiaries in its separate financial statements.	That if a parent entity applies the equity method to its investments in subsidiaries in its separate financial statements, it **does not remeasure the previously held interest** to which it has applied the equity method[2].
Contingent consideration and deferred taxes on purchase of additional interests	The IASB tentatively decided that an investor would account for, and include in the carrying amount of its investment in an associate, a deferred tax asset (or liability) arising from recognising as part of the cost of the investment its share of the associate's net identifiable assets and liabilities at fair value[3]. In addition, the IASB tentatively decided that on acquisition of an investment in an associate or joint venture, an investor recognises contingent consideration as part of the cost of the investment and measures that contingent consideration at fair value[4]. The question that arises is whether the IASB intended these tentative decisions to apply when an investor purchases an additional interest in the associate or joint venture.	That if an investor or joint venturer purchases an additional interest in an associate or a joint venture, **it would apply these tentative decisions**.

2 i.e. in accordance with paragraph 24 of IAS 28.
3 See paragraphs B4-B11 Agenda Paper 6: Appendix B of the May 2023 UKEB meeting.
4 See paragraphs C19-C26 Agenda Paper 5: Appendix B of the September 2023 UKEB meeting.

Application questions not added to the scope of the project

E4. The table below outlines the two application questions the IASB considered and tentatively decided not to add to the project:

Topic	Fact pattern and application question	Rationale for IASB's decision
Investment in subsidiaries measured at cost—step acquisition	Fact pattern: a) the parent held an equity interest in the subsidiary prior to obtaining control; b) the previously held interest is an equity instrument and measured in accordance with IFRS 9; and c) the parent has elected to apply the **cost method** to its investments in subsidiaries in its separate financial statements. **Application question:** *How does a parent entity measure the cost of its investment in a subsidiary acquired in stages and accounted for at cost in separate financial statements?*	The question is not directly related to the application of the equity method and is not included in the scope of the project.
Acquisition-related costs	The IASB's tentative decision to define how to measure the cost of an investment in an associate or joint venture does not specify how to recognise acquisition-related costs–that is, whether they should be recognised as part of the cost of the investment or expensed as incurred. Neither IAS 27 nor IAS 28 include requirements on acquisition-related costs. **Application question:** *How does an entity recognise the acquisition-related cost for investments to which the entity applies the equity method of accounting?*	There is no 'ready-made tentative decision' in the project that would automatically answer this application question. Also, none of the principles identified as underlying IAS 28 would provide a basis to develop a solution to the question.

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Propose amendments to paragraph 10 of IAS 28

Background

E5. Paragraph 3 of IAS 28 defines the equity method as:

> "a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets…"

E6. By contrast, paragraph 10 of IAS 28 only refers to the investor's share of the investee's profit or loss and other comprehensive income, and distributions received, i.e. it does not state whether, and if so, where the investor should account for its share of the associate's other net asset changes.

E7. As a result, paragraphs 3 and 10 of IAS 28 are inconsistent or unclear.

E8. As part of this project the IASB tentatively decided that when the investor's ownership interest[5]:

a) increases and the investor retains significant influence, the investor would recognise that increase as a purchase of an additional interest;

b) decreases and the investor retains significant influence, the investor would recognise that decrease as a partial disposal.

E9. Following this tentative decision, the IASB will propose a clarification in the Exposure Draft (ED) of the presentation of an investor share of the associate's other net asset changes. The IASB staff viewed this as an opportunity for the wording in paragraphs 3 and 10 of IAS 28 to be aligned.

IASB tentative decisions

E10. To resolve the perceived inconsistency, the IASB tentatively decided to amend paragraph 10 of IAS 28 to refer to 'changes in the investor's share of the associate's net assets'.

Next steps

E11. At the IASB's March 2024 meeting the staff will ask the IASB to clarify its tentative decision regarding transitional requirements for the proposed amendments to IAS 28 and ask for permission to begin the balloting process. The ED is expected in H2 of 2024.

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[5] See paragraph 65 Agenda Paper 7 of the October 2022 UKEB meeting.

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Appendix F: Subsidiaries without Public Accountability: Disclosures

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

F1. At its February 2024 meeting, the IASB:

a) Continued its discussion on the disclosure requirements to propose in the 'catch-up' Exposure Draft (catch-up ED) it expects to publish after issuing IFRS 19 *Subsidiaries without Public Accountability: Disclosures* (the Subsidiaries standard).

b) Discussed those disclosure requirements the IASB tentatively decided to propose in the future Exposure draft (ED) on IAS 28 Amended[1] that should also be proposed as amendments to the Subsidiaries standard.

Catch-up ED: Forthcoming *Amendments to the Classification and Measurement of Financial Instruments*

Background

F2. The Subsidiaries standard is expected to be published by the IASB in May 2024. The catch-up ED is expected to be published in July 2024.

F3. In deciding on reducing disclosures for the Subsidiaries standard the IASB applied the principles it previously agreed to follow[2].

F4. At its January 2024 meeting, the IASB considered disclosure requirements to propose in the catch-up ED[3].

F5. At its February 2024 meeting the IASB continued its discussion by considering which of the new and amended disclosure requirements from the forthcoming

1 The IASB Work Plan indicates that the ED on the Equity Method project is expected to be published in H2 2024.
2 See paragraph G3 Agenda Paper 7: Appendix G of the October 2023 UKEB meeting.
3 See paragraphs G8—G11 Agenda Paper 6: Appendix G of the February 2024 UKEB meeting for the disclosure requirements the IASB tentatively decided at the January 2024 meeting to propose in the catch-up ED.

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Amendments to the Classification and Measurement of Financial Instruments should be proposed in the catch-up ED.

Equity instruments and other comprehensive income

IASB staff analysis and recommendations

F6. In developing the Subsidiaries standard, the IASB decided to include the requirement of IFRS 7 to separately disclose the carrying amount of investments in equity instruments designated as measured at fair value through other comprehensive income at initial recognition[4].

F7. However, the IASB did not include the detailed disclosures required by paragraphs 11A and 11B of IFRS 7 e.g. the reasons for using this presentation alternative, the fair value of each such investment at the end of the reporting period, the reasons for disposing of the investments (if derecognised).

F8. The IASB staff view was that the users of financial statements of eligible subsidiaries do not require these more detailed disclosures to understand the effect of these instruments on the solvency and liquidity of the subsidiary.

F9. Consequently, the staff recommended not to include in the catch-up ED the forthcoming amendments to disclosure requirements relating to equity instruments and other comprehensive income[5].

IASB tentative decision

F10. The IASB agreed with the IASB staff recommendation.

The disclosure requirements relating to contractual cash flows

IASB staff analysis and recommendations

F11. Paragraphs 20B-20C of the Exposure Draft (ED) *Amendments to the Classification and Measurement of Financial Instruments* require that, when the contractual terms could change the timing or amount of contractual cash flows based on the occurrence (or non-occurrence) of a contingent event that is specific to the debtor, an entity shall disclose:

a) a qualitative description of the nature of the contingent event;

b) quantitative information about the range of changes to contractual cash flows that could result from those contractual terms; and

4 See IFRS 7 paragraph 8(h)(ii).
5 See paragraph C28 Agenda Paper 6: Appendix C of the December 2023 UKEB meeting for details about the forthcoming amendments.

c) the gross carrying amount of financial assets and the amortised cost of financial liabilities subject to those contractual terms.

F12. The IASB tentatively decided to finalise those disclosure requirements, subject to:

a) limiting the requirements to contractual terms that could change the amount of contractual cash flows based on a contingent event that is not directly related to a change in basic lending risks or costs; and

b) changing the requirement to disclose quantitative information to permit an entity to disclose information other than the range of possible adjustments to contractual cash flows.

IASB tentative decision

F13. The IASB tentatively decided to include the prospective amendments to IFRS 7 relating to changes in contractual cash flows in the catch-up ED.

Future exposure draft on IAS 28 Amended

Background

F14. At its September 2023 meeting, the IASB tentatively decided to propose amendments to IFRS 12 *Disclosure of Interests in Other Entities* to improve the disclosure requirements for investments in associates[6]. The proposed amendments would also apply to investments in joint ventures.

F15. At its meeting in November 2023, the IASB completed its technical discussions on the application questions in the scope of the Equity Method project.

F16. As part of the maintenance approach, the IASB agreed that each new or amended IFRS Accounting Standard will include consequential amendments to the Subsidiaries standard[7].

F17. At its February 2024 meeting the IASB considered which of the new disclosure requirements to be proposed in the future ED on IAS 28 Amended[8] should also be proposed as amendments to the Subsidiaries standard.

IASB tentative decisions

F18. The table below outlines the disclosure requirements the IASB tentatively decided to require an eligible subsidiary to disclose and those disclosures that will not be included in the Subsidiaries standard:

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6 See paragraphs D6 Agenda Paper 7: Appendix D of the October 2023 UKEB meeting.
7 See paragraphs G10 Agenda Paper 7: Appendix G of the October 2023 UKEB meeting.
8 The IASB Work Plan indicates that the ED on the Equity Method project is expected to be published in H2 2024.

Topic	Disclosure requirements to be proposed in the ED on IAS 28 Amended	Proposed to be included in the Subsidiaries standard?	Rationale and relevant principles
Contingent consideration arrangements—initial recognition	On obtaining significant influence in an associate or joint control in a joint venture, disclose: a) the amount of contingent consideration recognised as part of the cost of the investment;	Yes	This disclosure provides users with information about cash flows and commitments.
	b) a description of the contingent consideration arrangement and the basis for determining the amount of the payment;	Yes	These disclosures provide information about measurement uncertainties.
	c) an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the investor shall disclose that fact.	No	These disclosures were not proposed in the Subsidiaries ED under the IFRS 3 sub-heading. Existing disclosure requirements in the subsidiaries standard[9] would provide sufficient information to address the needs of users if there was a risk that the amount of contingent consideration could materially diverge from the amount recognised. Further, these disclosures would be complex and costly to prepare for eligible subsidiaries.
Contingent consideration arrangements—	Disclose for each subsequent reporting period until the investor collects or settles the	No	

9 E.g paragraph 124 of the Subsidiaries ED proposed requiring eligible subsidiaries to disclose information about judgements that have the most significant effect on the amounts recognised in the financial statements.

Topic	Disclosure requirements to be proposed in the ED on IAS 28 Amended	Proposed to be included in the Subsidiaries standard?	Rationale and relevant principles
subsequent measurement	contingent consideration or until it is cancelled or expires: a) any changes in the range of outcomes (undiscounted) and the reasons for those changes		
	b) any changes in the recognised amounts, including any differences arising upon settlement; and c) the valuation techniques and key model inputs used to measure the contingent consideration.	Yes	These disclosures support the disaggregation principle and the measurement uncertainty principle as well as providing information about cash flows and commitments. Further, these disclosure requirements were proposed in paragraph 38 of the Subsidiaries ED under the IFRS 3 sub-heading.
Transactions with associates	Disclose gains or losses on downstream transactions: a) to its associates and joint ventures; and b) to its subsidiaries if it applies the equity method to its investments in subsidiaries in separate financial statements, as permitted in IAS 27 *Separate Financial Statements*.	Yes	This disclosure supports the disaggregation principle and would be helpful to users of eligible subsidiaries' financial statements in disaggregating gains or losses from third parties versus gain or losses from associates or joint ventures.

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Topic	Disclosure requirements to be proposed in the ED on IAS 28 Amended	Proposed to be included in the Subsidiaries standard?	Rationale and relevant principles
Reconciliation	Require an investor to disclose: a) information that enables users of its financial statements to evaluate the changes in the amounts in the financial statements arising from investments in associates	No	Consistent with the IASB's previous decision not to include disclosure objectives in the Subsidiaries standard[10].
	b) a reconciliation between the opening and closing carrying amount of its investments in associates.	No	Whilst this reconciliation supports the disaggregation principle, IASB members were of the view it is not particularly useful to users of eligible subsidiaries financial statements and the cost of preparing the reconciliation outweigh the benefits.
Other changes in the associate's net assets that change an investor's ownership interest	Require an investor to disclose the gain or loss from recognising its share of other changes in its associate's net assets that change its ownership interest, while it retains significant influence.	No	Consistent with IASB's tentative decision not to require a reconciliation between the opening and closing carrying amount of its investments in associates—this gain or loss would have been disclosed in this reconciliation.

10 See paragraphs A7-A12 Agenda Paper 9: Appendix A of the July 2023 UKEB meeting.

Next steps

F19. The IASB is expected to publish IFRS 19 in May 2024.

F20. 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 18	Presentation and Disclosure in Financial Statements	March 2024
IFRS XX	Rate Regulated Activities	

F21. 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 in July 2024.

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

UKEB Project Status: Active Monitoring **IASB Next Milestone:** Feedback Statement (expected Q3 2024)	UKEB project page UKEB Final Comment Letter (Published 26 October 2023)

Purpose of this update

G1. In June 2023, the IASB published its Request for Information: IFRS 15 *Revenue from Contracts with Customers* (RFI) to seek stakeholders' views[1] on the requirements in IFRS 15. Our response to the IASB was submitted on 26 October 2023.

G2. In January 2024, the IASB advised that the feedback received on IFRS 15 as a whole, suggests that the standard meets its objectives and is working well, and the ongoing benefits outweigh the costs of implementing.

G3. The IASB is now discussing the specific application matters raised by stakeholders in response to the RFI, to determine if any further action is needed and the priority of any action, with reference to the IASB PIR framework[2].

G4. The purpose of this paper is to provide the Board with a summary of the decisions taken by the IASB in February 2024 on the specific topics discussed at that meeting. A verbal update was already provided to the Board at our February Board meeting, since the Board were asked for comments for the March ASAF meeting, in relation to the discussions held by the IASB in January and February 2024 on the RFI and the topics to be discussed by the IASB in March 2024.

G5. At the UKEB February 2024 meeting, the Board were keen to understand how the IASB PIR framework had been applied to determine whether action should be taken and the priority of any action for the application matters identified by stakeholders.

[1] The comment period ended on 27 October 2023. The IASB received 74 responses to the RFI. Staff paper AP6 of the 23 January 2024 IASB meeting shows the demographic of the respondents.

[2] 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.

February 2024 IASB meeting

Summary

G6. On 24 February 2024, the IASB discussed three topics included in the RFI:

a) principal versus agent considerations;

b) identifying performance obligations in a contract; and

c) licencing.

G7. The UKEB Final Comment Letter (FCL) made two recommendations on the topic of principal versus agent considerations and no recommendations on the other two topics discussed.

G8. Having reviewed the detailed feedback on all three topics, the IASB decided to take action on one matter relating to the principal versus agent considerations, specifically in relation to assessing control over services and intangible assets. That matter was determined as low priority, to explore in the next agenda consultation.

G9. In relation to that matter of assessing control over services and intangibles, the UKEB FCL recommended that the IASB expand the indicators of control (in IFRS 15 paragraph B37)[3] to cover indicators that are more relevant to services and intangibles. It is uncertain whether any future action will be in line with the UKEB recommendation, as the IASB staff have suggested that adding more indicators would lead to disruption in practice and additional costs, because multiple entities would need to review their current accounting policies.

G10. Additionally on the topic of Principal versus agent, the UKEB FCL recommended elevating non-mandatory material from the Basis for Conclusions to the standard itself. The IASB has tentatively decided, that whilst there was no evidence that the criteria to take action had been met, it will, before finalising the project, consider whether adding such explanations to the standard, along with possible clarifications of other aspects of IFRS 15, might result in sufficient improvement to IFRS 15 to warrant standard-setting.

G11. More information on the UKEB FCL recommendations and the IASB decisions on the topics discussed at the February 2024 meeting is detailed in the paragraphs below.

3 Many respondents (mostly from standard-setters, accounting firms and accounting bodies) reported challenges in assessing control over services and intangibles, expressing a view that the three indicators of control in IFRS 15 paragraph B37, such as inventory risk, seem to apply more to tangible goods than intangibles.

Principal versus agent considerations

UKEB FCL recommendations

G12. The UKEB FCL made two separate recommendations regarding this topic:

> **UKEB Recommendations–Principal versus agent considerations** (FCL Paragraph 5)
>
> b) In the context of principal versus agent considerations, we recommend that the IASB:
>
> a) **expands the indicators of control** (IFRS 15 paragraph B37[4]) to cover indicators that are **more relevant to services and intangibles**;
>
> b) **elevates paragraph BC385H[5] 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.

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4 IFRS 15, paragraph B37 says: "Indicators that an entity controls the specified good or service before it is transferred to the customer (and is therefore a principal (see paragraph B35)) include, but are not limited to, the following:
(a) the entity is **primarily responsible for fulfilling the promise** to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service (for example, primary responsibility for the good or service meeting customer specifications). If the entity is primarily responsible for fulfilling the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity's behalf.
(b) the entity has **inventory risk** before the specified good or service has been transferred to a customer or after transfer of control to the customer (for example, if the customer has a right of return). For example, if the entity obtains, or commits itself to obtain, the specified good or service before obtaining a contract with a customer, that may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the good or service before it is transferred to the customer.
(c) the entity has **discretion in establishing the price** for the specified good or service. Establishing the price that the customer pays for the specified good or service may indicate that the entity has the ability to direct the use of that good or service and obtain substantially all of the remaining benefits. However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to customers".

5 The Basis for Conclusions paragraph BC385H explains that "The indicators (a) do not override the assessment of control; (b) should not be viewed in isolation; (c) do not constitute a separate or additional evaluation; and (d) should not be considered a checklist of criteria to be met, or factors to be considered, in all scenarios. Considering one or more of the indicators will often be helpful and, depending on the facts and circumstances, individual indicators will be more or less relevant or persuasive to the assessment of control".

IASB decisions

Assessing control over services and intangible assets

G13. In deciding whether to take action, the IASB noted that the cost of applying the new requirements and auditing and enforcing their application are considered to be significantly greater than expected.

G14. Most concerns related to significant market developments since IFRS 15 was issued that has put greater emphasis on the need to assess control of a service or intangible asset, especially in newer and emerging more complex arrangements, involving digital platforms or digital offerings. With increasing digitalization, more entities may struggle to apply the requirements consistently, and the costs of applying the requirements may increase for a broader range of stakeholders[6].

G15. Prioritisation characteristics that exist:

a) Consequences – determining whether an entity is a principal or an agent leads to an entity recognising revenue either gross or net which would affect profit margins, which can influence users' decisions.

b) Pervasiveness – with the expansion of digitalisation, complex arrangements requiring complex principal versus agent assessments are becoming more pervasive.

G16. Other prioritisation characteristics considered by the IASB:

a) Ability to address the matter – providing additional illustrative examples or developing additional control indicators may not lead to significant improvement, due to the multiple unique features, terms and conditions of arrangements, and any additional examples might create an expectation that examples will be updated regularly.

b) Costs versus benefits – benefits might not justify the costs, since additional indicators of control or illustrative examples would lead to disruption in practice, and additional costs for entities needing to review their current accounting policies. Changes to IFRS 15 could lead to reduced comparability with entities applying FASB Topic 606.

G17. Since some, but not all, prioritisation characteristics are present, the IASB classified the matter as 'low priority' to be considered in the next agenda consultation and to be explored, if the IASB decides, in its deliberations on the feedback to that future agenda consultation, to take action.

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6 See paragraph 50 Staff paper 6B for IASB 26 February meeting.

G18. The IASB staff noted the project on intangibles added to its research project pipeline may provide insights into applying the concept of control for intangible assets, although the scope of that project is yet to be determined.

Relationship between the concept of control and the indicators

G19. The UKEB FCL further recommended on the topic of principal versus agent, that paragraph BC385H in the Basis for Conclusions (which is non-mandatory material and not visible or accessible to all stakeholders) be elevated to the standard itself.

G20. The IASB tentatively decided to propose that this matter[7] be discussed further at a later date. The IASB rationale for discussing later is that, whilst feedback does not indicate that the benefits to users are significantly lower than expected, nor that the costs of applying the requirements are significantly greater than expected for many entities, combined with the other possible clarifications of other aspects of IFRS 15, the suggestions might result in sufficient improvement to IFRS 15 to warrant standard setting.

Other Principal versus agent matters

G21. The IASB decided to take no further action on other principal versus agent matters raised by stakeholders[8], since the 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

G22. IFRS 15 requirements on principal versus agent considerations are substantially converged with the requirements in the FASB Topic 606[9].

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7 In addition to BC385H, the IASB will also consider adding other explanations from paragraph 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 in footnote 8 (i) and (ii) that the IASB has decided to otherwise take no further action on.

8 Paragraph 4 and 5 of Staff paper Agenda 6B IASB February 2024 meeting summarise the IASB recommendations on Principal versus agent considerations. The other application matters raised by stakeholder in the PIR in relation to Principal versus agent considerations that the IASB decided to take no further action 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 IASB staff paper 6B February 2024.

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

G23. The FASB also identified challenges in determining whether an entity is a principal or an agent as a major application matter[10], so this topic will be discussed at the IASB meeting with FASB on 21 June 2024.

Identifying performance obligations in a contract

UKEB FCL recommendations

G24. The UKEB FCL did not make any recommendations to the IASB in relation to identifying performance obligations in a contract.

IASB decisions

G25. The IASB decided not to take any further action with regard to the matters raised by stakeholders[11], in relation to identifying performance obligations.

G26. The IASB decided that the findings from the RFI did not provide sufficient evidence that the characteristics for taking further actions are present.

G27. However, some stakeholders suggested that certain useful explanations[12] in the Basis for Conclusions be elevated to the standard itself, similar to the UKEB (and other stakeholders') suggestion on the topic of principal versus agent.

G28. The IASB acknowledged that making any such amendments may not be worth doing in isolation, but at a later date, before finalising the project, it will consider whether to add some explanations to the standard, along with possible clarifications of other aspects of IFRS 15.

Licencing

UKEB FCL recommendations

G29. The UKEB FCL did not make any recommendations to the IASB related to licencing.

[10] Paragraph 12 and Appendix B of Staff paper Agenda 6B February 2024 IASB meeting. Appendix B of Staff paper Agenda 6B provides extracts from the FASB PIR of Topic 606 November 2023 public roundtable discussion materials and minutes.

[11] Paragraph 4 and 5 of Staff Paper Agenda 6A of the February 2024 IASB meeting summarise the IASB recommendations on the topic of identifying performance obligations in a contract. The IASB decided to 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 (see Appendix A of IASB Staff paper 6A February 2024).

[12] Explanations from paragraphs BC105 and BC116K of the Basis for Conclusions.

IASB decisions

G30. The IASB decided not to take any further action with regard to all licencing matters raised by stakeholders[13].

G31. The findings from the RFI did not provide sufficient evidence that the characteristics for taking further actions are present and any changes, particularly with regard to licence renewals, would cause disruption for entities with established accounting policies.

Next steps

G32. The UKEB Secretariat will continue to monitor the IASB discussions on application matters raised by stakeholders on the remaining topics in the RFI and will update the board on the IASB's decisions whether to take any further action.

G33. Since IFRS 15 is substantially converged with US GAAP (Topic 606), and given both the FASB and the IASB received feedback in their respective PIRs on the importance of retaining at least the current level of convergence, a joint meeting of the boards will take place on 21 June 2024 to share feedback received and initial thoughts on how to respond to stakeholders, so that each board will be conscious whether, by making certain decisions, they will retain convergence.

G34. We expect the IASB to finalise its decisions over the next few months and publish a project report and feedback statement in the third quarter of 2024.

[13] Paragraph 4 of Staff Paper Agenda 6C of the February 2024 IASB meeting summarises the IASB staff recommendations on the topic of licencing. The IASB decided to take no further action on matters raised by respondents related to:
a) accounting for licence renewals;
b) determining the nature of a licence;
c) determining the scope of licensing guidance;
d) accounting for sales-based or usage-based royalties; and
e) other aspects of licensing (see Appendix A of IASB Staff paper 6C February 2024).

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Appendix H: Rate-regulated Activities

Topic for noting

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

H1. The IASB is continuing its redeliberations following feedback on its Exposure Draft *Regulatory Assets and Regulatory Liabilities* (ED). At its February 2024 meeting, the IASB redeliberated the following topics:

a) The boundary of a regulatory agreement.

b) Amendments to IAS 36 *Impairment of Assets*.

c) Disclosure requirements, including new disclosure requirements proposed by the IASB Staff.

H2. The following sections set out the IASB's proposals contained in the ED, the recommendations made by the UKEB in its final comment letter (FCL) and the IASB's tentative decisions made at its February 2024 meeting.

The boundary of a regulatory agreement

H3. The IASB, at its October 2023 meeting, had already made some tentative decisions relating to the boundary of the regulatory agreement. The last section of Agenda Paper 9B discussed by the IASB in October 2023 identified two options for clarifying how an entity determines the boundary when it has enforceable rights to compensation on termination and the entity or another party has enforceable rights to renew or to cancel the agreement. The ED proposals and tentative decisions relating to these aspects are detailed below.

ED proposals

H4. Paragraph B30 of the ED sets out the two conditions that are necessary for an entity to have an enforceable present right to increase future regulated rates. This paragraph states that an entity's present right to increase the regulated rate at a future date is enforceable only if:

a) the regulatory agreement gives the entity the present right to supply goods or services at that future date; and

b) no party apart from the entity has a right to cancel the regulatory agreement before that date without arranging compensation for the entity to recover its regulatory asset.

H5. Paragraph B31 of the ED explains how rights of renewal can extend the period over which an entity has an enforceable present right to add an amount to future regulated rates. It states that sometimes an entity has an enforceable right to renew a regulatory agreement. Such a right can give the entity a present right to supply goods or services at a future date covered by that renewal if no other party has an enforceable right to prevent the renewal without arranging compensation for the entity to recover its regulatory asset.

UKEB FCL

H6. The UKEB, in its FCL, was of the view that it is unclear how to apply the proposed requirements relating to the boundary of the regulatory agreement with respect to the measurement requirements. For example, it was not clear how to deal with the practical issue that approvals from a regulator may be given well after the end of the reporting period, for example more than one year after the end of the regulatory period. It may well be that entities could recognise a regulatory asset or liability based on previous interactions with the regulator, but this needs to be included in the guidance.

H7. In addition, the application of the proposed requirements relating to the boundary of the regulatory agreement was unclear where there exists a regulatory pricing period and the resulting determination by the regulator. For example, where an entity has a rolling 25-year licence to operate and a 5-year agreement with the regulator relating to pricing and returns, it is not clear how the standard should be applied when the true-up negotiation occurs after the end of the 5-year period and takes a year to negotiate. The proposed requirements should state that, if part of the true-up relates to a return that will take the entity 10 years to recover, that should be included in the regulatory asset.

IASB tentative decisions

H8. The IASB tentatively decided:

a) to acknowledge that a right to supply goods or services might exist for an undefined period; and

b) to include a requirement that an entity that has an enforceable right to supply goods or services include unrecovered or unfulfilled cash flows in the measurement of a regulatory asset or regulatory liability for which the entity has either:

i. an enforceable present right to recover or enforceable present obligation to fulfil by adding amounts to or deducting amounts from future regulated rates charged; or

ii. an enforceable right to receive or enforceable obligation to pay compensation on termination of the agreement.

UKEB Secretariat view

H9. The UKEB Secretariat considers that the IASB's tentative decisions on the boundary of a regulatory agreement seem appropriate. This will be discussed in the UKEB Rate-regulated Activities Technical Advisory Group (RRA TAG) meeting on 27 March 2024 and a verbal update provided to the Board.

Amendments to IAS 36 *Impairment of Assets*

ED proposals

H10. The ED proposes to exclude regulatory assets from the scope of IAS 36.

H11. The ED also proposes two amendments to IAS 36, namely:

a) To add regulatory assets and regulatory liabilities as examples of assets and liabilities in paragraph 43 of IAS 36 which states that, to avoid double-counting, the estimates of future cash flows used in measuring value in use of an asset or a cash-generating unit do not include 'cash inflows from assets that generate cash inflows that are largely independent of the cash inflows from the asset under review' and 'cash outflows that relate to obligations that have been recognised as liabilities'.

b) To add regulatory assets and regulatory liabilities as examples of assets and liabilities such as those described in paragraph 79 of IAS 36 which states that, for practical reasons, the recoverable amount of a cash-generating unit is sometimes determined after consideration of assets that are not part of the cash-generating unit or liabilities that have been recognised. In such cases, the entity adjusts the carrying amount of the cash-generating unit so that it is consistent with the recoverable amount.

UKEB FCL

H12. The UKEB FCL did not express any views on the proposed amendments to IAS 36.

IASB tentative decisions

H13. For the prospective Accounting Standard, the IASB tentatively decided:

a) to retain the proposal to exclude regulatory assets from the scope of IAS 36;

b) to omit the proposed amendments to paragraphs 43 and 79 of IAS 36; and

c) to provide no further guidance on applying IAS 36.

UKEB Secretariat view

H14. The UKEB Secretariat considers that the IASB's tentative decisions not to add regulatory assets and regulatory liabilities to the examples in paragraphs 43 and 79 of IAS 36 seem appropriate. This will be discussed at the RRA TAG meeting on 27 March 2024 and a verbal update provided to the Board.

Disclosure requirements

ED proposals

H15. The overall disclosure objective proposed in the ED requires an entity to disclose in the notes, information about regulatory income, regulatory expense, regulatory assets and regulatory liabilities to enable users of financial statements to understand:

a) The relationship between an entity's revenue and expenses as completely as would have been possible if the total allowed compensation for the goods or services supplied had been fully reflected in revenue in the period in which the entity supplied those goods or services. That understanding would provide insights into the entity's prospects for future cash flows.

b) The entity's regulatory assets and regulatory liabilities at the end of the reporting period. That understanding would provide insights into how regulatory assets and regulatory liabilities would affect the amount, timing and uncertainty of the entity's future cash flows.

UKEB FCL

H16. The UKEB in its FCL generally agreed that the overall disclosure objective should focus on an entity's regulatory income, regulatory expenses, regulatory assets, and regulatory liabilities as this will provide users with the information they need to assess and understand an entity's regulated activities for the period for which financial statements have been prepared.

H17. The UKEB FCL, however, stated that it considered that information about an entity's regulatory agreement should also be included. This is because it will give an understanding of how the regulatory income, regulatory expenses, regulatory assets, and regulatory liabilities have arisen. This could include information about the length of time of the regulatory agreement, exit provisions and the legal form of the agreement. The UKEB considered that this information will be useful in helping users understand how the underlying economics of an entity's regulatory agreements impact on the regulatory balances and amounts presented in the financial statements.

UK Endorsement Board

IASB tentative decisions

H18. For the prospective Accounting Standard, the IASB tentatively decided to:

a) Retain the overall disclosure objective proposed in paragraph 72 of the ED.

b) Retain the proposals on aggregation and disaggregation of disclosures in paragraphs 75–76 of the ED.

c) Include examples of the characteristics an entity could use to aggregate or disaggregate disclosures in accordance with the principles in the prospective IFRS Accounting Standard IFRS 18 *Presentation and Disclosure in Financial Statements*.

d) Retain the specific disclosure objective relating to financial performance proposed in paragraph 77 of the ED.

e) Retain the proposals in paragraph 78(a)–(e) of the ED requiring that an entity disclose components of regulatory income or regulatory expense relating to the creation of regulatory assets and regulatory liabilities, recovery of regulatory assets, fulfilment of regulatory liabilities, and to regulatory interest income on regulatory assets and regulatory interest expense on regulatory liabilities.

f) Require that an entity apply the aggregation and disaggregation principles in the prospective IFRS 18 when disclosing other components of regulatory income or regulatory expense, such as those arising from changes in the carrying amount of a regulatory asset or regulatory liability caused by a change in the boundary of a regulatory agreement, and those arising from remeasurements of regulatory assets and regulatory liabilities.

g) Retain the specific disclosure objective relating to financial position proposed in paragraph 79 of the ED.

h) Retain the proposals in paragraphs 80(a) and 81 of the ED requiring that an entity disclose quantitative information, using time bands, about when it expects to recover regulatory assets and fulfil regulatory liabilities.

i) Retain the proposal in paragraph 80(b) of the ED requiring that an entity disclose the discount rate or ranges of discount rates used in measuring regulatory assets and regulatory liabilities at the end of the reporting period.

j) Retain the proposal in paragraph 80(c) of the ED requiring that an entity disclose the regulatory interest rate provided by the regulatory agreement for a regulatory asset, if the entity uses the minimum interest rate as the discount rate for that regulatory asset.

k) Retain the proposal in paragraph 80(d) of the ED requiring that an entity disclose an explanation of how risks and uncertainties affect the recovery of regulatory assets or fulfilment of regulatory liabilities.

l) Provide no additional guidance on risks and uncertainties that affect the recovery of regulatory assets or fulfilment of regulatory liabilities.

m) Combine the proposed specific disclosure objective relating to changes in regulatory assets and regulatory liabilities in paragraph 82 of the ED with the specific disclosure objective in paragraph 79 of the ED.

n) Retain the proposals in paragraph 83 of the ED requiring that an entity disclose a reconciliation from the opening to the closing carrying amounts of regulatory assets and regulatory liabilities.

o) Include examples of significant changes in regulatory assets and regulatory liabilities that are not a consequence of regulatory income or regulatory expense.

p) Include a requirement that an entity disclose a qualitative explanation of any significant changes in regulatory assets and regulatory liabilities that are not a consequence of regulatory income or regulatory expense.

q) Retain the proposal in paragraph 84 of the ED relating to the disclosure of regulatory assets and regulatory liabilities measured applying paragraph 61 of the ED.

r) Extend the proposals in paragraph 78 of the ED to include a requirement that an entity disclose separately the components of regulatory income or regulatory expense included in other comprehensive income.

UKEB Secretariat view

H19. The UKEB Secretariat considers that the IASB's tentative decisions relating to the disclosure requirements are appropriate. However, The UKEB Secretariat notes that the suggestion in the FCL to include a disclosure requirement that information about an entity's regulatory agreement should be disclosed has not been taken up. This will we discussed at the RRA TAG meeting on 27 March 2024 and a verbal update provided to the Board.

New disclosure requirements

H20. At the February 2024 IASB meeting, the IASB Staff proposed new disclosure requirements in addition to the ED proposals. These disclosure requirements relate to the information an entity should be required to disclose about the relationship between its regulatory capital base and its property, plant and equipment.

IASB tentative decisions

H21. The IASB tentatively decided that the prospective Accounting Standard would:

a) Include a specific disclosure objective that an entity be required to disclose information that enables users of financial statements to understand whether the entity's regulatory capital base has a direct or no direct relationship with its property, plant and equipment.

b) Include—in order to achieve the specific disclosure objective in (a)—a requirement that an entity disclose:

i. whether its regulatory capital base has a direct or no direct relationship with its property, plant and equipment; and

ii. the reasons the entity has concluded its regulatory capital base has a direct or no direct relationship with its property, plant and equipment.

c) Not include a requirement that an entity disclose the amount of its regulatory capital base.

d) Include a requirement that an entity disclose the nature of unrecognised regulatory assets and unrecognised regulatory liabilities.

e) Include a requirement that an entity disclose the regulatory approach (nominal or real) used by the regulator to compensate the entity for inflation.

f) Not include a requirement that an entity disclose assumptions used in estimating uncertain future cash flows for the measurement of regulatory assets or regulatory liabilities related to long-term performance incentives beyond those disclosures required by IAS 1 *Presentation of Financial Statements*.

g) Include, for an entity whose regulatory capital base has a direct relationship with its property, plant and equipment and capitalises its borrowing costs, a requirement to disclose whether it receives regulatory returns on an asset not yet available for use.

h) Not include—for an entity whose regulatory capital base has a direct relationship with its property, plant and equipment and capitalises its borrowing costs—a requirement to disclose:

i. the composition of the regulatory returns between debt and equity returns, and when these regulatory returns are included in regulated rates charged; and

ii. the effects of those regulatory returns on changes in the related regulatory assets or regulatory liabilities.

UKEB Secretariat views

H22. The UKEB Secretariat considers that the IASB's tentative decisions relating to the new disclosure requirements seem appropriate. This will be discussed at the RRA TAG meeting on 27 March 2024 and a verbal update provided to the Board.

IASB next steps

H23. The IASB will continue its redeliberations on the feedback on the ED at future meetings. Future redeliberations will focus on the following topics:

a) Discount rate, including the proposals in minimum interest rate;

b) Items affecting the regulated rates only when the related cash is paid or received – whether to extend the proposals to other cases;

c) Interaction between the model and IFRS 17 *Insurance Contracts*;

d) Amendments to other IFRS Accounting Standards;

e) Effective date and transition; and

f) Expected effects of the prospective Accounting Standard.

H24. The UKEB is continuing to monitor the IASB's work on the ED.

Questions for the Board
Do Board members have any questions or comments on the Rate-regulated Activities update?

UK Endorsement Board

Appendix I: *Annual Improvements to IFRS Accounting Standards– Volume 11*

UKEB Project Status: Active Monitoring **IASB Next Milestone:** Final Amendments Q3 2024	UKEB project page UKEB Final Comment Letter (Published in December 2023)

Background

I1. At its February meeting the IASB discussed the feedback received from the public consultation on the Exposure Draft (ED) *Annual Improvements to IFRS Accounting Standards – Volume 11* (Annual Improvements) which was published in September 2023 with the comment period ended in December 2023.

Summary of stakeholder feedback

I2. The IASB received 39 comment letters including nine from the UK. Overall, respondents welcomed the IASB's intention to maintain and improve IFRS Accounting Standards and to support consistent application. The majority of the respondents agreed with the proposed amendments and their feedback is summarised in the tables in Annex 1 and Annex 2.

Update on tentative IASB decisions in February 2024

I3. The IASB tentatively decided to proceed with the eight proposed amendments[1] in the ED with minor wording changes to three of them. The wording changes are set out in the table in Annex 1.

I4. The IASB decided to finalise the amendments without re-exposure.

I5. The IASB tentatively decided that an entity will be required to apply the amendments for annual reporting periods beginning on or after 1 January 2026, with earlier application permitted.

1 Please refer to the summary of the eight proposed amendments in the Project Initiation Plan (from page 11 on) for the Influencing Project for *Annual Improvements to IFRS Accounting Standards–Volume 11*.

Next steps

I6. The IASB has commenced the balloting process for the Annual Improvements following its February meeting. The final amendments are expected to be published in the Q3 2024. The UKEB Secretariat will continue monitoring the IASB discussions and provide updates to the Board.

UK Endorsement Board

Annex 1: Summary of proposed amendments with changes

The following tables present the three proposed amendments which the IASB tentatively decided to make **minor wording changes**. The wording changes from the proposed amendments in the ED to those in the latest IASB's tentative decisions are highlighted and in bold. Only the relevant paragraphs of the proposed amendments where the IASB has tentatively decided to make minor wording changes are shown below.

Determination of a 'De Facto Agent'[2] (Amendments to IFRS 10 *Consolidated Financial Statements*)	
Purpose of proposed amendments	The proposed amendments to IFRS 10 are to address the inconsistency between paragraphs B73 and B74 by clarifying the requirements in paragraph B74 so that both paragraphs allow room for judgement on the determination of a 'de facto' agency relationship.
Mandatory or Non-mandatory	The proposed amendments are to paragraph B74 of IFRS 10 which forms part of the mandatory text of the IFRS Accounting Standard.
Stakeholder feedback	Almost all respondents agreed with the proposed amendments. Consistent with the UKEB's position[3], some respondents identified a wider issue on the determination of a 'de facto agent'. These respondents suggested the IASB undertake a separate project on this[4].
Proposed wording change	B74 Such a relationship need not involve a contractual arrangement. A party is a de facto agent when the investor has~~, or those that direct the activities of the investor have,~~ the ability to direct that party to act on the investor's behalf. A party might **also** be a de facto agent **of the investor** when those that direct the activities of the investor have the ability to direct that party to act on the investor's behalf. The ~~In these circumstances, the~~ investor shall consider its de facto agent's decision-making rights and its indirect exposure, or rights, to variable returns through the de facto agent together with its own when assessing control of an investee.

2 The summary is based on the IASB staff paper 12G for the February 2024 meeting.
3 Please refer to paragraph 13 of the Project Initiation Plan for the Influencing Project for *Annual Improvements to IFRS Accounting Standards–Volume 11*.
4 Two respondents also suggested the IASB require prospective application of the proposed amendments.

Introduction and Credit Risk Disclosures[5] **(Amendments to Guidance on implementing IFRS 7)**	
Purpose of proposed amendments	The proposed amendments to the Implementation Guidance accompanying IFRS 7 are – • Paragraph IG 1: to add a statement that implementation guidance accompanying IFRS 7 does not illustrate all the requirements in IFRS 7; and • Paragraph IG20B: to streamline the paragraph by rewording the first sentence and deleting the second sentence.
Mandatory or Non-mandatory	The proposed amendments are to the Implementation Guidance accompanying IFRS 7 and therefore not part of the mandatory text of the IFRS Accounting Standard and not included in UK-adopted international accounting standards.
Stakeholder feedback	Almost all respondents agreed with the proposed amendment to paragraphs IG1 and IG20B. The UKEB's comment[6] was considered in the IASB agenda paper 12C for the February 2024 meeting.
Proposed wording change	IG 1 This guidance suggests possible ways to apply some of the disclosure requirements in IFRS 7. The guidance does not <u>**necessarily** illustrate all the requirements in **the referenced paragraph(s) of** IFRS 7, nor does it</u> create additional requirements.

5 The summary is based on the IASB staff paper 12C for the February 2024 meeting.
6 The UKEB suggested the IASB take into the consideration the consistency of the disclaimer language across Illustrative Examples and Implementation Guidance when drafting new IFRS Accounting Standards or amending existing ones. This was raised in paragraph A9 of the UKEB comment letter for the Influencing Project for *Annual Improvements to IFRS Accounting Standards–Volume 11*.

Disclosure of Deferred Difference between Fair Value and Transaction Price[7] (Amendments to Guidance on implementing IFRS 7)	
Purpose of proposed amendments	The proposed amendments to the Implementation Guidance accompanying IFRS 7 are to improve the consistency between paragraph IG14 of IFRS 7 and paragraph 28 of IFRS 7.
Mandatory or Non-mandatory	The proposed amendments are to the Implementation Guidance accompanying IFRS 7 and therefore not part of the mandatory text of the IFRS Accounting Standard and not included in UK-adopted international accounting standards.
Stakeholder feedback	Almost all respondents agreed with the proposed amendments.
Proposed wording change	IG 14 ~~At initial recognition an entity measures the fair value of financial instruments that are not traded in active markets. However, when, after initial recognition, an entity will use a valuation technique that incorporates data not obtained from observable markets, there may be a difference between the transaction price at initial recognition and the amount determined at initial recognition using that valuation technique.~~ In some cases, the transaction price of a financial instrument differs from its fair value at initial recognition, and that fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (ie a Level 1 input) nor based on a valuation technique that uses only data from observable markets. In these circumstances, the difference will be recognised in profit or loss in subsequent periods in accordance with IFRS 9 *Financial Instruments* and the entity's accounting policy. Such recognition reflects changes in factors (including time) that market participants would take into account when pricing the asset or liability (see paragraph B5.1.2A(b) of IFRS 9). Paragraph 28 requires disclosures in these circumstances. An entity might disclose the following to comply with **~~some of the requirements in~~ paragraphs 28(a)–(b) (paragraph 28(c) is not illustrated)**: […]

[7] The summary is based on the IASB staff paper 12D for the February 2024 meeting.

Annex 2: Summary of proposed amendments with no changes

The table below shows the remaining five proposed amendments which are to the mandatory text of the IFRS Accounting Standards and to which the IASB tentatively decided to make **no changes**.

Title	Proposed amendments	Summary of stakeholder feedback
Derecognition of Lease Liabilities (Amendments to IFRS 9 *Financial Instruments*)	The proposed amendment to IFRS 9 is to add a cross-reference to paragraph 3.3.3 of IFRS 9 in paragraph 2.1(b)(ii) of IFRS 9.	Most respondents agreed with the proposed amendments. Some respondents suggested the IASB clarify whether a reduction in lease liability should be treated as: a) an extinguishment of a lease liability applying IFRS 9; or b) a lease modification applying IFRS 16. Consistent with the UKEB's position[8], most of the respondents noted this wider issue to be beyond the scope of an annual improvement.
Hedge Accounting by a First-time Adopter (Amendments to IFRS 1 *First-time adoption of International Financial Reporting Standards*)	The proposed amendments to IFRS 1 are to replace the word 'conditions' with 'qualifying criteria' in paragraph B6 of IFRS 1; and add cross-references to paragraph 6.4.1 of IFRS 9 in paragraphs B5 and B6 of IFRS 1.	Almost all respondents agreed with the proposed amendments. A national standard setter suggested the IASB clarify whether a first-time adopter can choose to apply IAS 39 on macro hedge accounting by applying paragraph 6.1.3 of IFRS 9. One AFIAG member raised a similar comment but also noted this is a minor point (Paragraph 13 of November 2023 AFIAG meeting summary).

8 Please refer to paragraph 13 of the Project Initiation Plan for the Influencing Project for *Annual Improvements to IFRS Accounting Standards–Volume 11.*

Title	Proposed amendments	Summary of stakeholder feedback
Transaction Price (Amendments to IFRS 9 *Financial Instruments*)	The proposed amendments to IFRS 9 are to delete the reference to the IFRS 15's definition of 'transaction price' in Appendix A of IFRS 9 and revise the wording around the term 'transaction price' in paragraph 5.1.3 of IFRS 9.	Almost all respondents agreed with the proposed amendments.
Gain or Loss on Derecognition (Amendments to IFRS 7 *Financial Instruments: Disclosures*)	The proposed amendments to IFRS 7 are to replace the reference to paragraph 27A of IFRS 7, a paragraph that no longer exists, with a reference to paragraphs 72–73 of IFRS 13 *Fair Value Measurement*, and to replace the phrase 'inputs that were not based on observable market data' with 'unobservable inputs' in paragraph B38 of IFRS 7.	All respondents agreed with the proposed amendments and provided no other comments.
Cost Method (Amendments to IAS 7 *Statement of Cash Flows*)	The proposed amendment to IAS 7 is to replace the term 'cost method', which is no longer defined in IFRS Accounting Standards, with the term 'at cost' in paragraph 37 of IAS 7.	All respondents agreed with the proposed amendments.

UKEB
UK Endorsement Board

Appendix J: Interpretations Committee update

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

Background

J1. 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, whether 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.

J2. The Interpretations Committee held a meeting on 5 March 2024.

J3. At the meeting the Interpretations Committee finalised two agenda decisions (more details are included below):

a) IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* - Climate-related Commitments

b) IFRS 3 *Business Combinations* - Payments Contingent on Continued Employment during Handover Periods

J4. At the time of drafting this paper the wording of the final agenda decisions has not been published by the IASB.

J5. In addition, the meeting discussed questions related to the post-implementation review of IFRS 9 impairments. These discussions will form part of the IASB staff's consideration of PIR feedback.

J6. 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 UKEB considered this matter in February 2024 and concluded that it did not appear to affect a significant number of UK companies. It therefore concluded it would not respond to this matter.

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

TENTATIVE AGENDA DECISIONS CLOSED FOR COMMENT	
Topic	Disclosure of revenues and expenses for reportable segments—Application of IFRS 8
Standard	IFRS 8
Question*	Three questions are asked regarding the current application of IFRS 8 paragraph 23: 1. is an entity required to disclose the specified amounts in paragraph 23(a)–(i) of IFRS 8 for each reportable segment if those amounts are not reviewed separately by the chief operating decision maker (CODM)? 2. is an entity required to disclose the specified amounts in paragraph 23(f) of IFRS 8 for each reportable segment if the entity presents or discloses those specified amounts applying a requirement in IFRS Accounting Standards other than paragraph 97 of IAS 1 Presentation of Financial Statements? 3. How does an entity determine 'material items' in paragraph 23(f) of IFRS 8? In particular: a) are 'material items' only those that are material on a qualitative basis?

	b) do 'material items' include amounts that are an aggregation of individually quantitatively immaterial items? c) is the materiality assessment performed at an income statement level (from an overall reporting entity perspective) or at a segment level?
Tentative conclusion*	The Committee concluded that an entity is required to disclose the specified amounts in paragraph 23 of IFRS 8 not only when those specified amounts are separately reviewed by the CODM. The Committee observed that, in applying paragraph 23(f) of IFRS 8, an entity: a) applies paragraph 7 of IAS 1 and assesses whether the disclosure of information is material in the context of its financial statements taken as a whole; b) applies the requirements in paragraphs 29–31 of IAS 1 in considering how to aggregate information in the financial statements; c) considers both qualitative and quantitative factors, representing the nature or magnitude of information, or both, in assessing whether an item of income and expense is material; and d) does not omit material items on the basis that those items are presented or disclosed applying a requirement in IFRS Accounting Standards other than paragraph 97 of IAS 1. The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to apply the disclosure requirements in paragraph 23 of IFRS 8. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.
Comment	The UKEB considered this matter in September and December 2023 The Board concluded that it did not appear to affect a significant number of UK companies nor did they disagree with the analysis. It concluded it would not respond to this matter.

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

AGENDA DECISIONS WAITING FOR IASB RATIFICATION	
Topic	Climate-related Commitments
Standard	IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
Question*	The Committee received a request asking it to clarify: a) whether an entity's commitment to reduce or offset its greenhouse gas emissions creates a constructive obligation for the entity; b) whether a constructive obligation created by such a commitment meets the criteria in IAS 37 for recognising a provision; and c) if a provision is recognised, whether the corresponding amount is recognised as an expense or as an asset when the provision is recognised.
Tentative conclusion*	The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine: a) the circumstances in which an entity recognises a provision for the costs of fulfilling a commitment to reduce or offset its greenhouse gas emissions; and b) if a provision is recognised, whether the costs are recognised as an expense or as an asset when the provision is recognised. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.
Comment	In January 2024 the UKEB considered the Tentative Agenda Decision and on 5th February submitted its UKEB Comment Letter to the Committee. The Committee received 43 comment letters[1]. According to the IASB staff analysis, most commentators agreed with the Committee's conclusions and its tentative decision. Commentators, including the UKEB, suggested refinements to the content/wording of the agenda decision. Several respondents also included comments on climate-related accounting matters outside the scope of the agenda decision. For more details refer to IASB-staff-comment-letter-analysis.

1 Respondents per type of commentator: 14 national accounting standard setters, 10 accounting practitioners, 6 organisations involved in sustainability- or impacts-related policy or reporting, 2 primary users of financial statements, 2 securities regulators, 3 accountancy professional bodies, 3 preparers of financial statements and 3 accounting academics or other individual.

	In March 2024 the Committee decided to finalise its agenda decision, subject to some editorial amendments. At the time of drafting this paper the wording of the final agenda decision has not been published. Next Steps: The IASB will consider this agenda decision at its April 2024 meeting. If the IASB does not object to the agenda decision, it will be published in April 2024, as an addendum to the IFRIC Update.

Topic	Payments Contingent on Continued Employment during Handover Periods
Standard	IFRS 3
Question*	How an entity accounts for payments to the sellers of a business it acquired when those payments are contingent on the sellers' continued employment during a post-acquisition handover period.
Tentative conclusion *	Evidence gathered by the Committee indicated no significant diversity in the accounting for payments contingent upon continued employment in fact patterns such as that described in the request. In these fact patterns, entities apply the accounting described in the agenda decision Contingent payments to shareholders and continuing employment (published in January 2013) and account for the payments as compensation for post-combination services rather than as additional consideration for the Based on its findings, the Committee concluded that the matter described in the request does not have widespread effect. Consequently, the Committee decided not to add a standard-setting project to the work plan.
Comment	The UKEB considered this matter in January 2023 and September 2023 and concluded that it did not appear to affect a significant number of UK companies. It concluded it would not respond to this Tentative Agenda Decision. The Interpretations Committee received 12 letters. The majority agreed with its conclusion, however a small minority of respondents (including the Danish Auditors (FSR)) seemed to have more substantive, though jurisdiction-specific, concerns. At the time of drafting this paper the wording of the final agenda decision has not been published.

*This provides a summary only of the IASB staff recommendation which could be subject to further editorial amendment, please review the IFRS Website for the full details

UK Endorsement Board

Appendix K. 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 May 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)

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).

UK Endorsement Board

List of IASB projects	
Annual Improvements (Amendments to IFRS Accounting Standards: IAS 7, IFRS 1, IFRS 7, IFRS 9, IFRS 10)	
UKEB Project Status: Monitoring **IASB Next Milestone:** Final Amendments Q3 2024	UKEB project page 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 Feedback H2 2024 Submit letter by: 15/07/24	UKEB project page (Discussion Paper) 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

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	Model (Published September 2022) UKEB project page (Influencing)
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) UKEB Due Process Compliance Statement (Published February 2024)
Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures	
UKEB Project Status: Monitoring **IASB Next Milestone:** IFRS Accounting Standard May 2024	UKEB project page UKEB Project Initiation Plan (Published October 2021) UKEB Final Comment Letter (Published February 2022)

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	UKEB Feedback Statement (Published February 2022) UKEB Due Process Compliance Statement (Published March 2022)
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Equity Method	
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Financial Instruments with Characteristics of Equity	
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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) 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)

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Updating the Subsidiaries without Public Accountability: Disclosures Standard	
UKEB Project Status: Monitoring **IASB Next Milestone:** Exposure Draft Q3 2024	
Use of a Hyperinflationary Presentation Currency by a Non-hyperinflationary Entity (IAS 21)	
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