UKEB
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

The topics addressed in this paper were discussed in March 2024 by the IASB and the IFRS Interpretations Committee, respectively.

Topics for discussion:

- Rate-regulated Activities
- Updating the Subsidiaries without Public Accountability: Disclosures Standard
- Power Purchase Agreements

Topics for noting:

- Climate-related matters
- Equity Method
- Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*
- Post-implementation Review of IFRS 9 – Impairment
- Interpretations Committee update

Questions for the Board

Topics for discussion

Rate-regulated Activities

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

Updating the Subsidiaries without Public Accountability: Disclosures Standard

2. Does the Board have any questions/comments on IASB's tentative decisions in relation to IFRS 18, including in particular on:

- proportionality (given that the catch-up ED will propose the retention of substantially all of the disclosure requirements from IFRS 18); and
- the approach for management-defined performance measures?

3. Does the Board agree with the IASB's approach not to develop reduced disclosures for the prospective RRA standard at this stage?

4. If not, when should such reduced disclosure requirements be developed?

Power Purchase Agreements

5. Do Board members have any initial comments on the IASB's tentative decisions to date on this project?

Topics for noting

Do Board members have any questions or comments on the topics for noting?

Recommendation

Not applicable.

Appendices

Appendix A: Rate-regulated Activities

Appendix B: Updating the Subsidiaries without Public Accountability: Disclosures Standard

Appendix C: Power Purchase Agreements

Appendix D: Climate-related matters

Appendix E: Equity Method

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

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

Appendix H: Interpretations Committee update

Appendix I: List of IASB Projects

UKEB
UK Endorsement Board

Appendix A: Rate-regulated Activities

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

Background

A1. The IASB is continuing its redeliberations following feedback on its Exposure Draft *Regulatory Assets and Regulatory Liabilities*[1] (ED). At its March 2024 meeting, the IASB redeliberated the following topics:

a) Discounting estimated future cash flows; and

b) Reduced disclosures for rate-regulated entities under the reduced disclosures project for subsidiaries without public accountability.

A2. The table below summarises 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 March 2024 meeting.

[1] The IASB's Exposure Draft was published in January 2021 and can be found here

ED proposal	UKEB final comment letter[2]	IASB tentative decision
Discounting estimated future cash flows		
The ED proposes that an entity measures a regulatory asset or regulatory liability using a cash-flow-based measurement technique that: a) includes an estimate of all future cash flows—including future cash flows arising from regulatory interest—and updates those estimates at the end of each reporting period to reflect conditions existing at that date; and b) discounts those estimated future cash flows to their present value. Consequently, the entity recognises regulatory interest income or regulatory interest expense over the life of the related regulatory asset or regulatory liability.	The UKEB FCL generally agreed with the proposals that an entity discount the estimated future cash flows used in the measuring of regulatory assets and regulatory liabilities. The FCL further stated that outreach with stakeholders did not identify any examples of situations where the regulatory interest rate for a regulatory asset is not sufficient to compensate the entity for the time value of money and uncertainty risks. The FCL also advised the IASB to simplify the requirements by making it a rebuttable presumption that the regulatory interest rate is sufficient, unless the indicators set out in paragraph 52 of the ED are present. This would mean that entities are only required to make this assessment where there are	The IASB tentatively decided: a) to retain the proposal that an entity be required to discount estimates of future cash flows that arise from a regulatory asset or regulatory liability; b) to retain the proposal that an entity be required to use the regulatory interest rate for a regulatory asset or regulatory liability as the discount rate for that regulatory asset or regulatory liability. c) to retain the definition of a regulatory interest rate proposed in the Exposure Draft. d) to exempt an entity from applying the proposed requirement described in (a) to discount estimates of future cash flows from a regulatory asset or regulatory liability, if the entity expects the period between recognition of that regulatory asset or regulatory liability and its recovery or fulfilment to be 12 months or less; e) to require an entity that elects to apply the exemption described in (d) to disclose that fact and disclose the carrying amount of regulatory assets and regulatory liabilities at the end of the

2 The UKEB final comment letter can be found here.

ED proposal	UKEB final comment letter[2]	IASB tentative decision
The ED also defines regulatory interest rate as the interest rate provided by a regulatory agreement to compensate an entity for the time lag until recovery of a regulatory asset or to charge the entity for the time lag until fulfilment of a regulatory liability. Paragraph B24 of the ED proposes that if a regulatory asset or regulatory liability forms part of a larger base and the regulatory agreement applies a return rate to the whole of that larger base, that rate is the regulatory interest rate applied to that regulatory asset or regulatory liability.	indicators that the regulatory interest rate for a regulatory asset is insufficient. This would achieve the same outcome whilst reducing the burden on preparers. The FCL also agreed that an entity should translate a series of different regulatory interest rates in successive periods into a single discount rate for use throughout the life of the regulatory asset or regulatory liability.	reporting period to which the entity has applied that exemption; f) not to exempt an entity from applying the proposed requirement described in (a) to discount estimates of future cash flows from a regulatory asset or regulatory liability for which the regulatory agreement does not specify a time frame for recovery or fulfilment; g) to retain the proposal that an entity be required to compute a single discount rate when a regulatory agreement specifies, at initial recognition, different regulatory interest rates over the life of a regulatory asset or regulatory liability; h) not to provide guidance on the computation of the single discount rate described in (g); i) to exempt an entity that measures regulatory assets or regulatory liabilities described in (g) from applying the proposed requirement described in (a) to discount estimates of future cash flows for the period between recognition and the date from which regulatory interest starts to accrue, if the entity expects that period to be 12 months or less; j) to require an entity that elects to apply the exemption described in (i) to disclose that fact and disclose the carrying amount of regulatory assets and regulatory liabilities at the end of the reporting

ED proposal	UKEB final comment letter[2]	IASB tentative decision
		period to which the entity has applied that exemption; and k) to clarify that the proposed requirement described in (g) does not apply to a regulatory asset or regulatory liability that attracts regulatory interest rates that depend on an interest rate benchmark, and not to provide further guidance on measuring such a regulatory asset or regulatory liability. **Secretariat view** The UKEB will further explore the topic at a future UKEB Rate-regulated Activities Technical Advisory Group (RRA TAG) meeting.
Reduced disclosures for rate-regulated entities under the reduced disclosure project for subsidiaries without public accountability		
The requirements of the reduced disclosures project for subsidiaries without public accountability is a separate project and did not form part of the proposals in the ED for regulatory assets and regulatory liabilities.	The UKEB comment letter did not have any comments as the reduced disclosure requirements did not form part of the ED proposals.	The IASB tentatively decided: a) not to develop reduced disclosures for the prospective RRA Standard now; and b) to include a question seeking stakeholders' views on the decision not to develop reduced disclosures in the catch-up exposure draft the IASB plans to publish after it issues the prospective Subsidiaries Standard.

UKEB
UK Endorsement Board

ED proposal	UKEB final comment letter[2]	IASB tentative decision
		Secretariat view The UKEB will further explore the topic at a future RRA TAG meeting once the reduced disclosures catch-up exposure draft has been published.

IASB next steps

A3. The IASB will continue its redeliberations on the feedback received on the ED at future meetings. Future redeliberations will focus on the following topics:

a) Minimum interest rates.

b) Interaction with other IFRS accounting standards.

c) Amendments to other IFRS accounting standards.

d) Effective date and transition.

Feedback from UKEB RRA TAG meeting

A4. The RRA TAG held its meeting on 27 March 2024.

A5. The topics presented by the Secretariat and discussed by the group included:

a) Top-down approach to tracking and recovery of RCB adjustments for no direct relationship entities using as an example a water entity.

b) Unit of account for revenue timing differences.

c) IASB tentative decisions relating to:

i. Presentation.

ii. Items affecting regulated rates on a cash basis.

iii. The boundary of a regulatory agreement.

iv. Amendments to IAS 36 Impairment of Assets.

v. Disclosure requirements.

A6. A summary of the meeting will be published shortly and will be available here.

Top-down approaches to tracking and recovery of RCB adjustments for no direct relationship entities

A7. Members generally considered the top-down approach reflects the underlying economics of rate-regulated entities with no direct relationship. They also considered that it could be operationalised by entities.

A8. A user member shared that information presented could be understood by users with deep knowledge of the regulatory sector, however there were concerns regarding those users who had lesser knowledge and experience.

A9. On the unit of account, members shared that the level of the unit of account in the water sector is the business unit level. In other sectors, the unit of account was considered only at the RCB level. Members thought further work should be done to explore the unit of account relating to lower levels i.e. at project level.

Unit of account for revenue timing differences

A10. Members were of the view that it would be important to clarify the appropriate unit of account. In particular, whether individual items could be grouped when they have similar characteristics. There was general agreement that judgement would be required to decide on the appropriate unit of account.

IASB tentative decisions

A11. A member said the IASB's tentative decision relating to the presentation of line items on the face of the financial statements was a bit confusing. The IASB member clarified that materiality is the overriding factor with regards to the presentation of those line items.

A12. Members generally agreed with the appropriateness of the tentative decision on the items affecting the regulated rates on a cash basis.

A13. On the boundary of the regulatory agreement, a member questioned how the tentative decisions would apply to a 25-year license with 5-year price control periods. The IASB member commented that judgement would be required based on the level of uncertainty and what would be reflective of the economics. The Chair also commented that existence of rights and obligations for a perpetual license with notice would be addressed once notice is given, and that this is no different to long term contract accounting and the need to consider long term judgements.

A14. Members generally agreed with the IASB's tentative decision on the amendments to IAS 36 *Impairment of Assets*. One member commented that additional guidance would have been helpful as entities struggle with assessing impairment, considering that regulatory assets will be new to preparers.

A15. On the tentative decisions relating to disclosures, members said:

a) Disclosing the required information in the earlier years may be challenging for some entities.

b) Materiality and sensitivity of information may be challenging in certain circumstances e.g. when an entity has a disagreement with a regulator.

c) The requirement for an entity to disclose the nature of unrecognised regulatory assets and unrecognised regulatory liabilities was unclear.

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

UKEB
UK Endorsement Board

Appendix B: Updating the Subsidiaries without Public Accountability: Disclosures Standard

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

B1. At its March 2024 meeting, the IASB discussed whether to propose reduced disclosure requirements in the catch-up Exposure Draft (catch-up ED) in respect of the following:

a) the recently issued IFRS 18 *Presentation and Disclosure in Financial Statements;* and

b) the forthcoming IFRS Accounting Standard *Regulatory Assets and Regulatory Liabilities* (forthcoming RRA standard).

Background

B2. IFRS 19 *Subsidiaries without Public Accountability: Disclosures* is expected to be published by the IASB in May 2024. The catch-up ED is expected to be published in July 2024.

B3. In deciding on reducing disclosures for IFRS 19 the IASB applied the principles it previously agreed to follow[1].

B4. At its January 2024 and February 2024 meetings, the IASB considered disclosure requirements to propose in the catch-up ED[2].

B5. At its March 2024 meeting the IASB completed the discussions for proposals on reduced disclosure requirements to be included in the catch-up ED.

---

1 See paragraphs G3-G5 Agenda Paper 7: Appendix G of the October 2023 UKEB meeting for the principles for reducing disclosures and the approach on maintaining IFRS 19.

2 For the disclosure requirements the IASB tentatively decided at these meetings, see paragraphs G8—G11 Agenda Paper 6: Appendix G of the February 2024 UKEB meeting and paragraphs F6—F13 Agenda Paper 9: Appendix F of the March 2024 UKEB meeting.

Proposed reduced disclosure requirements for IFRS 18

Background

B6. IFRS 18 was issued on 9 April 2024 and replaces IAS 1 *Presentation of Financial Statements*.

B7. In terms of disclosure requirements, IFRS 18:

a) includes some disclosure requirements carried forward from IAS 1;

b) introduces new disclosure requirements; and,

c) amends some disclosure requirements in IAS 1.

B8. When IFRS 19 is issued in May 2024, as an interim measure, it will include all of the new and amended disclosure requirements from IFRS 18 because the IASB has not consulted on these in developing IFRS 19.

B9. The IASB will then assess these new and amended disclosure requirements against the principles for reducing disclosure requirements when developing proposals in the catch-up ED.

Approach to reducing the disclosure requirements for IFRS 18

B10. In assessing the disclosure requirements for IFRS 18, the IASB has classified the disclosures into two categories:

Category	ED proposals	Rationale
Disclosure requirements carried forward from IAS 1	The catch-up ED will not include any proposals relating to these disclosure requirements (other than minor editorial changes).	Past decisions in these areas do not require reassessment—the IASB has already considered these disclosures in developing IFRS 19.
New and amended disclosure requirements in IFRS 18	The catch-up ED will recommend the retention of all of these disclosure requirements except for disclosure objectives.	Most of these disclosures satisfy the principles for reduced disclosures in IFRS 19.

Analysis of new and amended disclosure requirements in IFRS 18

Disclosure objective

B11. In line with the IASB's previous decision not to include disclosure objectives in IFRS 19[3], the catch-up ED will propose removing the disclosure objective from a disclosure requirement relating to non-current liabilities.

Aggregation and disaggregation

B12. The disclosure requirements relating to the improved requirements on aggregation and disaggregation are likely to help eligible subsidiaries to provide information to meet the needs of the users of their financial statements. These disclosures are also likely to meet the disaggregation principle for reduced disclosure requirements.

B13. The catch-up ED will therefore propose the retention of these disclosures.

Management-defined performance measures

B14. If an entity uses measures that meet the definition of management-defined performance measures in IFRS 18, there are related disclosure requirements[4].

B15. The IASB staff paper observed that subsidiaries eligible to apply IFRS 19 are less likely to make use of management-defined performance measures than entities that are not eligible to apply the standard. The IASB staff paper also noted that there will be around 20 paragraphs relating to management-defined performance measures in IFRS 19 and retaining all of these requirements, which are not likely to be applicable to many eligible subsidiaries, adds length to the standard without significant overall benefit.

B16. As a practical solution, the IASB staff recommended replacing the disclosure requirements relating to management-defined performance measures in IFRS 19 with a cross-reference to those disclosure requirements in IFRS 18.

B17. Most IASB members supported the recommendation as an efficient solution to simplify IFRS 19.

Main business activities

B18. To apply requirements for classifying income and expenses in the operating, investing and financing categories in the statement of profit or loss, IFRS 18 requires entities to assess whether they invest in assets or provide financing to customers as a main business activity. An entity that does so is required to

---

[3] The IASB excluded disclosure objectives included in IFRS Accounting Standards because including them might result in eligible subsidiaries being compelled to provide the same disclosures as if they had not applied IFRS 19.

[4] For example, IFRS 18 paragraphs 121-125.

disclose that fact and to disclose information about any change to its assessment[5].

B19. Whilst these disclosure requirements do not satisfy any of the principles for reduced disclosure requirements, these disclosures would provide important information to users of the financial statements of an eligible subsidiary that invests in assets or provides financing to customers as a main business activity. This is because in such instances it will affect the structure of the statement of profit or loss of an eligible subsidiary, including which types of income and expenses are included in its operating profit.

B20. Further, IFRS 19 will require credit risk disclosures for entities that provide financing to customers as one of their main business activities and will refer to IFRS 18 for the description of main business activities.

B21. Therefore, the catch-up ED will propose retaining the disclosure requirements accompanying the main business activity assessment.

Combined presentation and disclosure requirements

B22. IFRS 18 includes requirements that relate to both presentation and disclosure[6]. Whilst it is possible that a few of these requirements would not satisfy a strict test against the principles for reduced disclosure requirements, separating such requirements into the presentation parts and the disclosure parts often would not be feasible.

B23. The catch-up ED will propose referring to these requirements in full, rather than attempting to select parts of them to include in IFRS 19.

Questions for the Board
1. Does the Board have any questions/comments on IASB's tentative decisions in relation to IFRS 18, including in particular on: • proportionality (given that the catch-up ED will propose the retention of substantially all of the disclosure requirements from IFRS 18); and • the approach for management-defined performance measures?

5 See IFRS 18 paragraphs 51.

6 For example, IFRS 18 paragraphs 82 states: If an entity presents one or more line items comprising expenses classified by function in the operating category of the statement of profit or loss, it shall: (a) present a line item for its cost of sales in a separate line item, if the entity classifies operating expenses by functions that include a cost of sales function. That line item shall include the total of inventory expense described in paragraph 38 of IAS 2 *Inventories*. (b) disclose a qualitative description of the nature of expenses included in each function line item.

Forthcoming IFRS Accounting Standard *Regulatory Assets and Regulatory Liabilities*

Background

B24. When IFRS 19 is issued it will include reduced disclosure requirements for subsidiaries that apply IFRS 14 *Regulatory Deferral Accounts.*

B25. The IASB expects to publish the forthcoming IFRS Accounting Standard *Regulatory Assets and Regulatory Liabilities* (forthcoming RRA standard) in 2025.

B26. When the forthcoming RRA standard is issued, it will replace IFRS 14 and the reduced disclosure requirements for IFRS 14 in IFRS 19 will be withdrawn.

IASB staff analysis

B27. In considering whether the IASB should develop reduced disclosures for entities applying the forthcoming RRA standard, the IASB staff considered two factors:

a) firstly, whether entities applying the forthcoming RRA standard would be eligible to apply IFRS 19; and

b) secondly, the reasons for and against developing reduced disclosures for entities applying the forthcoming RRA standard.

B28. In relation to the first consideration, the IASB staff paper concluded that there may be entities applying the forthcoming RRA standard that would be eligible to apply IFRS 19 i.e. they do not have public accountability, although it is unclear how many would elect to do so.

B29. The table below summarises the second consideration i.e. reasons for and against developing reduced disclosures:

Reasons for developing reduced disclosures	Reasons against developing reduced disclosures
• Consistent with the objective of IFRS 19 to reduce costs for preparers. • The benefits of IFRS 19 will be eroded over time without reduced disclosures. • Consistent with the IASB's decision for IFRS 19 to include reduced disclosure requirements for IFRS 14.	• Consistent with the IASB's decision not to propose reduced disclosures for IFRS 17 *Insurance Contracts* i.e. many of the reasons for that decision, as outlined in the table below, also apply to the forthcoming RRA standard.

Reasons against developing reduced disclosures[7]

B30. The table below outlines the main reasons for not proposing reduced disclosures for IFRS 17 and assesses whether those reasons apply to the forthcoming RRA standard:

Reasons for not proposing reduced disclosures for IFRS 17	Is the reason applicable to the prospective RRA standard?	
IFRS 17 introduces a model for accounting for insurance contracts that is supported by its disclosure requirements.	✓	The forthcoming RRA standard will introduce a new accounting model— full disclosures in the early years of applying the standard will help users to understand that model.
Including reduced disclosure requirements only after entities have applied IFRS 17 for some time would allow users to increase their familiarity with the new model for insurance accounting and its effect on an entity's financial statements.	✓	Similar considerations will apply to the forthcoming RRA standard.
Based on an initial analysis to reduce the disclosure requirements of IFRS 17, the IASB concluded that any such proposals would probably result in a limited reduction.	✓	Based on the IASB staff preliminary analysis, most of the reductions in disclosure requirements arise from the removal of disclosure objectives or guidance on how to apply the requirements[8]

B31. The IASB staff paper also noted that the IASB could decide to revisit a decision not to develop reduced disclosures after the forthcoming RRA standard has been issued. Once there is sufficient implementation experience of the new accounting model, some of the reasons against developing reduced disclosures may no longer apply.

[7] The IASB staff analysis of the reasons for not proposing reduced disclosures for IFRS 17 apply to the prospective RRA Standard is set out in Table 1 on pages 7-8 of IASB Agenda paper 9B (March 2024).

[8] The IASB staff analysis of possible reduced disclosures for the forthcoming RRA standard is set out in the Appendix on pages 10-20 of IASB Agenda paper 9B (March 2024).

IASB tentative decision

B32. The IASB tentatively decided:

a) not to develop reduced disclosures for the forthcoming RRA standard at this stage; and

b) to include a question seeking stakeholders' views on the decision not to develop reduced disclosures in the catch-up ED.

Questions for the Board	
2.	Does the Board agree with the IASB's approach not to develop reduced disclosures for the prospective RRA standard at this stage?
3.	If not, when should such reduced disclosure requirements be developed?

Next steps

B33. The IASB is expected to publish the catch-up ED in July 2024.

B34. At its April 2024 meeting the IASB staff will bring a paper to discuss due process and will ask permission from the IASB to begin the balloting process.

B35. The Secretariat plan to present a Project Initiation Plan to the Board at the June 2024 meeting.

UKEB
UK Endorsement Board

Appendix C: Power Purchase Agreements

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

Background

C1. Streamlined Energy Carbon Reporting requirements (SECR), Taskforce on Climate-Related Financial Disclosures (TCFD) and associated Companies Act requirements require UK entities to disclose their greenhouse gas emissions and progress towards net zero commitments. It appears that, increasingly, entities are entering into power purchase agreements (PPAs) to secure both price and a supply of renewable electricity, validated by third-party renewable energy certificates (RECs). However, there are accounting challenges as PPAs do not always currently meet the 'own use' exemption and may therefore have to be accounted for as derivatives. In that case, currently hedge accounting cannot always be applied.

C2. In respect of the own use exemption, accounting firm guidance[1] indicates that PPAs are considered to be able to be settled net in cash because electricity can always be sold back to the grid, and they are thus readily convertible to cash. This brings them within the scope of IFRS 9 *Financial Instruments*. The guidance further indicates that PPAs will generally meet the definition of a derivative, as their value will vary in response to an underlying (the spot price of electricity).

C3. The entity must then consider whether it can apply the 'own use' exemption to its PPAs (IFRS 9 paragraphs 2.4 to 2.6). As part of this, it considers whether it has a past practice of settling similar contracts net in cash or selling shortly after delivery in order to generate a profit. If so, the contract will not qualify for the 'own use' exemption.[2]

C4. Stakeholders have reported that there is diversity in assessments of whether such PPAs meet the 'own use' exemption, but that they are often assessed as failing to meet the exemption criteria.

---

1 PwC EX40.79.3; EY IFRS accounting primer for renewable power purchase agreements 2.2.4

2 PwC EX40.79.3; EY IFRS accounting primer for renewable power purchase agreements 2.2.4; Deloitte DART D1 2.5.3-3.

C5. In addition, stakeholders have told the IASB that they are unable to apply hedge accounting to virtual or physical PPAs when accounted for as derivatives, as it is difficult to satisfy the criterion in IFRS 9 paragraph 6.3.3 that, in a cash flow hedge, if a hedged item is a forecast transaction, then it must be highly probable. The March 2019 IFRS Interpretations Committee Decision[3], which references IAS 39 IG F.3.10 and F.3.11, states that *"Forecast energy sales cannot be specified solely as a percentage of sales during a period because that would lack the required specificity*". The hedged item must be an identifiable amount. Stakeholders told the IASB that, by analogy with the March 2019 IFRS Interpretations Committee decision, they were unable to designate virtual PPAs[4] as hedging instruments in a qualifying hedging relationship.

C6. In addition, ineffectiveness can arise due to differences in location, basis[5] and timing. In some cases, sources of ineffectiveness might be sufficiently significant that the hedge will not qualify for designation or will have to be de-designated.[6]

C7. At the IASB meeting on 18 March 2024, the IASB took tentative agenda decisions on the forthcoming Exposure Draft on *Power Purchase Agreements*. In that ED, the IASB is expected to propose amending the 'own use' exemption, detailed at IFRS 9 paragraph 2.4, and the IFRS 9 hedge accounting requirements, together with accompanying disclosure and transition requirements for PPAs.[7]

IASB tentative decisions on 'own use' requirements

C8. In relation to the 'own use' requirements, the IASB tentatively decided to limit the scope of the amendments 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 the purchaser is exposed to substantially all the volume risk under the contract through pay-as-produced features. Examples provided include wind, solar and hydroelectricity.

C9. The IASB also tentatively decided to propose that, from the contract's inception and throughout its duration, the purchaser under the contract be required to consider:

a) The purpose, design and contract, and whether the volume expected to be delivered under the contract continues to be consistent with the entity's

---

[3] See the IFRIC March 2019 decision which responds to a question as to whether load-following swaps may be designated as hedging instruments, and accompanying staff paper. Also see EY Chapter 48 2.3 for commentary on the decision to this effect.

[4] Virtual PPAs are typically structured as a 'contract for difference' between the fixed price (per MW of energy) determined in the virtual PPA and the spot price at which energy could be purchased from the grid (i.e. net settled swaps). No physical energy is exchanged.

[5] The fair value of PPAs is often calculated on their P50 value (50% of the average volumes expected to be generated), whereas hedging is calculated on their P90 value (amount expected to be generated 90% of the time).

[6] This paragraph draws on PwC ViewPoint EX46.43.1. Deloitte 5.2.3 expresses similar caution.

[7] 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*.

expected purchase or usage requirements. A sale is consistent with the entity's expected purchase or usage requirements if:

i. The sale arises from mismatches between the renewable electricity delivered and the entity's demand at the time of delivery.

ii. The design and operation of the market in which the renewable energy is traded restricts the entity from having the practical ability to determine the timing or price of such sales.

iii. The entity expects to repurchase the sold volumes of renewable electricity within a reasonable time after the sale.

Stakeholder feedback on IASB tentative decisions on 'own use'

C10. Preparers, accounting firms and investors welcomed this project.

C11. There are many types of PPA contracts, frequently bespoke. Feedback from accounting firms has indicated that some PPAs – including 'baseload' and 'pay as consumed' contracts, which amount to approximately 40% of the UK market –in which a fixed amount of power is produced, do not necessarily satisfy the existing conditions to meet the 'own use' exemption. This is due to shifting demand across seasons, night and day, and weekdays and weekends, which mean consumers routinely have to sell power back into the grid.

C12. However, even with the new amendments in place, those contracts would continue to fail the conditions for the 'own use' exemption. They would fail the condition set out in the March IASB papers that the purchaser is exposed to substantially all the volume risk under the contract through 'pay-as-produced' features.

C13. Not addressing the broad range of PPAs could limit the usefulness of the project, lead to unintended adverse consequences for contracts not within the scope of the proposals and disrupt existing accounting judgements on these long-term contracts.

C14. Accounting firm stakeholders have also expressed some concern that one of the examples in the IASB papers that satisfies the conditions for meeting the 'own use' exemption includes selling back to the grid 61% of the amount delivered under the contract in one day. In their view, this may currently be considered to fail the conditions for meeting the 'own use' exemption.[8]

[8] https://www.ifrs.org/content/dam/ifrs/meetings/2024/march/iasb/ap3a-scope-and-own-use-requirements.pdf paragraphs 34 and 41

IASB tentative decisions on hedge accounting

C15. In relation to the IFRS 9 hedge accounting requirements, the IASB tentatively decided 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:

a) The volume of the designated hedged item is specified as a proportion of the variable volume of the hedging instrument.

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) The designated forecast sales or purchases of electricity are:

i. for purchasers – highly probable if the entity has sufficient highly probable forecast purchases that exceed the estimated variable volume (or quantity) to be designated by the entity as the hedged item.

ii. for sellers – not required to be highly probable as the designated quantity of sales is certain to be hedged if it occurs.

C16. The hedging proposals are expected to affect only IFRS 9, and will not change IAS 39.

Stakeholder feedback on IASB tentative decisions on hedge accounting

C17. Similar to the 'own use' proposals, the hedging proposals are expected to be limited to those contracts where the purchaser is exposed to substantially all of the volume risk under the contract through pay-as-produced features, which may limit how useful any amendments are in the UK.

C18. In addition, under the current proposed project direction, purchasers will struggle to hedge their full usage, potentially limiting the extent to which the project meets its objective.

C19. For example, an entity may expect to use 700 MWh of electricity over a year. To achieve hedge accounting under the proposals, it would need to have sufficient capacity to use all the power under a PPA. If that PPA has a maximum delivery of 700MWh, the P90 (amount expected to be generated 90% of the time)) – broadly interpreted as the highly probable element of that contract – may be production of, say, 300MWh. Hedge designation would only be possible for that P90 element, i.e. 300MWh out of a total 700MWh.

C20. There also appear to be some significant challenges to demonstrate hedge effectiveness. Hedging instruments are typically valued on a P50 basis (50% of the average volumes expected to be generated), whereas the hedging designation would be likely to require a P90 basis (amount expected to be generated 90% of the time), which may call into question the economic relationship between the hedging instrument and hedged item.

C21. There may also be further effectiveness challenges relating to the short-term mismatches in supply and demand: if the hedging PPA/vPPA is based upon delivery in equal half hour units, but the consumption occurs primarily between 08:00-18:00, the hedging instrument will not perfectly hedge price exposure.

Disclosure requirements and transition

C22. The IASB tentatively decided to propose specific disclosure objectives that would require an entity to disclose information to enable users of financial statements to assess the effects of contracts for renewable electricity on the entity's financial performance and the amount, timing and uncertainty of the entity's future cash flows.

C23. The IASB tentatively decided to require disclosure of the following information:

a) the terms and conditions of relevant contracts, including the contracts' duration, type of pricing, minimum or maximum quantities, cancellation clauses and whether they include renewable energy certificates.

b) the net volume purchased or the total volume for which amounts were net-settled for the reporting period, and an explanation of any significant variances in the volume. These entities are also required to disclose the average market price per unit of electricity for the reporting period.

c) either the fair value of contracts accompanied by the information required by paragraph 93(g)-(h) of IFRS 13 *Fair Value Measurement* the volume expected to be sold or purchased over the remainder of the contract, which could be provided as a range and the assumptions supporting that analysis.

C24. The IASB tentatively decided that entities should apply the amendments retrospectively. However, restatement of comparatives would not be 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.

Feedback received to date

C25. In terms of disclosure requirements, accounting firm stakeholders have raised concerns that it is extremely difficult to fair value these long-term contracts

because this requires estimates of future energy prices. It is very difficult to estimate these reliably beyond a two- to three-year horizon. Those stakeholders also felt that asking for disclosure of price information was commercially sensitive.

C26. In addition, it has been observed that such disclosure is not required for other contracts to which the 'own use' exemption is applied.

Next steps

C27. At the April 2024 UKEB Board meeting the UKEB Secretariat will bring a Project Initiation Plan for the Board's review and approval. Depending on the Board's decision on that PIP, the Secretariat plans to bring a draft comment letter to the May or June Board for the Board's review and approval.

Question for Board members
1. Do Board members have any initial comments on the IASB's tentative decisions to date on this project?

UKEB
UK Endorsement Board

Appendix D: Climate-related matters

Climate-related and Other Uncertainties in the Financial Statements

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

IASB March meeting update

D1. The IASB met on 19 March 2024 and discussed the project's progress regarding developing draft examples to illustrate the application of IFRS Accounting Standards to report the effects of climate-related and other uncertainties and possible standard-setting in relation to estimates.

D2. IASB members were generally supportive of the project's direction, considering the examples to be complementary to the previously published educational material. However, other IASB members considered that the examples may not be sufficient to address users' expectations.

D3. The IASB was not asked to make any decisions and will discuss the project's direction at its April 2024 meeting.

ASAF meeting update

D4. ASAF discussed eight draft climate-related examples from the *Climate-related and Other Uncertainties in the Financial Statements* project on 25 March 2024.

D5. The IASB reiterated that it was not considering standard setting at this stage as it considered the current challenges to be application related. ASAF members suggested several enhancements to the draft examples which included considering:

a) Illustrating recognition and measurement requirements.

b) Including a materiality assessment to illustrate both quantitative and qualitative considerations.

c) Explicitly referencing connectivity with the ISSB standards.

d) Avoiding creating unrealistic user expectations, for example in relation to statements of immateriality.

D6. The IASB noted that the examples were drafted to indicate how climate-related considerations could be applied and emphasised that overall materiality judgements would continue to be applied.

D7. The IASB advised that it will consider the feedback and conduct a cost/benefit analysis to determine if any additional examples should be developed.

UK stakeholder responses to IASB examples

D8. In response to the IASB request to ASAF members for feedback on eight draft climate-related examples, the UKEB conducted outreach with Advisory and Working Groups.

D9. Twenty-three comprehensive responses were received from a range of Board, advisory and working group members. The responses are summarised by theme below and further detailed in Annex 1. This UK stakeholder feedback was provided to the IASB at the March 2024 ASAF meeting.

D10. The IASB is due to determine the direction of the *Climate-related and Other Uncertainties* project in April. As the IASB meeting is prior to the UKEB April meeting a draft of the content of this paper was shared with the IASB in early April.

Stakeholder responses – by theme

D11. In the interests of brevity, the IASB examples are not set out in the following paragraphs. However, all the draft examples can be accessed via this link. [1]

Connectivity

D12. Several stakeholders considered that the examples did not adequately illustrate connectivity between the financial statements and the associated sustainability disclosures. For example, the first example could consider if the disclosure requirements under IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* paragraph 35 regarding financial effects were already adequate. If they were, users may already be aware that the impact was not financially material.

D13. A stakeholder also commented that it would be helpful to include an example which addressed the connection between the assumptions used under IAS 36 *Impairment of Assets* and those used for relevant climate-related scenarios in the narrative reporting.

[1] Climate-related and Other Uncertainties in the Financial Statements - Staff draft examples (ASAF March 2024)

Materiality (IAS 1)

D14. Stakeholders emphasised that as there is only one definition of materiality, distinguishing between quantitative and qualitative examples felt artificial and was to be avoided.

D15. Most stakeholders were concerned that Example 1 may over-extend the use of IAS 1 *Presentation of Financial Statements* paragraph 31[2], which is only rarely used at present, and generally in unforeseen circumstances. This could result in unrealistic user disclosure expectations, not just on climate, but on other macroeconomic issues.

D16. Users advised a common concern regarding a lack of disclosure regarding near to medium term climate-related risks on the grounds of quantitative materiality. They encourage the IASB to add further examples to illustrate when a disclosure may be required regardless of quantum or term.

D17. Some stakeholders expressed concerns that Example 5 appeared to set a precedent for requiring disclosure of matters that might occur beyond the 12-month time horizon. They noted that this would be a significant change from current practice if the IASB intended consistent application across all areas, not just climate.

Measurement considerations

D18. When measuring an asset's value in use under IAS 36, stakeholders considered that it would be useful to address how climate-related risks affect expected cash flows beyond the usual maximum five-year period required by IAS 36.33[3] for budgets/forecasts and how terminal value may be impacted (see Example 3). This was considered a current issue in practice for preparers.

---

[2] IAS 1.31 states: "*Some IFRSs specify information that is required to be included in the financial statements, which include the notes. An entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material. This is the case even if the IFRS contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.*"

[3] IAS 36.33 states: "*In measuring value in use an entity shall:*
[...]
(b) base cash flow projections on the most recent financial budgets/ forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified.
(c) estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified."

D19. When measuring provisions under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, accounting firm stakeholders observed that preparers sometimes omitted costs because they were remote or difficult to estimate, but less often on grounds of materiality. They therefore considered Example 7 overly simplistic, and even unrealistic.

D20. Other stakeholders suggested it would be helpful to include scenarios in which assets were replaced or repurposed, both current issues in practice. Users further considered it would be useful to illustrate the circumstances when a provision should be made for a material asset retirement obligation.

Disclosure of disaggregated information (IFRS 18)

D21. Stakeholders observed that the disaggregation of information was already required if the resulting information was material (see Example 8).

D22. They considered that the examples could be enhanced by discussion of the application of materiality judgements in disaggregating that information. For example, one preparer with a highly diverse fixed asset base observed that applying materiality derived from profit or loss to the disaggregation of assets with differing climate-related risk characteristics would not result in useful information for users, if the asset base was significantly greater than that materiality threshold.

Nature of examples - standalone or walkthrough

D23. There were mixed views regarding whether standalone examples would be more effective than walkthrough or scenario-based examples.

D24. Stakeholders recognised that developing walk-through examples would be more complex and take time to build consensus. As governments' and societies' responses to climate change evolve, the associated risks and our understanding of them will change and develop. They considered that more comprehensive examples stood a higher chance of becoming out of date than self-contained examples.

D25. However, they suggested that at a later stage, the IASB could develop more in-depth examples, possibly as educational material.

Choice of standard setting 'vehicle' - accompanying IFRS Accounting Standards

D26. Many stakeholders emphasised the importance of exposing the examples to due process and consultation.

D27. Many also considered that illustrative examples that accompanied IFRS Accounting Standards would achieve an appropriate balance between authority and sufficient detail to support consistent application. Some stakeholders

considered that the examples should be incorporated within the Standards themselves.

D28. A range of stakeholders emphasised the need for enforceability. They noted that while previous educational guidance and articles from the IASB had been helpful, they had not been wholly effective in changing behaviour as they could not be enforced.

Annex 1: Stakeholder responses – by IASB draft climate example

D29. This Annex contains a summary of the detailed responses from twenty-three Board, Advisory and Working group members. The responses are set out for each draft example in turn.

D30. The IASB staff paper contains the detailed fact pattern for each example under the heading 'Background'. The fact patterns are not reproduced in this Annex, but a brief 'context' section has been included for each example for reference.

Example 1 – Materiality judgements leading to additional disclosures (IAS 1)

IASB example – context

D31. Example 1 illustrates the application of materiality to a scenario in which the fact pattern and circumstance appear to have no immediate effect on the financial statements.

D32. The scenario is of a manufacturing company with a net zero commitment and fully depreciated PPE. Because items of PPE generating the manufacturer's outputs are fully depreciated, there is no effect on the carrying amounts of existing fixed assets from investment in new technology and processes.

Example – background section

D33. Some stakeholders considered this example helpful while others considered it to be too limited. Suggestions for improvement included consideration of new product lines with new PPE, disruption to production lines and inclusion of the use of carbon credits to offset emissions.

D34. Stakeholders observed that assuming that assets were fully depreciated was helpful for illustrative purposes. However, considering the scenario where assets were not fully depreciated would also be useful. In addition, some stakeholders would welcome an example which related to a company without a net zero commitment.

D35. One stakeholder considered that the example was helpful in illustrating the application of the materiality principle required under IAS 1.31.

Example – application: recognition and measurement considerations

D36. Stakeholders considered the fact pattern relevant but expressed concerns that the example felt limited because the assets were assumed to have nil net carrying value. Further, they were unclear whether book value was immaterial or 100%

depreciated or both, and whether the impairment test had taken the transition plan into account.

D37. Stakeholders questioned whether, if a company had incurred additional cost for more environmentally friendly machinery, the extra financing costs would also be required to be disclosed. Were these to be considered a quantitative impact of climate change?

D38. One stakeholder suggested that the fact pattern may be better framed in the context of IAS 16 *Property, Plant and Equipment* rather than IAS 1 due to the nature of the industry. For example, it could be linked to IAS 16.76 (revised depreciation or useful lives) and IAS 16.78 (impairment). The example could also explain that although the entity has a plan it has yet to make a specific capital commitment that would meet the IAS 16.74(c) definition of a capital commitment.

Example – disclosure considerations

D39. Some stakeholders were concerned that the analysis indicated that disclosure would be required under IAS 1.31. They considered this requirement was rarely used, and that this example risked over-extending its use to macroeconomic issues. For example, could the scenario encourage users to expect, or entities to report, on the effects of Artificial Intelligence or other macro-economic issues?

D40. A stakeholder suggested a possible solution could be to link the disclosure requirements to disclosures made under the ISSB Standards. For example, as outlined in paragraph 1.5 of the IASB staff paper "*In making this assessment, the entity considers that the primary users of its financial statements might reasonably expect climate-related transition risks to have a quantitative effect on the entity's financial position and financial performance for the current period because of the entity's disclosures about its transition plan.*" In that stakeholder's opinion, this may be a more specific and focussed way of addressing the issue rather than expanding possible application of the examples to areas not necessarily intended.

D41. Another stakeholder considered that management statements primarily provide assurance to users that management has properly considered the matter and concluded it to be immaterial. However, they do not of themselves represent material information about the entity's financial performance and position. For example, it was unclear whether the disclosure proposed in Example 1 would still be required if the sustainability disclosures required by IFRS S1.35 included adequate disclosure for a user to conclude that the financial impact was immaterial.

D42. Several stakeholders requested illustrative disclosure to support the example.

Example 2 - Materiality judgements that do not lead to additional disclosures (IAS 1)

IASB example - context

D43. The example illustrates a scenario in which no disclosure is required of climate transition risks. This is due to there being no effects on the entity beyond the entity's existing use of renewable energy and carbon offsets. It is assumed that users of financial statements would not reasonably expect there to be any material financial impacts in this industry.

Example - background section

D44. Overall, stakeholders considered this example to be simple, realistic and clear. However, there was a strong preference from stakeholders for the example to cover carbon offsets.

Example – application - recognition and measurement considerations

D45. Stakeholders considered the recognition and measurement considerations appropriate but noted that, in practice, there was diversity in accounting for carbon offset projects.

D46. One stakeholder considered that the text would benefit from the deletion of the word 'quantitatively'. Their concern was that by using this term it was unclear whether qualitative factors might render information about these expenses a material matter. They considered that this did not appear to be covered in the fact pattern, nor did it seem to be the purpose of the example.

Example – disclosure considerations

D47. Several stakeholders requested the inclusion of example disclosures for this example.

D48. Several stakeholders commented that the analysis appears to suggest that there is a separate concept of quantitative materiality when in reality there is none. They emphasised that there is a single definition of materiality, and that concluding on it required consideration of both the qualitative and quantitative aspects.

D49. A stakeholder noted it would be helpful to indicate whether the entity has an accounting policy on whether costs relating to carbon offset projects are expensed. A number of stakeholders further suggested that it would be helpful to provide users of the accounts with negative assurance that the impact was not material.

Example 3 - Value in use (VIU) calculation and disclosures (IAS 36)

IASB example - context

D50. This example is relevant to entities in industries with high greenhouse gas emissions and significant amounts of goodwill. The application section focuses on the measurement and disclosure requirements of IAS 36.

Example – background section

D51. Some stakeholders considered that it would be helpful to highlight that the fact pattern could equally apply to other high-emissions industries, such as landfill. However, other stakeholders considered that this is unlikely to be a common situation as emission and similar costs are rarely an input to VIU calculations and, even when they are, the VIU estimate is not normally particularly sensitive to the assumption.

D52. Other stakeholders considered that the fact pattern should be extended. They recognised that it is possible that a climate-related assumption within the VIU calculation can be a key assumption. They suggested that it would be more helpful if this example included residual 'voluntary' carbon offsets expected to be required to meet a net zero commitment. In addition, they suggested it would be helpful to illustrate where climate-related risks influence expected cash flows beyond the five-year period of measurement of cash flow projections under IAS 36.33 and 36.35[4] including, in particular, how terminal value could be adjusted.

D53. Another stakeholder commented that the example appears to repeat IAS 36 requirements. The stakeholder considered that it may be preferable to amend the standard and add a sub-paragraph to IAS 36.35 to provide examples of assumptions, including on climate.

Example – application – recognition and measurement considerations

D54. A stakeholder considered that the anticipated changes to regulation appeared to be developments that will occur in the longer term, and in many cases are likely to be outside the period covered by financial budgets/forecasts approved by management.

D55. Another stakeholder considered that the example implied that the company would only incur these costs if there was related regulation i.e. a prediction of regulation.

---

[4] IAS 36.35 states that: "*Detailed, explicit and reliable financial budgets/forecasts of future cash flows for periods longer than five years are generally not available. For this reason, management's estimates of future cash flows are based on the most recent budgets/forecasts for a maximum of five years. Management may use cash flow projections based on financial budgets/forecasts over a period longer than five years if it is confident that these projections are reliable and it can demonstrate its ability, based on past experience, to forecast cash flows accurately over that longer period.*"

They noted that it appeared contrary to the general concept in IAS 12 *Income Taxes* regarding 'substantively enacted' and were concerned about unintended consequences.

D56. A stakeholder suggested that it may be appropriate to expand the example to acknowledge the different ways the risk included in the example will be incorporated in the VIU estimate, and the associated challenges.

Example – disclosure considerations

D57. One stakeholder requested further clarity on what form disclosures might take while most supported the overall conclusion.

D58. Several stakeholders considered the proposed disclosure was reasonable, and therefore the reference to IAS 1.31 was not required.

D59. Another stakeholder was concerned that, as currently drafted, a reader may understand that more granular information is required than is specified in IAS 36.

Example 4 - Disclosure of assumptions and other sources of estimation uncertainty (IAS 1)

IASB example - context

D60. This example addresses a scenario when IAS 36 has no specific relevant disclosure requirement, but there is a significant risk of a material adjustment in less than 1 year, so disclosures under IAS 1.125[5] are applicable.

Example – background section

D61. One stakeholder considered that it would mean a significant increase in the detail of disclosure provided if entities disclosed individual assumptions such as a measure of consumer demand. Another observed that the IASB should address the confusion around IAS 1.125 separately. Another stakeholder suggested that wording from IAS 36.67[6] could be used in order to explain why the entity is performing the analysis at cost-generating unit level rather than for each individual non-current asset.

---

[5] IAS 1.125 states: "*An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of: (a) their nature, and (b) their carrying amount as at the end of the reporting period.*"

[6] IAS 36.67 states that "*The recoverable amount of an individual asset cannot be determined if: ([...] (b) the asset does not generate cash inflows that are largely independent of those from other assets. In such cases, value in use and, therefore, recoverable amount, can be determined only for the asset's cash-generating unit.*"

D62. Another considered that it would be worthwhile having an example in which climate-related risks are the reason for an impairment indicator, as opposed to this example where the impairment indicator is a background assumption.

Example – application: recognition and measurement considerations

D63. A number of stakeholders found this example helpful, although some considered it simply reflected how IAS 1 may be applied to similar situations, i.e., where a company has PPE and perhaps non-goodwill intangibles that are at risk of impairment, but for which IAS 36 does not explicitly require disclosures about the assumptions, at least not until there has been an impairment.

D64. One stakeholder considered that this appears to open the door to considering any and all potential developments in the assessment of significant estimates. They wondered about the interactions between the VIU and fair value less costs to sell model: in the latter, at a minimum, such potential change would be incorporated into the market-based assumptions.

D65. Another considered that the Application section should go further and state that, in the case of a high degree of sensitivity of the cost-generating units carrying amount to changes in the assumptions, quantified sensitivity disclosures are likely to be a necessary element of the disclosures required to meet the objective in line with FRC guidance on judgements and estimates.

D66. Another stakeholder considered this section should also consider the useful economic life of the asset in parallel with the impairment assessment.

Example 5 - Disclosure of additional information (IAS 1)

IASB example – context

D67. The example addresses a fact pattern in which the entity's key assumption is that a deferred tax asset (DTA) is likely to be fully utilised before new regulations come into force curtailing the entity's ability to operate and generate profits.

D68. The conclusion is that additional disclosure is required to understand fully the impact of future events, as required by IAS 1.31.

Example – background section

D69. Several stakeholders observed that IAS 12 requires an entity to consider only those tax laws that are substantively enacted. They noted that the example was clear that the future regulation was not a tax law and was being considered in relation to assessing future profits that are used in the assessment of DTA recoverability. They considered that it was unclear as to how far an entity was expected to go to identify possible future regulation that might affect its profitability.

D70. Some stakeholders considered that the example should explain the basis for including anticipated change in the recovery or impairment of assets, that is, the basis for including announced plans.

D71. A stakeholder was concerned that the example appeared to set a precedent for requiring disclosure of matters that might occur beyond the 12-month time horizon of IAS 1.125. They noted that if that was the intent, then it would need to be applied consistently across all areas, not just climate, and would be a significant change from practice today.

D72. Several stakeholders considered that this example was not relevant to climate-related matters.

Example – application

D73. Stakeholders considered that an example disclosure would be helpful.

D74. A stakeholder was again concerned at the potential over-extension of the use of IAS 1.31. The stakeholder noted that this paragraph was used in relatively rare situations, but this example (as well as Example 5) seems to concern common circumstances related to climate-related risk. They were concerned that the use of IAS 1.31 appeared to have the objective of achieving consistency with, and overcoming gaps in, sustainability reporting. Another stakeholder agreed with this view and suggested that they would rely much more on IAS 1.122[7] than IAS 1.31 in this circumstance.

D75. However, another stakeholder expressed a view that the conclusion that additional disclosure is required to fully understand the impact of future events, as required by IAS 1.31, was correct. Whether the conclusion that IAS 1.125 resulted in no disclosure was correct was open to question because there could be possible changes in the profitability of the entity prior to the introduction of the regulations that extended the period necessary for recovery. This may mean that within the 12-month period, the recovery of the deferred tax asset in full ceases to be probable.

D76. The stakeholder noted that this is more of a technical question as to which paragraph of IAS 1 requires the disclosure. However the last sentence in paragraph 5.5 of the Application section might be confusing to the reader without an appropriate qualification.

D77. Another stakeholder considered that the main concern was the assessment and conclusion in paragraphs 5.2 and 5.5. It appeared to them to introduce a requirement to assess in detail the legislative process and progress. They

[7] IAS 1.122 states: "*An entity shall disclose, along with material accounting policy information or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.*"

considered this went beyond the scope of what would be considered reasonable cost or effort.

Example 6 – Credit risk disclosures (IFRS 7)

IASB example – context

D78. The fact pattern illustrates how climate-related risks, such as flooding risks, may manifest themselves in loan portfolios.

Example – background section

D79. Stakeholders considered the example was a realistic representation of how climate-related risks might manifest themselves in loan portfolios.

Example – application

D80. A stakeholder noted that the fact pattern assumes that the entity has been able to determine the portfolios that have credit risk implications arising from climate exposure. They observed that the challenge in practice is determining and then quantifying this.

D81. A stakeholder suggested that it would be helpful if paragraph 6.3(c) also acknowledged the need for information about land held as collateral subject to drought risks and whether the risks are insured. This would be in addition to the need for "*information about properties held as collateral that are subject to flooding risks and whether these risks are insured.*"

D82. Another stakeholder requested that actual examples of what the disclosures could look like were included, for example, disclosure examples under IFRS 7 *Financial Instruments: Disclosures* paragraph 33.

D83. Some stakeholders would have expected the loan-to-value ratio for the corporate real estate loans to merit discussion in paragraph 6.2.

Example 7 - Disclosures regarding decommissioning and restoration provisions (IAS 37)

IASB example – context

D84. The example illustrates disclosures concerning the uncertainties involved in determining provisions under IAS 37. While the topic of the example is related to climate-related and sustainability matters, the principle is of general application.

Example – background section

D85. One stakeholder found the example unrealistic. They observed that while it was common for such companies to not recognise decommissioning obligations, this

was usually due to challenges with reliably measuring the obligation rather than materiality.

D86. Stakeholders also commented that many entities were currently considering replacing or repurposing infrastructure, which has potential implications for impairment, asset lives and decommissioning provisions. They suggested that it would be helpful to have examples on these areas and the consequential effects on the financial statements.

D87. Several stakeholders considered the fact pattern to be overly simplistic and suggested it should be expanded and include details on the judgements and assumptions applied.

D88. Stakeholders were again concerned that the analysis suggested that there was a concept of 'quantitative materiality'. There was a strong view that there was a single definition of materiality, and concluding on it required consideration of both its qualitative and quantitative aspects.

Example – application

D89. Some stakeholders observed that contingent liabilities were also relevant to this example. They considered that there will also need to be an increased focus on monitoring contingent liabilities in climate-related risks, although this was not directly relevant to this example.

D90. A stakeholder considered that additional disclosure should be made in relation to the specific impact of climate change on the cost of decommissioning and the amount of provision made for decommissioning.

D91. Another stakeholder considered that the application was clear, but noted that there may be reluctance to disclose information if it may cause staff unrest or be commercially sensitive.

Example 8 – Disclosure of disaggregated information (IFRS 18)

IASB example – context

D92. The example illustrates how disaggregated information can be necessary to understand the different characteristics of items including their risks. The example illustrates an entity which has significant amounts of PPE with a range of different exposures to climate-related risks.

Example – background section

D93. Some stakeholders observed that the background could make it clearer that this example illustrates the result of applying the requirements of IFRS 18 *Presentation and Disclosure in Financial Statements*.

Example – application

D94. Several stakeholders struggled to comment on the example linked to a standard that had not been published at the time of writing. Some were sceptical that the requirements of IFRS 18 would be specific enough to require the disaggregation illustrated.

D95. A stakeholder noted that, given how much reliance has been placed on IAS 1.31 in other IASB examples, they questioned why such disaggregation would not already be required.

D96. Another stakeholder observed that the example indicated that the disaggregation of information would result in material information. However, it was unclear how that materiality is assessed. For example, should it be (a) on the basis of assessing the different annual depreciation impacts the higher GHG emission assets might have versus the lower GHG emission assets, or (b) on the absolute asset values of each of the PPE balances?

D97. Other stakeholders noted that this example of disaggregation may work for some sectors (e.g. generators may disaggregate different types of power station) but may not be practicable for others (e.g. water companies).

D98. A stakeholder noted that for disclosure purposes, IAS 16.36-37 contained requirements for disaggregation of PPE into 'classes' which this example appeared to overlook. They considered that a more useful starting point for this fact pattern would be a class of PPE that is more likely to have both higher-emission assets and lower-emission assets, e.g., manufacturing facilities.

D99. A preparer, with a highly diverse fixed asset base, considered that the application of a profit or loss derived materiality to disaggregate between assets with differing climate-related risk characteristics would not result in meaningful information where the asset base was significantly greater in value than the materiality threshold.

UKEB
UK Endorsement Board

Appendix E: Equity Method

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

E1. At its November 2023 meeting, the IASB completed its technical discussions on the application questions in the scope of the Equity Method project.[1]

E2. At its March 2024 meeting, the IASB:

a) clarified its tentative decision regarding transitional requirements for the proposed amendments to IAS 28 *Investments in Associates and Joint Ventures*, following feedback on how those transitional requirements would be applied; and

b) discussed the due process steps for the prospective Exposure Draft (ED) proposing amendments to IAS 28.

Transitional requirements

Background

E3. At its November 2023 meeting[2], the IASB tentatively decided to propose that an investor or a joint venturer would:

a) retrospectively apply the requirements to recognise the full gain or loss on all transactions with its associates or joint ventures;

b) recognise and measure contingent consideration at fair value at the transition date, and recognise any corresponding adjustment to the carrying amount of its investments in associates or joint ventures; and

c) prospectively apply all the other requirements from the transition date.

E4. At its March 2024 meeting the IASB clarified these tentative decisions relating to transitional requirements.

---

1 A condensed summary of the IASB's tentative decisions on application questions can be accessed here.
2 See paragraphs G11-G14 Agenda Paper 6: Appendix G of the December 2023 UKEB meeting.

Retrospective recognition of the full gain or loss on all transactions of an investor or a joint venturer with its associates

Background

E5. The IASB has received feedback that applying its tentative decision to retrospectively recognise the full gain and loss on all transactions with associates (or joint ventures) might cause undue cost and effort for preparers.

E6. The feedback involves the transfer of a subsidiary to the associate and highlights that the IASB's proposal may require an entity to recompute and/or reassess all aspects of the accounting from the original date of the transaction e.g. depreciation and amortisation expenses on the transferred assets, impairment, and any gains or losses on partial disposals of the investment.

IASB staff analysis

E7. The IASB staff paper explained that retrospective application would require an investor or a joint venturer to recognise the remaining restricted (i.e. unrecognised at the transaction date under current practice) portion of a gain or loss:

a) in retained earnings for transactions that occurred before the transition date; or

b) in the statement of profit or loss for the comparative period for transactions that occurred in the immediately preceding period.

E8. The IASB staff paper noted that if an entity had not recognised in profit and loss the restricted portion of the gain or loss at the transition date, the information to make the adjustment for the unrecognised portion of gain or loss should be available to preparers because that information is needed to apply the requirements in IAS 28.

E9. Whilst in some circumstances, it may be impracticable to determine the unrecognised portion of the gain or loss, paragraph 27 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* states that when it is impracticable for an entity to apply a new accounting policy to all prior periods, it applies the new policy prospectively from the start of the earliest period practicable. Therefore, an additional relief is not needed.

IASB tentative decision

E10. Most IASB members supported the staff recommendation to clarify its tentative decision that an investor or joint venturer would retrospectively apply the requirement to recognise the full gain or loss on all transactions with its associates or joint ventures. An investor or joint venturer would apply the proposed requirement by recognising the remaining portion of the restricted gain

or loss. The cumulative effect of that gain or loss would be recognised as an adjustment to the opening balance of retained earnings at the transition date in accordance with IAS 8.

Assessing whether the investment is impaired at the transition date

Background

E11. Some IASB members expressed a concern that an investor might be required to recognise an impairment loss (in profit or loss) after restating the carrying amount of the investment at transition date.

E12. These IASB members asked the staff to consider whether an investor should be required to assess and recognise any impairment loss at transition date in equity.

IASB staff analysis

E13. The IASB staff paper noted that if there is no indication of impairment at the transition date, requiring the investor to test the investment for impairment would be unnecessary and involve costs without additional benefit.

E14. The IASB staff considered a situation in which an investor or joint venturer had previously tested an investment for impairment at the transition date because of the presence at that date of some of the indicators of impairment in either IAS 28 or IAS 36 *Impairment of Assets*. In this situation, the investor or joint venturer would have estimated the recoverable amount of the investment at the transition date.

E15. In this situation, when the investor restates the investment (for instance, to recognise the remaining portion of a restricted gain or loss) on initial application of the proposed requirements, the restated carrying amount of the investment could exceed the recoverable amount estimated by the investor at the transition date. Applying IAS 36, an investor would be required to recognise that impairment loss in profit and loss. Arguably, requiring recognition of that loss in the statement of profit or loss in the period of initial application would not provide a faithful representation of the performance for the period, because the impairment event had occurred earlier.

IASB tentative decision

E16. To resolve this situation, the IASB tentatively decided to propose that if, on initial application of the proposed requirements, an investor or joint venturer had estimated, at the transition date, the recoverable amount of an investment in an associate or joint venture, the investor or joint venturer would:

a) reduce the carrying amount to that recoverable amount; and

b) recognise the impairment loss in the opening balance of retained earnings.

Entities presenting more than one period of comparatives

Background

E17. The transition date for applying the new requirements to be proposed in the ED is the beginning of the annual reporting period immediately preceding the date of initial application.

E18. Some entities may present comparative information for more than one period, on a voluntary basis or because their jurisdiction has legal requirements to present more than one period of comparative information.

IASB tentative decision

E19. The IASB tentatively decided to propose that an investor or joint venturer that chooses (or is required by legislation) to present more than one period of comparative information may present comparative information for any additional prior periods:

a) adjusted for the effects of the proposed requirements—the transition date would be the beginning of the earliest adjusted comparative period presented; or

b) unadjusted for the effects of the proposed requirements—the investor or joint venturer would identify the comparative information as unadjusted and disclose that the comparative information has been prepared on a different basis, explaining that basis.

Disclosure of the effects of the adjustments

Background

E20. When initial application of an IFRS Accounting Standard has an effect on the current period or any other period, paragraph 28(f) of IAS 8 requires an entity to disclose:

> for the current period and each prior period presented to the extent practicable, the amount of the adjustment for each financial statement line item affected, and if IAS 33 *Earnings per Share applies* to the entity, for basic and diluted earnings per share.

E21. Some IASB members noted that the IASB has given relief from disclosing the information required in paragraph 28(f) of IAS 8 in other projects and asked the staff to consider whether the same relief should be proposed in the ED.

IASB tentative decision

E22. The IASB tentatively decided to propose an exemption from disclosing the information required by paragraph 28(f) of IAS 8 for the current period and for any additional prior period that the investor or joint venturer presents unadjusted.

Permission to begin the balloting process

E23. All IASB members confirmed they were satisfied the IASB has complied with the applicable due process requirements and has undertaken sufficient consultation and analysis to begin the process for balloting the ED.

E24. One IASB member indicated an intention to dissent from the proposals in the exposure draft.

E25. The IASB set a 120-day comment period for the ED.

Approach to drafting the ED

E26. As part of the IASB's work on improving the understandability and accessibility of IFRS Accounting Standards, in addition to the proposed amendments to IAS 28, the ED will re-order the paragraphs in IAS 28. To help respondents evaluate the proposals in the ED:

a) unchanged requirements will be shaded-out. Requirements are unchanged if they are only renumbered, or editorial amendments are proposed;

b) new proposed requirements will be underlined;

c) proposals to remove or replace requirements will be struck through; and

d) proposals to amend requirements will be either underlined or struck through. A table of concordance will be set out in the Exposure Draft.

Next steps

E27. The IASB will begin the balloting process of the ED.

E28. The ED is expected in Q3 of 2024. We plan to present a Project Initiation Plan to the Board in due course.

UKEB
UK Endorsement Board

Appendix F: 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

F1. The IASB continued its discussions in March on specific application matters highlighted by respondents to the Post-implementation Review of IFRS 15 *Revenue from Contracts with Customers*. The purpose of this paper is to provide the Board with:

a) a summary of the tentative decisions taken by the IASB on 20 March 2024[1] on the specific topics discussed at that meeting; and

b) an update on discussions held at the ASAF meeting on 26 March 2024[2] in relation to the topics discussed by the IASB in January, February and March 2024.

Background

F2. In June 2023, the IASB published its Request for Information: IFRS 15 *Revenue from Contracts with Customers* (RFI) to seek stakeholders' views on the requirements in IFRS 15. Our response to the IASB was submitted on 26 October 2023.

March 2024 IASB meeting

F3. On 20 March 2024, the IASB discussed three topics included in the RFI:

a) determining the transaction price (including consideration payable to a customer[3]), except for significant financing components that will be discussed at a later stage;

1 The meeting papers for the 20 March 2024 IASB meeting on the PIR of IFRS 15 can be found here.
2 A project update paper was provided by the IASB for the ASAF meeting on 26 March 2024.
3 The IASB RFI included a specific question on the matter of 'consideration payable to a customer' under the topic of determining the transaction price.

b) determining when to recognise revenue; and

c) disclosure requirements.

F4. The IASB use a PIR Framework for Prioritisation to determine the urgency of the issue. This can be found here.

Determining the transaction price

F5. The IASB was not asked to make any decisions at their meeting on 20 March 2024, as IASB staff will bring a recommendation on this topic back for decision at a future meeting. However, IASB members were asked for views on what priority the certain matters should be given, either low priority (i.e. some prioritisation characteristics exist) or medium priority (i.e. most prioritisation characteristics exist).

F6. Respondents to the RFI identified that the main challenges on this topic relate to accounting for:

a) **consideration payable to a customer:** in particular, consideration paid in a multi-party arrangement, by an agent to an end customer, in the form of marketing incentives[4] (not made in exchange for a 'distinct' good or service). Some agents account for such incentives by reducing revenue, and others treat them as marketing expenses.

b) **'negative' revenue:** diversity in accounting exists where consideration payable to a customer exceeds the amounts of consideration expected to be received from a customer, with some entities accounting for the excess as 'negative' revenue and others as an expense.

F7. During the meeting, IASB members expressed the following views:

Consequences

a) *Diversity in practice* – existing diversity could simply result from the complexity of related transactions and the differences in underlying facts and circumstances, where very small changes in terms and conditions can lead correctly to different accounting solutions. Principles-based standards will always require judgement.

Ability to address the matter

[4] Most of the examples given by respondents related to discounts, bonuses, loyalty points and/or cashbacks offered by digital platform entities such as food ordering and ride hail platforms, online distributors of retail and consumer goods, online ticket resellers and fintech companies.

b) *Disclosure requirements* – transparency could be achieved and be less disruptive by adding additional disclosure requirements for consideration payable to a customer.

c) *Other standards* – IFRS 18 could be explicit in providing more disclosures, however it is required under the general principles to disaggregate important items.

Costs versus benefits

d) *Disruption* – any changes to the standard might be disruptive and more costly than beneficial.

e) *Convergence* – it will be important to consider the effect of any potential changes on the convergence with US GAAP (Topic 606) and ensuring any changes do not diverge from the principles in IFRS 15.

F8. IASB members want to better understand the pervasiveness of the matters, how significantly they affect financial statements and how important these matters are to stakeholders. Staff will present a paper at a future meeting.

F9. Consistent with other stakeholder comments, the UKEB FCL recommended, that to reduce diversity in practice, the IASB clarifies in what circumstances:

a) consideration payable to a customer (that does not relate to a distinct good or service) should be netted against revenue; and

b) net negative revenue should be reclassified and presented as an expense.

Other matters in determining the transaction price

F10. The IASB did not discuss the matter of *significant financing component* at the March 2024 meeting. This topic will be analysed together with the feedback on applying IFRS 15 with other IFRS Accounting Standards.

F11. The IASB tentatively decided to take no further action on other matters raised by stakeholders in relation to determining the transaction price relating to:

a) variable consideration;

b) sales-based taxes;

c) non-cash consideration; and

d) other aspects of determining the transaction price included in Appendix A of IASB Staff paper Agenda 6A.

Convergence with US GAAP

F12. IFRS 15 requirements on 'determining the transaction price' are largely converged with the requirements in the FASB Topic 606.

F13. The FASB also identified challenges in accounting for 'consideration payable to a customer' as a major application matter, so this topic will be discussed at the IASB meeting with the FASB on 21 June 2024.

Determining when to recognise revenue

F14. The IASB decided to take no further action on the matters raised by respondents relating to determining when to recognise revenue:

a) applying the concept of control and the criteria for recognising revenue over time;

b) measuring progress for performance obligations satisfied over time; and

c) other aspects of determining when to recognise revenue described in Appendix A of Staff Paper Agenda 6B March 2024.

F15. The UKEB FCL did not make any recommendations to the IASB in relation to determining when to recognise revenue.

Disclosure requirements

F16. The IASB decided to take no further action on matters raised by respondents related to:

a) concerns about the cost-benefit balance of specific disclosure requirements;

b) variation in the quality of disclosed information; and

F17. other aspects of disclosure requirements described in Appendix A of IASB Staff paper 6C March 2024.

F18. The UKEB FCL did not make any recommendations to the IASB related to the disclosure requirements.

March 2024 ASAF meeting

F19. On 26 March 2024, ASAF members were asked for their comments on the various IFRS 15 PIR topics discussed at the IASB meetings in January, February and March 2024.

Principal versus agent considerations

F20. A number of ASAF members noted that they hoped to see action taken on 'principal versus agent considerations'. ASAF members also questioned the IASB's tentative decision to deal with the matter as 'low priority'. This means the topic is added to the next agenda consultation, to determine its priority.

F21. UKEB Technical Director, Seema Jamil-O'Neill, highlighted that the prevalence of complex multi-party arrangements has increased since digitalisation. This has led to diversity in practice since IFRS 15 was issued, due to the complex judgements required. This comment was supported by some other ASAF members, who made reference to a move to a more service-based business environment from the traditional manufacturing businesses.

F22. Some ASAF members commented on the recommendation of elevating paragraphs in the Basis for Conclusions to the standard itself. This proposal was recommended by the UKEB in its FCL. They questioned whether such an amendment could be explored without waiting for the next agenda consultation.

Next Steps

F23. The IASB will continue its discussion of remaining application matters, raised by stakeholders, in Q2 2024.

Topics for discussion	Expected timing
Quarter 2 2024	
1. Applying IFRS 15 with other IFRS Accounting Standards 2. Other matters	April 2024
3. Academic literature review	May 2024
4. Summary discussion—Joint IASB–FASB education session	21 June 2024
Quarter 3 2024	
5. Overall assessment of IFRS 15 6. Summary discussion—IASB only	July 2024

F24. The UKEB Secretariat will continue to monitor the IASB discussions and will update the Board on the IASB's tentative decisions.

F25. We expect the IASB to publish a project report and feedback statement in Q3 2024.

UKEB
UK Endorsement Board

Appendix G: 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)

G1. At its March meeting the IASB continued to review feedback received during the Post-implementation Review of IFRS 9 – Impairment (the PIR). This meeting focussed on the feedback received on the main requirements for measuring expected credit losses (ECL). Feedback on measuring ECL for financial assets purchased or originated credit-impaired (POCI) will be considered at the April 2024 meeting.

G2. One tentative decision was made.

Overall Feedback on measuring ECL

G3. Overall, almost all respondents agreed there were no fatal flaws with the principle-based requirements to measure ECL. They did observe diversity in practice in some areas, particularly the use of forward-looking scenarios and the use of post-model adjustments (PMAs). Respondents believe IFRS 9 does not provide sufficient guidance in these areas, and that further guidance would improve the consistency of application.

Forward-looking scenarios

G4. During research for the PIR project stakeholders told the IASB that they observe diversity in the number of scenarios entities identify, the variables they consider and the weightings they apply to a particular scenario. This feedback was also provided by many respondents to the PIR.

G5. For example, one regulator[1] observed that while many banks use multiple forward-looking scenarios, there is still diversity in how the impact of economic uncertainty is captured when considering (i) the range or severity of economic scenarios, (ii) the probability weights assigned to the scenarios and (iii) the approach to reverting to long-term averages for future periods where detailed economic forecasts are not available.

[1] This observation was made in the response from the Basel Committee on Banking Supervision.

G6. Many respondents, including regulators and accounting firms, highlighted the non-linear relationship between different forward-looking scenarios and their associated credit losses. This emphasises that the use of a single forward-looking scenario is often not appropriate. Respondents thought it would be helpful for the IASB to acknowledge the concept of non-linearity in the standard, and clarify what entities are expected to achieve with the use of forward-looking scenarios. They thought this would improve consistency of application, and support challenge in cases where forward-looking scenarios did not appear to have been applied appropriately.

G7. Respondents also observed that discussion of the IFRS Transition Resource Group for Impairment of Financial Instruments (ITG) was helpful on these topics, and these conclusions could be incorporated into IFRS 9.

G8. When considering this feedback the IASB staff noted that:

a) Entities are required to consider multiple scenarios, possible outcomes and their probability of occurrence. However, the calculation of ECL need not be a rigorous mathematical exercise. The main objective is that at least two outcomes are considered – the risk of default and the risk of no default.

b) Determining which scenarios are representative of the possible outcomes will depend on if and when significant non-linearities between the probability of default and credit losses (for a range of forward-looking scenarios) occur. In the staff's view an entity will be required to apply judgement, specific to their own facts and circumstances, to determine which scenarios to use and their probability weighting.

c) The diversity observed by one regulator could be considered a natural outcome of a principle-based ECL measurement approach that requires the application of judgement. Capturing the impact of non-linearity would not eliminate this diversity, as judgement would still need to be applied in the application of the requirements.

d) Staff acknowledged that, while it may be helpful to acknowledge that the use of a single forward-looking scenario would not be appropriate in cases of non-linearity, this could not be achieved by simply incorporating wording from the ITG into the standard. Further, it may create the unintended consequence of entities using multiple scenarios in some periods and a single scenario in others, resulting in inconsistencies in application from one period to the next.

e) Such amendments would not automatically result in consistent outcomes and more useful information, and therefore the incremental benefit of clarifying the requirements would not be expected to exceed the costs arising from the change.

Forward looking scenarios and climate

G9. Respondents observed diversity in practice in how macroeconomic variables are used in forward-looking information and scenarios, reflecting that significant judgement is required to determine the impact of these variables on credit risk.

G10. Some respondents suggested the IASB provide application guidance or illustrative examples demonstrating how climate risk is incorporated into forward-looking information. They explained the impact of climate risk is an area of increasing importance to users of financial statements.

G11. When considering this feedback IASB staff noted that:

a) They believe it is clear that in applying IFRS 9 an entity is required to identify to what extent (if any) climate risk would impact its existing credit risk exposures, and to consider whether its inclusion in measuring ECL is reasonable and supportable without undue cost or effort at that date.

b) They acknowledge developing an illustrative example may be helpful in providing enhanced transparency about the effects of climate risks.

Post-model adjustments (PMAs)

G12. Respondents across all stakeholder groups noted that the use of PMAs has increased significantly as a way to capture emerging risks. Most respondents who commented on this topic said these adjustments had been a helpful tool to support timely recognition of ECL, as they compensate for the limitations of statistical models and data issues.

G13. Many respondents, including accounting firms, regulators, standard-setters and an organisation representing analysts, noted that PMAs often involve a high degree of management judgement and have a significant effect on measuring ECL.

G14. A few respondents commented that the use of PMAs should be short term, but in practice entities tend to “repurpose” PMAs rather than release them.

G15. One regulator observed that while the use of PMAs is important, there is limited guidance in IFRS 9 to support their appropriate use. They have observed some “weaker” practices including using PMAs aimed at covering a broad spectrum of unrelated risks and/or multiple portfolios or borrower groups (“umbrella overlays”). They have also observed PMAs applied at the overall ECL level without considering whether that means there has been a significant increase in credit risk (SICR) that should result in transfer to the lifetime ECL stage. They suggest the standard explicitly require that in such cases complementary methods such as collective SICR assessments be required.

G16. Respondents acknowledged that IFRS 9 and IFRS 7 apply to the measurement and disclosure of ECL, irrespective of the technique used to determine ECL. However,

to reduce diversity in practice, they requested further application guidance as to the use and release of PMAs, and additional disclosure requirements.

G17. When considering this feedback IASB staff noted that:

a) IFRS 9 has clear objectives of what an entity is required of achieve in measuring ECL, but does not prescribe which techniques should be used.

b) Determining whether to use or reverse a PMA requires judgement based upon an entity's credit risk practices and the tools used in the estimation of ECL.

c) They will consider feedback on "umbrella" overlays but thought it was sufficiently clear that the use of such general provisions is not consistent with the objective of the impairment requirements of IFRS 9.

d) IFRS 9 permits collective assessment of ECL where an entity does not have reasonable and supportable information to assess on an individual basis [B5.5.4]. So the principle-based approach to ECL does not prohibit the use of PMAs where used in a way consistent with the objectives of IFRS 9.

e) The requirements in IFRS 9 are clear that the assessment of SICR is different, and separate, from the measurement of ECL. Therefore it is clear PMAs cannot be a substitute for the assessment of SICR.

f) Feedback did not provide any evidence that the cost of applying, auditing or enforcing the application of the ECL requirements regarding the use of PMAs are significantly greater than expected.

g) To address concerns regarding the lack of transparency surrounding the use of PMAs the staff will consider whether enhancing disclosures could provide an effective solution. The topic of disclosure will be discussed at a future IASB meeting.

IASB discussion

G18. IASB discussion generally supported the staff position. It was thought that standard setting would not be an effective solution to the measurement issues identified. The discussion highlighted the following matters:

a) Many aspects of IFRS 9 require the use of significant judgement, and that different economic fact patterns and credit management processes in different organisations could legitimately lead to different outcomes.

b) Feedback received did suggest that certain areas of the standard may be being misapplied (in some cases), resulting in issues such as the retention rather than release of PMAs. To resolve this some IASB members thought

educational materials targeted at relevant communities may be more helpful than standard setting. Multiple IASB members agreed the standard was clear, and expressed concern that standard setting, or the creation of new illustrative examples, could lead to unintentional disruption to existing practices.

c) There appears to be clear support among IASB members to improve the transparency surrounding the use of PMAs. This will be discussed in a forthcoming meeting when the IASB address disclosure matters. Some board members from an investor background noted that investors wish to understand the chain of events – what has happened, how this has impacted credit risk, and what provision is therefore required. They agreed with the feedback, provided by certain regulators, that sometimes the PMA may only overlay the final ECL number without adjusting the underlying credit risk information (SICR), and therefore part of the story is missing. This is expected to be explored further during the disclosures discussion.

d) There was little appetite to create specific rules for climate-risk matters in IFRS 9. This would be inconsistent with a principles based standard, and create a precedent for the creation of further rules when new topics of interest arise.

Tentative decision

G19. The IASB staff recommended that the IASB does not take further action on matters raised by respondents regarding the use of forward-looking scenarios and post model adjustments (PMA's) in measuring ECL.

G20. All 14 IASB members agreed with this recommendation.

Next steps

G21. The IASB timeline for discussion of the feedback received on the PIR is shown in the table below. The UKEB Secretariat will continue to monitor IASB discussions.

Topics for discussion	Expected timing	IASB tentative decisions
General approach to recognition of ECL	February 2024	No standard-setting action
Significant increase in credit risk	February 2024	No standard-setting action
Measuring ECL - general	March 2024	No standard-setting action

Topics for discussion	Expected timing	IASB tentative decisions
Purchased or originated credit-impaired financial assets – Measuring ECL.	April 2024	
Purchased or originated credit impaired financial assets – Other topics.	April 2024	
Interaction of impairment requirements with other requirements in IFRS 9 and other IFRS accounting requirements.	April 2024	
Credit risk disclosures	Q2 2024	
Other matters.	Q2 2024	

UKEB
UK Endorsement Board

Appendix H: Interpretations Committee update

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

Background

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

a) the degree of impact of the tentative agenda decision on UK companies (for example, 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.

H2. The Interpretations Committee held a meeting on 5 March 2024.

H3. 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

H4. The wording of the final agenda decisions has now been published by the IASB and will be presented for ratification to this month's IASB meeting.

UKEB
UK Endorsement Board

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 to determine: a) whether an entity's commitment to reduce or offset its greenhouse gas emissions creates a constructive obligation for the entity; b) the circumstances in which the entity recognises a provision for the costs of fulfilling a constructive obligation to reduce or offset its greenhouse gas emissions; 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.
Comment	There have been minor changes to the wording of the Agenda Decision from that presented to the IFRIC in March 2024. However, the substance of the Agenda Decision is consistent with that previously discussed.

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 has acquired if 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 Continuing employment (IFRS 3 Business Combinations), published in January 2013, and account for the payments as compensation for postcombination services rather than as additional consideration for the acquisition, unless the service condition is not substantive. 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	There have been minor changes to the wording of the Agenda Decision from that presented to the IFRIC in March 2024. However, the substance of the Agenda Decision is consistent with that previously discussed.

*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

UKEB
UK Endorsement Board

Appendix I: List of IASB projects

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

List of IASB projects	
Amendments to the Classification and Measurement of Financial Instruments	
UKEB Project Status: Monitoring **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).

UKEB
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—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 Model (Published September 2022) UKEB project page (Influencing) UKEB Project Initiation Plan (Published March 2024)

UKEB
UK Endorsement Board

List of IASB projects	
Climate-related and Other Uncertainties in the Financial Statements	
UKEB Project Status: Monitoring **IASB Next Milestone:** Decide Project Direction April 2024	
Climate-related Commitments (IAS 37)	
UKEB Project Status: Monitoring **IASB Next Milestone:** Agenda Decision April 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) UKEB Feedback Statement (Published February 2022) UKEB Due Process Compliance Statement (Published March 2022)

List of IASB projects	
Dynamic Risk Management	
UKEB Project Status: Monitoring **IASB Next Milestone:** Exposure Draft H1 2025	
Equity Method	
UKEB Project Status: Monitoring **IASB Next Milestone:** Exposure Draft Q3 2024	
Financial Instruments with Characteristics of Equity	
UKEB Project Status: Monitoring **IASB Next Milestone:** Exposure Draft Feedback May 2024	UKEB project page UKEB Project Initiation Plan (Published October 2023) UKEB Draft Comment Letter (Published February 2024) UKEB Final Comment Letter (Published April 2024) UKEB Feedback Statement (Published April 2024)

UKEB
UK Endorsement Board

List of IASB projects	
Post-implementation Review of IFRS 15 Revenue from Contracts with Customers	
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 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)

UKEB
UK Endorsement Board

List of IASB projects	
Power Purchase Agreements	
UKEB Project Status: Monitoring **IASB Next Milestone:** Exposure Draft May 2024	
Provisions—Targeted Improvements	
UKEB Project Status: Monitoring **IASB Next Milestone:** Exposure Draft H2 2024	
Rate-regulated Activities	
UKEB Project Status: Monitoring **IASB Next Milestone:** IFRS Accounting Standard 2025	UKEB project page UKEB Final Comment Letter (Published August 2021) UKEB Feedback Statement (Published April 2022)
Updating the Subsidiaries without Public Accountability: Disclosures Standard	
UKEB Project Status: Monitoring **IASB Next Milestone:** Exposure Draft Q3 2024	

UKEB
UK Endorsement Board

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