Ongoing Monitoring of IASB Projects

Executive Summary

Project Type	Monitoring
Project scope	Various

Purpose of the paper

This paper provides the Board with an update on projects the Secretariat are monitoring. Appendices 1 - 3 set out the key areas on which the Secretariat expects the discussions at the ASAF meeting to focus.

Summary of the Issue

In preparation for the July ASAF meeting, the Board is asked to consider specific questions on the Post Implementation Review (PIR) of IFRS 9 *Financial Instruments* Classification and Measurement, the Financial Instruments with Characteristics of Equity (FICE) project, and the Subsidiaries without Public Accountability: Disclosures project. We also provide a summary of recent IASB activity on other projects.

Questions for the Board

The Board is asked a number of questions:

Appendix 1 – PIR IFRS 9: Questions at paragraphs 12 and 14

Appendix 2 – FICE: Questions at paragraphs 38, 39 and 49

Appendix 3 – Subsidiaries without Public Accountability: Disclosures - Questions at paragraphs 12 and 32

Appendix 4 – Other: Question at paras 19

Next steps

Board discussions will inform feedback provided to ASAF.

Appendices

Appendix 1	Ongoing monitoring of IASB projects - PIR IFRS 9
Appendix 2	Ongoing monitoring of IASB projects - FICE
Appendix 3	Ongoing monitoring of IASB projects - Subs without public accountability
Appendix 4	Ongoing monitoring of IASB projects - Other

Post-implementation Review of IFRS 9 Classification and Measurement – update

Project Type	Influencing
Project scope	Significant

Purpose

1. This paper provides an update on the classification and measurement stage of the IASB's Post-implementation Review of IFRS 9 *Financial Instruments*. It also presents specific application questions arising from feedback received by the IASB, which are expected to be raised at the July 2022 Accounting Standards Advisory Forum (ASAF) meeting. The Board is asked for its views on the topics presented in this paper.

Background and current status of IASB project

2. The IASB decided to carry out its post-implementation review (PIR) of IFRS 9 in three stages, addressing separately the requirements on 1) classification and measurement, 2) impairment and 3) hedge accounting. The IASB is currently conducting the classification and measurement stage. The IASB plans to start the PIR of the impairment requirements in the second half of 2022. At the time of writing this paper, there is no indication of the expected timing for the PIR of the hedge accounting requirements.

3. In September 2021, the IASB published its Request for Information on IFRS 9 classification and measurement, with a comment period ending on 28 January 2022.

4. At its March and April 2022 meetings the IASB discussed a summary of the overall feedback received on its Request for Information. Most respondents shared the view that generally the contractual cash flow characteristics assessment (i.e. the solely payments of principal and interest requirements, or SPPI requirements) works as intended. However, feedback indicated that the IASB could help entities with consistent application by clarifying some of the SPPI requirements.

5. In May 2022, the IASB decided to start a standard setting project, with a narrow-scope, to clarify the SPPI requirements of financial assets with particular features. For further details on this project see the section below: *IASB's new standard setting project - contractual cash flow characteristics assessment*.

6. The IASB has also discussed specific application questions raised by respondents on the contractual cash flow characteristics assessment. The IASB decided to perform further outreach on two of those application questions. For further detail see the section below: *IFRS 9 classification and measurement issues – application questions*.

7. Information on other topics being redeliberated by the IASB (i.e. business model assessment, equity instruments and OCI, modifications to contractual cash flows and amortised cost and the effective interest method) will be presented to the Board at

future meetings.

IASB's new standard setting project - contractual cash flow characteristics assessment

8. As a result of the feedback received on its request for Information on the PIR of IFRS 9 classification and measurement, the IASB has decided to start a standard setting project to clarify certain aspects of the SPPI requirements. The IASB's intention is to keep the project narrow in scope, limited to clarifying the SPPI requirements on:

   a) ESG-linked features[1] - How to assess whether a financial asset has SPPI cash flows when the instrument has ESG-linked features. This issue is considered a high priority matter. On this issue, the IASB staff considers that:

      i. It is unnecessary to create an exception from the SPPI requirements for financial instruments with these features;

      ii. There is no need to make fundamental changes to the principles of the SPPI requirements; and

      iii. Adding more explanations of the overall objective of the SPPI requirements and providing additional application guidance will address the issue effectively and efficiently.

      Potential areas of focus are the concept of a basic lending arrangement and whether and how the nature of a contingent event is relevant to determining whether the cash flows are SPPI.

   b) Contractually linked instruments[2] (CLIs) – Clarifying the scope of transactions to which the CLI requirements apply and how to apply those requirements. This includes questions on the interaction between the requirements for CLIs and for financial assets with non-recourse features[3].

   c) Disclosures – Whether additional disclosure requirements are needed.

9. The IASB's new standard setting project is expected to address two of the UKEB's main areas of concern. The UKEB response to the IASB noted that IFRS 9 classification and measurement requirements generally work as intended and represent an improvement on the previous rule-based requirements in IAS 39 *Financial Instruments: Recognition and Measurement*. The response therefore focused on the three significant areas where improvements, and potentially standard setting activity, is required. Two areas

1 Financial assets with interest rates linked to environmental, social or governance (ESG) targets. These typically provide general funding to a borrower but have a contractual interest rate that is adjusted depending on the borrower achieving a pre-determined ESG target that is specific to the borrower (ESG-linked features). These are different from other forms of sustainability-linked finance products such as 'green finance'. Green finance typically refers to loans or bonds used to finance an environmentally friendly activity and their cash flows do not necessarily include ESG adjustments.

2 Types of transactions in which an issuer prioritises payments to holders of financial assets using multiple contractually linked instruments that create concentrations of risk (tranches).

3 Financial assets have a non-recourse feature when they limit a creditor's claim to specified assets of the debtor or to the cash flows from specified assets.

of concern relate to the application of the contractual cash flow characteristics assessment for financial assets to (i) financial instruments with ESG-linked features and (ii) contractually linked instruments and non-recourse finance. The third area of concern relates to the effective interest rate methodology, which is a topic that will be discussed by the IASB at a future meeting.

10. A project plan will be discussed by the IASB at their June 2022 meeting (see *Project timeline/Next steps* below).

11. The IASB intends to ask for feedback on this project from ASAF members in July. In particular, the IASB is interested in recommendations for clarifying the concept of a 'basic lending arrangement'. At the date of publication of this paper, the Secretariat is carrying out desk top research and targeted outreach with UK stakeholders and will provide a verbal update at the Board meeting.

Question for the Board
12. Do Board members have any comments on the IASB's new standard setting project or views on potential clarifications of the concept of 'basic lending arrangement'?

IFRS 9 classification and measurement issues – application questions

13. The following table presents application questions on IFRS 9 classification and measurement arising from feedback received by the IASB. These questions are expected to be discussed at the ASAF meeting in July 2022. The IASB wants to understand whether the issues are pervasive and have substantial consequences, to help them decide what action, if any, to take (such as referring issues to the IFRS Interpretations Committee):

Application questions on IFRS 9 classification and measurement issues		
1	Contractual cash flow characteristics assessment	**Contractual inflation adjustments and leverage** In accordance with IFRS 9 4.1.2(b) and 4.1.2A(b), contracts that do not have cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI) cannot be measured at amortised cost or fair value through other comprehensive income. IFRS 9 B4.1.9 states that '*leverage is a contractual cash flow characteristic of some financial assets. Leverage increases the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest.*' Feedback received by the IASB questioned whether interest rates that are contractually adjusted for inflation introduce leverage, in the context of recent significant rises in inflation rates. ***Question expected at ASAF*** – Are financial instruments with

		contractual inflation-adjustments creating potential leverage widespread in your jurisdiction? UKEB Secretariat's comment (*): IFRS 9 provides application guidance on the application of the SPPI requirements. Paragraph B4.1.13 presents the example of an inflation-linked bond, Instrument A, with payments linked to an inflation index of the currency in which the instrument is issued. The accompanying analysis of Instrument A notes that linking payments to an inflation index resets the time value of money to a current level. In other words, the interest rate on the instrument reflects 'real' interest. Such interest amounts are consideration for the time value of money on the principal amount outstanding. We believe the above analysis applies regardless of the level of inflation, provided that the inflation linkage is not more than 1x. We are not aware of diversity in practice in the UK.
2	Contractual cash flow characteristics assessment	**Regulated interest rates and leverage** IFRS 9 B4.1.9E states that '*a regulated interest rate shall be considered a proxy for the time value of money element for the purpose of [assessing whether cash flows are SPPI] if that regulated interest rate provides consideration that is broadly consistent with the passage of time and does not provide exposure to risks or volatility in the contractual cash flows that are inconsistent with a basic lending arrangement*'. In some jurisdictions, financial instruments with regulated interest rates can include a leverage factor imposed by the government. For example, for certain loans granted as part of a government scheme, the interest rate is determined based on 1.3 times[4] the government bond yield at disbursement plus a margin. Some respondents asked whether such interest rates are regulated interest rates as per IFRS 9 B4.1.9E, and if so, how to determine whether the rate provides exposure to risk or volatility in the contractual cash flows that are inconsistent with a basic lending arrangement. ***Question expected at ASAF*** – Are financial instruments with similar leverage factors imposed by government/regulators widespread in your jurisdiction? UKEB Secretariat's comment (*): The Secretariat is not aware of widespread financial instruments with leverage factors imposed by the UK government/regulators, or of widespread investment by UK entities in such instruments.
3	Derecognition	**Assessing whether a financial asset is derecognised** IFRS 9 paragraph 3.2.6 requires the entity to determine whether:

4 As per IASB's Agenda paper 3A '*according to a banking industry body in Hungary, the government pays 1.3*government bond yield in the form of interest subsidy and the borrower pays the margin. In determining the factor of 1.3, the government considered that in the local market the mortgage-backed securities have historically traded at 30% premium over the government bond rate'.'*

		(a) Substantially all risks and rewards have been transferred (b) Substantially all risks and rewards have been retained, or (c) If neither substantially all the risks and rewards have been retained or transferred, whether the entity has: a. Transferred control of the financial asset b. Retained control of the financial asset Some respondents noted that it is not clear how to apply the derecognition requirements, especially in the context of assessing whether the entity has: • Retained control when a financial asset is transferred to a special purpose vehicle or in the case of a securities lending arrangement; • Continuing involvement, for example, when servicing the transferred asset, providing recourse or pledging collateral, and how to account for such continuing involvement. ***Question expected at ASAF*** – Are you aware of any widespread diversity in practice with a material effect in how these derecognition requirements are applied? UKEB Secretariat's comment (*): As part of previous outreach activities some UK stakeholders acknowledged the complexity of the IFRS 9 derecognition requirements. However, the specific topics above were not raised as concerns in the UK. We are aware of questions arising in respect of the application of the requirements to specific cases where significant judgement may be involved. However, generally the questions have been very fact specific so it is not clear that standard setting would be beneficial.
4	IFRS 9 scope	**Contracts to buy or sell a non-financial item** In accordance with IFRS 9 paragraph 2.4, the standard must be applied to contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements........This is commonly referred to as the 'own use' exemption. IFRS 9 paragraph 2.6 describes ways in which a contract can be settled net in cash or another financial instrument or by exchanging financial instruments, such as when the entity has a practice of settling similar contracts net in cash or another financial instrument or by exchanging financial instruments except for contracts entered into and held … in accordance with the entity's expected purchase, sale or usage requirements (i.e. own use). A few respondents said that there is diversity in practice in

		applying these requirements, in particular: • What constitute 'similar' contracts or what amounts to 'practice' of net cash settlement; • Whether, and if so when, an entity is permitted to change its accounting for such contracts if there is a change in management's intention for the contract. ***Question expected at ASAF*** – Are you aware of any widespread diversity in practice with a material effect when applying the 'own-use' exemption? UKEB Secretariat's comment (*): We are aware of questions arising in practice on the specific application of the own use exemption (such as for certain contracts in the energy industry). However, the principles are considered clear and the Secretariat is not aware of diversity in practice in the UK on the application of this exemption.
5	Equity investments and OCI	**Accounting for transaction costs** In accordance with IFRS 9 paragraph 5.7.1(b), a gain or loss on a financial asset or financial liability that is measured at fair value is required to be recognised in profit or loss, unless it is an investment in an equity instrument for which the entity has elected to present gains and losses in other comprehensive income (OCI) (as per IFRS 9 5.7.5). Some respondents said that due to insufficient guidance, there is diversity in practice in the accounting for transaction costs arising on the disposal of equity instruments for which the entity has elected to present gains and losses in OCI, with some entities recognising these costs in profit or loss and others recognising the costs in OCI. ***Question expected at ASAF*** – Are you aware of any widespread diversity in practice with a material effect with regard to the accounting for transaction costs on these instruments? UKEB Secretariat's comment (*): The Secretariat is not aware of diversity in practice in the UK on the accounting for transaction costs arising on the disposal of equity instruments for which the entity has elected to present gains and losses in OCI. It is generally accepted in the UK that because transaction costs do not represent a change in fair value they are recognised in profit or loss.

(*) At the time of writing this paper, the UKEB Secretariat is performing targeted outreach activities with UK stakeholders on the above application questions and will provide a verbal update at the Board meeting.

Question for the Board
14. Do Board members have any views on whether there is diversity in practice with a widespread or material effect in the UK on any of the issues presented above?

Project timeline / Next steps

15. The IASB's expected timeline for the classification and measurement stage of the IFRS 9 PIR project is as follows:

Post-implementation Review of IFRS 9 Classification and Measurement	
Topics for discussion	**IASB's expected timing**
1.- Contractual cash flow characteristics (including financial assets with sustainability-linked features and contractually linked instruments)	Project plan on IASB's new standard setting project to be discussed at June 2022 meeting (see below)
2.- Business model assessment	Q2/Q3 2022
3.- Equity instruments and OCI	Q2/Q3 2022
4.- Modifications to contractual cash flows	Q2/Q3 2022
5.- Amortised cost and the effective interest method	At same meeting as topic 4 (interaction between topic 4 and topic 5)
6.- Other matters related to IFRS 9 classification and measurement	Q3 2022

16. In relation to the IASB's new standard setting project on the contractual cash flow characteristics assessment, a preliminary timeline (as suggested by the IASB staff in their June 2022 agenda paper) is presented below:

New IASB Standard Setting Project – Contractual cash flow characteristics of financial assets	
Topics for discussion / Publication	**Preliminary timeline**
Consideration of potential clarifications	Q3 2022
Consideration of potential clarifications (continued) Permission to ballot	Q4 2022
Publication of Exposure Draft	Q1 2023

17. The UKEB Secretariat will continue to monitor developments on this project and will update the Board at future meetings. Discussions of any significant work to be undertaken by the UKEB will be agreed with the Board as part of its workplan discussions and reported on the UKEB website when the workplan is updated.

Financial Instruments with Characteristics of Equity – update on recent tentative decisions

Project Type	Influencing
Project scope	Narrow-scope

Purpose

1. This paper provides an update on the IASB's *Financial Instruments with Characteristics of Equity* (FICE) project. It focuses on certain recent tentative decisions made by the IASB in respect of:

   a) financial instruments with contingent settlement provisions; and

   b) the effects of applicable laws on contractual terms of financial instruments.

2. Questions relating to both these topics are expected to be raised at the next ASAF meeting commencing on 11 July 2022. The Board is asked to provide its views on whether the tentative decisions made are likely to resolve practice issues or would result in implementation challenges.

Background and current status of IASB project

3. The classification of items as liabilities or equity under IFRS is dealt with mainly in IAS 32 *Financial Instruments: Presentation*. Although amended several times since, the core of the current version of IAS 32 was issued in December 2003. Commentators have suggested that some of the main provisions of IAS 32 are no longer adequate to deal with the increasingly complex instruments now common in financial markets, for example those with 'bail-in' features.

4. The IASB has therefore been considering for a number of years whether improvements should be made to the standard. A Discussion Paper (the FICE DP) was issued in June 2018 which proposed a revised approach to classification and a number of additional disclosures.

5. However, taking into account the feedback received on the FICE DP, in December 2019 the IASB tentatively decided not to pursue the classification approach proposed in the FICE DP. Instead, the IASB's intention now is to make clarifying amendments to IAS 32 to address accounting challenges that arise in practice. The objectives of the project are to:

   a) address known practice issues that arise when applying the standard's classification requirements; and

   b) improve the information provided in the financial statements about the financial instruments issued by the entity.

6. The IASB aims to do this by clarifying the standard's underlying principles or by improving the articulation of those principles. In addition, where a gap in the principles is discovered, the IASB may fill the gap by developing a principle.

7. The IASB's progress so far was summarised in Agenda Paper 5A for the IASB's February 2022 meeting as follows:

Topic	**IASB Progress**
Financial instruments settled in own equity instruments (including 'fixed-for-fixed' condition in IAS 32)	Tentative decision made April 2020
Obligations that arise only on liquidation (e.g. perpetual instruments)	Tentative decision made February 2021
Financial instruments with contingent settlement provisions	Tentative decision made December 2021
The effects of laws on the contractual terms	Tentative decision made December 2021
Reclassification between financial liabilities and equity instruments	To be discussed in H1 2022
Obligations to redeem own equity instruments (e.g. put options on non-controlling interest)	To be discussed in 2022
Overall consistency check and other related matters, e.g. transition	To be discussed in 2022
Presentation and disclosure	
Refinements of disclosures proposed in the 2018 DP	Tentative decisions made April 2021 and May 2021
Presentation (including presentation for obligations that arise only on liquidation)	To be discussed in 2022
Any further disclosure requirements	To be discussed in 2022

8. Appendix A to Agenda Paper 5A for the IASB's February 2022 meeting provided a summary of the tentative decisions and can be accessed here.

9. This paper focuses on the two topics highlighted in grey in the above table as we expect these items to be discussed at the July 2022ASAF meeting. Information on other topics will be presented to the Board in future meetings.

Financial instruments with contingent settlement provisions

The issues

10. IASB agenda papers explain that many entities in different jurisdictions issue contracts containing contingent settlement provisions. The prevalence of such instruments has increased since IAS 32 was revised in 2003, in particular due to the increase in the number of instruments issued by banks that have loss absorption features. These often contain a contingent conversion mechanism, for example an obligation to convert the instrument into a variable number of own shares on the occurrence of a 'non-viability' event (e.g. a breach of a regulatory requirement). Some of these instruments also have discretionary dividend features and give rise to questions as to whether the instruments are compound instruments containing both equity and liability components.

11. IAS 32 paragraph 25 addresses financial instruments with contingent settlement provisions:

"A financial instrument may require the entity to deliver cash or another financial asset, or otherwise to settle it in such a way that it would be a financial liability, in the event of the occurrence or non-occurrence of uncertain future events (or on the outcome of uncertain circumstances) that are beyond the control of both the issuer and the holder of the instrument, such as a change in a stock market index, consumer price index, interest rate or taxation requirements, or the issuer's future revenues, net income or debt-to-equity ratio. The issuer of such an instrument does not have the unconditional right to avoid delivering cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability). Therefore, it is a financial liability of the issuer unless:

a) the part of the contingent settlement provision that could require settlement in cash or another financial asset (or otherwise in such a way that it would be a financial liability) is not genuine;

b) the issuer can be required to settle the obligation in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) only in the event of liquidation of the issuer; or

c) [… puttable instruments exception…][1]."

12. Paragraph 28 of IAS 32 addresses compound instruments:

"The issuer of a non-derivative financial instrument shall evaluate the terms of the financial instrument to determine whether it contains both a liability and an equity component. Such components shall be classified separately as financial liabilities, financial assets or equity instruments in accordance with paragraph 15[2]."

[1] The exception set out in paragraph 25 c) is not relevant to this paper

[2] IAS 32 paragraph 15 requires financial instruments to be classified in accordance with the substance of the contractual arrangement and the definitions of financial liability, financial asset and equity instrument set out in IAS 32

13. The IASB has received evidence of diversity in accounting practice in this area, including from feedback to the 2018 FICE DP and from submissions to the IFRS Interpretations Committee. Questions arising relate to:

    a) the order of applying IAS 32 paragraphs 25 and 28;

    b) whether the probability of the contingent event arising should affect either the classification or the measurement of the instrument;

    c) how to account for discretionary dividends (i.e. directly in equity or as an expense in profit or loss); and

    d) how to interpret the meaning of 'not genuine' and 'liquidation' in paragraph 25 of IAS 32.

14. The IASB discussed these issues in September and December 2021 and tentatively decided to propose amendments to IAS 32 to clarify the requirements and address any perceived inconsistencies. The IASB's tentative decisions and the basis for those tentative decisions are summarised in the following paragraphs[3].

Order of applying requirements in IAS 32

15. The IASB discussed the issue with reference to an illustrative example that had also been considered by the IFRS Interpretations Committee when it discussed the topic in July 2013 and January 2014:

    Instrument A was issued at par, has no maturity date and has discretionary dividends. It is convertible into a variable number of the entity's own shares to the value of the fixed par amount if the issuer breaches a specified capital ratio. The contingent event is outside the control of both the issuer and holder and could potentially occur immediately.

16. The order of applying paragraphs 25 and 28 of IAS 32 can affect classification. If the paragraph 25 contingent settlement provisions are applied first, then the instrument would be recognised entirely as a financial liability (note that IAS 32 paragraph 25 refers to a financial instrument being a financial liability rather than a liability component). In contrast, if the paragraph 28 compound instrument requirements are applied first, there would be liability (an obligation to deliver a variable number of own shares to a fixed value if the contingent event occurs) and equity (discretionary dividends) components.

17. Consistent with the IFRS Interpretations Committee's tentative agenda decision in July 2013, the IASB staff papers conclude that applying the compound instrument requirements first would reflect both the substance of the contractual arrangement and the requirement in IAS 32 paragraph 15 which states: "*The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition… in accordance with the substance of the contractual arrangement…*". Paragraph 25 of IAS 32 is then applied to identify the liability component(s).

3 Further details can be found in the IASB Agenda papers for September and December 2021, accessible here

18. The IASB tentatively decided to amend IAS 32 to clarify that financial instruments with contingent settlement provisions may be compound instruments. The staff recommendation was to do this by requiring IAS 32 paragraph 28 to be applied first and by adding a reference to 'liability component' to IAS 32 paragraph 25.

Whether the probability of the contingent event arising should affect either classification or measurement

19. The classification of a liability in IAS 32 is based on the underlying principle that a liability exists when an entity does not have ***an unconditional right to avoid*** delivering cash or another financial asset or a variable number of own shares.[4] There is no exception for circumstances where the possibility of the entity having to settle in this manner is remote.[5] The probability of the contingent event arising therefore does not affect classification. The staff expressed the view that no additional clarification of this point was necessary.[6]

20. However, there has been considerable discussion in the past about whether contingent settlement provisions impact the ***measurement*** of the liability. In the context of a compound instrument, IAS 32 contains a clear requirement that the liability component is measured at the fair value of a similar liability that does not have an associated equity component. However, the meaning of 'fair value of a similar liability' is not entirely clear in this context. Further, for any financial instrument with contingent settlement features (regardless of whether a compound instrument or not), does IAS 32 require recognition of a liability for the full amount that is contingently payable? In other words, is the liability measured at the undiscounted amount that the issuer could be required to repay immediately, or is it measured at a probability-weighted amount taking into account the likelihood and timing of the contingent event occurring?

21. The IASB tentatively decided to clarify that the liability component of a compound instrument with contingent settlement provisions, which could require immediate settlement if a contingent event occurs, is measured at the full amount of the conditional obligation.

22. Key elements of the basis for this tentative decision are:

    a) It is consistent with the fact that the issuer has no unconditional right to avoid liability settlement for the full amount; and

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4 The definition of financial liability in paragraph 11 of IAS 32 is more complex than this high level summary, but the key aspect for these purposes are the words highlighted in bold italics.

5 "*The Board concluded that it is not consistent with the definitions of financial liabilities and equity instruments to classify an obligation to deliver cash or another financial asset as a financial liability only when settlement in cash is probable. There is a contractual obligation to transfer economic benefits as a result of past events because the entity is unable to avoid a settlement in cash or another financial asset unless an event occurs or does not occur in the future.*" IAS 32, BC 17

6 The staff note that, if probability were considered in classification, significant judgement and continuous reassessment and potentially reclassification would be required.

b) Would be consistent with the measurement approach applied when liability settlement is at the option of the holder – the IASB staff note that an instrument that could be repayable immediately should be measured in the same way regardless of whether it is repayable at the option of the holder or upon the occurrence of an event outside the control of both issuer and holder.

23. This view would be consistent with the measurement of a financial liability with a demand feature: IFRS 13 paragraph 47 states that "*the fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid*." The staff note that the full amount is therefore still considered to represent 'fair value' despite not factoring in probability or timing, factors which would be taken into account by market participants.

24. The IASB staff paper also notes that measuring the liability at a lower amount than the 'full amount' would result in an equity component (potentially a large one), even though the issuer does not have the unconditional right to avoid liability settlement. The equity component is not remeasured under IAS 32, so even if the probability of settlement increased significantly the equity component would remain unaffected.

25. In addition, the staff note that factoring in the probability and timing of settlement would result in more complex calculations, both in determining the effective interest rate and in updating the subsequent measurement, increasing preparer costs.

26. Finally, the staff considered whether the proposed clarification would apply to other examples of contingent features, such as bonds issued with covenants. The staff note that in practice the issuer of such bonds does not measure them as if they had 'demand features', but rather based on their contractual terms. This is because market participants would not assume the covenant could be breached immediately or that e.g. change of control or material adverse event clauses could be triggered immediately. However, the staff consider that these instruments are different in that the contingency affects not whether there is a liability but only the timing. For this reason they are outside the scope of IAS 32 paragraph 25. Also, the contingency is usually tested on specified dates. In the staff view, therefore, the tentative decision is relevant only to the liability component of compound financial instruments with contingent settlement provisions that could require immediate settlement, and not to existing financial liabilities with a timing contingency.

How to account for discretionary dividends

27. IAS 32 is clear that the recognition of interest and dividends follows the classification of the related instrument: those related to a financial liability (or financial liability component) are recognised in profit or loss, and those related to an equity instrument (or equity component) are recognised directly in equity.

28. In some compound instruments, such as the one referred to above in paragraph 15, the equity component represents the discretionary dividends payable. If all the proceeds of an instrument are allocated to the liability component, the question arises as to how the dividends should be accounted for.

29. The IASB tentatively decided that payments at the discretion of the issuer are recognised in equity, even if all the proceeds are initially allocated to the liability

component of a compound financial instrument. The IASB noted that just because a component has a carrying value of zero does not mean that it does not exist (i.e. the difference between recognition and measurement). In the IASB's view, therefore, there is no inherent contradiction in the requirements of IAS 32. However, in view of the practice question that has arisen, the staff recommended adding clarifications to the wording in the standard.

30. The IASB staff paper notes that some users of accounts may not like such dividends to be recognised directly in equity as they believe this may result in less transparency. The staff therefore plan to analyse potential presentation and disclosure requirements for these types of distributions and present the analysis in future IASB meetings.

The meaning of 'not genuine' and 'liquidation'

31. As set out in paragraph 11 above, contingent settlement provisions do not result in the recognition of a liability if the provision is 'not genuine' or if such a liability only arises in the event of liquidation of the issuer.

32. IAS 32 paragraph AG28 indicates that a 'non-genuine' contingency is one that is "extremely rare, highly abnormal and very unlikely to occur" or that has "no genuine possibility of occurring". Stakeholders have questioned whether the explanation at AG28 is sufficient and whether 'non-genuine' is a wider notion that also considers the ***purpose*** for including such features in the instrument even if the event might be very unlikely to occur.

33. The IASB tentatively decided to specify that an assessment of whether a contract term is 'not genuine' under IAS 32 paragraph 25(a) is not made by considering only the probability of the contingent event occurring.

34. IAS 32 BC 18 explains that a contingent settlement provision that applies only on liquidation of the issuer should not affect classification because that would be inconsistent with the going concern assumption. The question in practice was whether 'liquidation' was intended only to refer to the very end point when an entity ceases to exist or to an earlier point such as when an entity enters into a process of administration or resolution.

35. The staff noted that liquidation is a process rather than a point-in-time event and that it was important to identify the start of that process. The IASB tentatively decided to clarify that 'liquidation' refers to when an entity has started the process to permanently cease to trade.

Secretariat comment

36. The Secretariat is aware that questions have arisen in the UK in relation to financial instruments with contingent settlement provisions, and notes that accounting manuals issued by accounting firms include discussion of the uncertainty over the requirements in IFRS. In some cases, the treatment has been considered a matter of accounting policy choice.

37. The Secretariat therefore agrees that the proposed clarifications will be beneficial, in particular regarding the order of application of IAS 32 paragraphs 25 and 28. With

regard to whether the probability or timing of the contingent event should impact measurement of the liability, there may be different views on what provides the most useful information to users of accounts. However, the removal of uncertainty is of itself helpful and should promote consistency of application. On balance, the Secretariat's initial view is supportive of the proposals but the Secretariat will provide a verbal update at the Board meeting should further information on stakeholder views become available.

Questions for the Board
38. Do Board members have any comments or questions on the IASB's tentative decisions?
39. Do Board members consider the tentative decisions are likely to resolve practice issues or do Board members have concerns that implementation challenges may remain?

The effect of laws on the contractual terms

The issue

40. IFRS Accounting Standards on financial instruments have been developed to account for rights and obligations arising from contracts, and the definitions in IAS 32 of financial instrument, financial asset and financial liability refer to contracts, contractual rights and contractual obligations. IAS 32 requires financial instruments to be classified in accordance with these definitions and "the substance of the contractual arrangement".

41. IASB staff papers note that practice questions have arisen about the effect of law[7] on the rights and obligations arising from a contract, including whether, and if so to what extent, a legal requirement must be considered as part of the contractual terms.

42. Feedback to the FICE DP noted that:

    a) there is often little difference between contractual and legal obligations in terms of their economic effects;

    b) contractual terms often only reflect issues not already governed by law, or incorporate directly or indirectly the provisions of applicable law; and

    c) law can limit or render ineffective the rights and obligations arising from contractual terms.

[7] In this paper, 'law' is intended to include statutes or regulations and statutory and regulatory requirements

43. The IASB staff also note potential inconsistencies in this regard between IAS 32 on the one hand and the Conceptual Framework and certain other recently issued standards on the other.[8]

44. The question arises therefore whether there is scope to read the references in IAS 32 to 'contractual rights and obligations' as wider than just explicit contractual terms and what exactly is meant by 'the substance of the contractual arrangement'.

IASB tentative decision

45. The IASB tentatively decided to amend IAS 32 to clarify that entities should classify financial instruments as financial liabilities or equity by considering:

    a) terms explicitly stated in the contract that give rise to rights and obligations that are in addition to, or more specific than, those established by applicable law; and

    b) applicable laws that prevent the enforceability of a contractual right or obligation.

46. The tentative decision is based on the view that IAS 32 is clear that the classification as financial liability or equity is based solely on the contractual terms, but that it would be helpful to provide clarification of whether a legal requirement needs to be considered as part of the contractual terms. The tentative decision reflects the view that the references in IAS 32 may be read as wider in some circumstances, and narrower in others, than the explicit terms in a contract.

47. The IASB's objectives are to reduce diversity in practice and hence to improve comparability of accounts. The tentative decision is intended to result in a consistent approach to classification irrespective of the legal environment and of the way law is referenced, or is not referenced, in contracts.

Secretariat comment

48. While not aware of significant diversity in practice in the UK on this matter, the Secretariat agrees that the proposed clarification will be helpful, enhancing stakeholder understanding of the requirements without introducing fundamental change. It ensures consistency with the guidance on the classification of financial assets and should promote a consistent approach to liability/equity classification. The Secretariat will provide a verbal update at the Board meeting should further information on stakeholder views become available.

[8] For example, paragraph 4.60 of the Conceptual Framework states "*All terms in a contract – whether explicit or implicit – are considered..... Implicit terms could include, for example, obligations imposed by statute*". Paragraph B12 of IFRS 15 states that, in assessing the existence and enforceability of a right to payment for performance, an entity "*shall consider the contractual terms as well as any legislation or legal precedent* …". IFRS 17 paragraph 2 requires an entity to consider its "*substantive rights and obligations, whether they arise from a contract, law or regulation, …*"

Questions for the Board
49. Do Board members consider the tentative decision is likely to resolve practice issues or do Board members have concerns that the tentative decision may have unintended consequences?

Project timeline / Next steps

50. The IASB's high-level FICE project plan envisages that the remaining topics will be discussed during the remainder of 2022, as detailed in paragraph 7 above. The IASB will be asked to make tentative decisions with a view to the issue of an Exposure Draft.

51. The Secretariat will continue to monitor the IASB's FICE project and will bring further information on other topics discussed by the IASB to future UKEB meetings.

Exposure Draft: Subsidiaries without Public Accountability: Disclosures—update

Project Type	Influencing
Project Scope	Significant

Purpose

1. This paper provides an update on the IASB's Exposure Draft (ED) *Subsidiaries without Public Accountability: Disclosures*[1] project. In particular, it provides information on the IASB's redeliberation of the scope of the proposed standard and seeks the Board's views on the tentative decisions reached.

2. The paper also presents the question we expect to be raised at the July 2022 ASAF meeting relating to the local jurisdiction challenges that might arise on adoption of the proposed standard. The Board is asked to provide its views on the challenges identified in this paper.

Background and current status of IASB project

3. The IASB ED *Subsidiaries without Public Accountability: Disclosures* seeks to develop an accounting standard that would permit subsidiaries that do not have public accountability to apply reduced disclosure requirements so long as they apply the recognition, measurement and presentation requirements in full IFRS Accounting Standards. This project forms part of the IASB's Disclosure Initiative, a portfolio of projects exploring how to improve the effectiveness of disclosures in financial reporting.

4. The IASB's ED was published on 26 July 2021 and the UKEB submitted its Final Comment Letter (FCL) on the ED to the IASB on 24 February 2022[2]. The UKEB supports the IASB's efforts to develop a standard that would permit subsidiaries without public accountability to apply full IFRS Accounting Standards with reduced disclosure.

5. The IASB received 68 comment letters and almost all respondents supported the objective of the project, with many reiterating the expected benefits of the ED proposals.

1 The ED can be accessed here: and Basis for Conclusions can be accessed here.
2 UKEB Final Comment Letter can be accessed here.

6. The IASB is now redeliberating the ED proposals in the light of the feedback received. At the time of writing, the IASB has only reached tentative decisions on the scope of the proposed standard. The scope of the ED is one of the most contentious aspects as many jurisdictions support a wider scope of entities to which the ED could be applicable, for example supporting the alternative view in the ED that all entities without public accountability should be within scope.

7. This paper provides more information on the IASB's recent redeliberation of this topic and seeks the Board's views on the tentative decisions reached.

8. The IASB will discuss a project plan at its June 2022 meeting. The IASB plans to continue its redeliberation of proposals in the ED in the fourth quarter of 2022 (see Project timeline/Next steps below).

Scope and definition of public accountability

9. The table below summarises the ED proposals, the UKEB position as set out in its FCL and the IASB tentative decisions on the scope and definition of public accountability.

Topic	ED proposals	UKEB FCL	IASB tentative decision
Scope[3]	A subsidiary would be eligible to apply the draft standard if it: a) does not have public accountability; and b) has a parent that produces publicly available consolidated financial statements that comply with IFRS.	• Broadly agrees with the scope. • Recommends extending the scope to include an ultimate parent's individual financial statements, that does not itself have public accountability. • Highlights the concern of UK stakeholders on the eligibility criteria that the parent company should prepare consolidated financial statements that comply with IFRS.	• Finalise the proposed standard with the scope as proposed in the ED. • Reconsider the scope after the proposed standard has been finalised, possibly during post-implementation.
Definition of public accountability[4]	An entity has public accountability if: a) its debt or equity instruments are traded in a public market; or b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses[5].	• Supports the ED's definition of public accountability. • Recommends the additional guidance on 'fiduciary capacity' to be incorporated in the draft standard. • Recommends that the IASB revisits this guidance to provide clarity and assist with the application of the concept.	• Clarify the definition and avoid specifying how often the entities listed in the ED hold assets in a fiduciary capacity. • Clarify that an intermediate parent is required to assess its eligibility to apply the proposed standard to its separate and individual financial statements on the basis of its own status. • Include clarifying guidance on the characteristics of an entity with public accountability. • Consider how to make available the additional education guidance on 'fiduciary capacity' on the *IFRS for SMEs* Accounting Standard to those entities applying the proposed standard[6].

3 See Agenda Paper 31A *Proposed scope of the draft Standard* of the May 2022 IASB meeting.
4 See Agenda Paper 30B *Towards an exposure draft—definition of public accountability* of the May 2022 IASB meeting.
5 i.e., banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this criterion.
6 At its June 2022 meeting, the IASB will consider whether to include the guidance within the proposed standard or separately available educational material.

10. The IASB acknowledges that the majority of respondents support widening the scope beyond subsidiaries. However, the rationale supporting the IASB tentative decision not to widen the scope at this stage includes:

    a) The proposed scope in the ED responds to feedback from stakeholders on the *Request for Views*—2015 Agenda Consultation. Widening the scope at this stage would delay completion of the project because other proposals in the ED would have to be reconsidered, including the fundamental approach to developing the proposed disclosure requirements. This would prevent the IASB from responding to stakeholders' demands on a timely basis.

    b) There was no clear consensus among respondents on how the scope should be widened.

    c) Given the nature of the project (i.e. the first time the IASB is developing a reduced disclosure framework), the IASB should proceed 'cautiously'. Finalising the standard with the scope as proposed in the ED would allow the IASB to assess the effectiveness and attractiveness of the proposed standard before opening up to a wider population of entities.

11. As a result, the proposed standard will not incorporate the UKEB's recommendation to extend the scope to include the individual financial statements of an ultimate parent of a group, that does not itself have public accountability. Whilst this may limit the uptake of the proposed standard in the UK, it is unlikely to be a hindrance to the adoption of the proposed standard in the UK. In addition, we note that there was no strong consensus from UK stakeholders in their comment letters to the IASB on the extension of the scope to an ultimate parent's individual financial statements.

Question for the Board
12. Do Board members have any comments on the IASB's tentative decisions on the scope of the proposed standard, including the definition of 'public accountability'?

July 2022 ASAF meeting

13. At the July 2022 ASAF meeting the IASB is expected to ask ASAF members about any challenges that might arise in their jurisdiction on adopting the proposed standard that the IASB can address in finalising its proposals.[7]

[7] See Agenda Paper 7 *Interaction between local regulations and the proposed IFRS Accounting Standard* of the July 2022 ASAF meeting.

Interaction with UK notion of Public Interest Entity

14. A potential implication of the proposed clarification to the definition of public accountability (see table above) is that financial institutions and insurance companies could potentially be eligible to apply the proposed reduced disclosure standard if they can demonstrate that they do not hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses.

15. This could pose challenges in adopting the proposed standard because in the UK such entities are treated as public interest entities (PIEs) and on that basis are likely to be considered publicly accountable. PIEs are currently defined in the Statutory Audit Directive, implemented before the UK left the EU, as:

    a) entities whose transferable securities are admitted to trading on a regulated market;

    b) credit institutions; or

    c) insurance undertakings.

16. It has long been agreed in the UK that such entities generally hold assets in a fiduciary capacity and are publicly accountable. Therefore, full IFRS disclosures by such entities leads to higher quality financial reporting, supporting transparency and the provision of useful information to primary users.

17. Further, the Government's proposal is to extend the UK's PIE definition to include large companies within certain limits, regardless of business sector or whether they are admitted to trading on a regulated market. The Government's rationale for broadening the definition of PIE is that:

    "larger companies tend to have a higher number of employees, creditors and investors with greater social and economic impact should they fail. The continued success of large companies, whatever their legal status, also has a sizeable impact on the economy at large as well as on its employees, suppliers, customers, and others[8]."

18. If the Government enacts the proposal in legislation, and assuming current reporting requirements in the Companies Act do not change[9], then the UKEB might wish to consider seeking a way to prohibit such entities from providing reduced disclosures under the proposed standard, to support creditor protection and enhanced usefulness of information for users.

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8 See paragraph 1.3.15 of the consultation 'Restoring trust in audit and corporate governance'. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/970673/restoring-trust-in-audit-and-corporate-governance-command-paper.pdf

9 For example, to require all PIEs to apply UK-adopted IAS with full disclosures.

19. Further restricting the availability of the proposed standard in the UK would not necessarily be viewed negatively by the IASB:

> *"The proposed scope sets out the maximum scope for which the draft Standard is intended. If a jurisdiction considers that, given its particular circumstances, some entities within the proposed scope should not be permitted to apply the draft Standard, that jurisdiction could further restrict the scope of the draft Standard…."* [10]

20. However, detailed consideration of the mechanism to narrow the scope would be required, including whether this was possible under the UKEB's statutory powers in SI 2019/685. For example, consideration would need to be given to whether a 'carve out' under Regulation 6 of SI 2019/685 would be possible. Regulation 6(3)[11] permits, in "exceptional circumstances", the adoption of a standard in part only (e.g. in this case without the part on scope). Regulation 6(3) states:

> *Where the effect of regulation 7 is that an international accounting standard taken as a whole cannot be adopted, the Secretary of State may adopt an international accounting standard in part only, provided that—*
>
> *(a) those parts of the standard which are not adopted are—*
>
> > *(i) severable from the standard so that the rest of the standard is operational;*
> >
> > *(ii) severed only to the extent necessary to enable adoption of the rest of the standard for use within the United Kingdom; and*
>
> *(b) adoption of that part of the standard would be in compliance with regulation 7.*

21. However, a further step would then be required to set out the amended scope of the standard as adopted. Detailed further assessment of the practicalities of such an approach, including whether additional legislative changes were required, and of the impact of any such amendment would need be carried out.

10 See paragraph 44 of Agenda Paper 31A *Proposed scope of the draft Standard* of the May 2022 IASB meeting

11 https://www.legislation.gov.uk/uksi/2019/685/made

22. The final outcome of the proposals to treat large private companies with both 750+ employees and an annual turnover of £750m+ as PIEs will require careful consideration because the Government response to the consultation indicates:

> *Companies traded on the Alternative Investment Market (AIM) or other multilateral trading facilities will be PIEs if they meet this 750:750 test, but smaller companies on those markets will not become PIEs*[12]*.*

'Equivalence' issue

23. As highlighted in the table above, another concern for UK stakeholders during the development of the proposed standard was that the eligibility criteria only permit the use of the proposed standard by a subsidiary whose ultimate or intermediate parent produces consolidated financial statements in accordance with IFRS.

24. The IASB has not addressed this issue in its tentative decision on scope. However, the concern is highlighted in the July 2022 ASAF paper. In addition, as part of its redeliberation plan of the proposals in the ED, the IASB plans to discuss whether it can extend the eligibility of entities that can apply the proposed standard to those within groups using local GAAPs that might be deemed equivalent to IFRS Accounting Standards.

25. Whilst this eligibility criterion is unlikely to be a hindrance to the adoption of the proposed standard, as pointed out in UKEB FCL this will limit the uptake of the proposed standard. This is because eligible subsidiaries of consolidated groups where the parent's group accounts available for public use are prepared on an equivalent framework to IFRS[13], such as US GAAP, will not be permitted to use the proposed standard.

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12 See page 9 of Government response to the consultation on 'Restoring trust in audit and corporate governance'. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/970673/restoring-trust-in-audit-and-corporate-governance-command-paper.pdf

13 UK SI 2019/707, regulations 67 and 68. Equivalent standards are:
a) IFRS Standards as adopted by the European Union.
b) Generally Accepted Accounting Principles of Japan.
c) Generally Accepted Accounting Principles of the United States of America.
d) Generally Accepted Accounting Principles of the People's Republic of China.
e) Generally Accepted Accounting Principles of Canada.
f) Generally Accepted Accounting Principles of Korea

26. If the UKEB wished to address this concern, then one option would be to consider extending the scope to eligible subsidiaries whose ultimate or intermediate parent produces consolidated financial statements in accordance with IFRS or equivalent standards. The proposed standard will be part of IFRS Accounting Standards and optional for eligible subsidiaries. However, careful consideration of the precise mechanism for achieving such a UK-specific solution would be required, including whether it would be possible through the use of Regulation 6(4) of SI2019/685 which states:

> *(4) Where there is an option available as part of the standard, the Secretary of State may—*
>
> > *(a) make provision in the standard to extend the scope of undertakings eligible to use that option; and*
> >
> > *(b) make such extension of scope subject to an undertaking meeting criteria specified by the Secretary of State.*

27. A significant implication for the UK of making such an extension of scope on adoption is highlighted by the IASB:

> *"a jurisdiction may not permit entities outside the proposed scope to apply [the standard] and state compliance with IFRS Accounting Standards – that jurisdiction would need to incorporate the draft Standard into its local GAAP and entities would state compliance with the local GAAP in that jurisdiction.* [14]

28. In considering whether to amend the scope of the standard for use in the UK, the Board will need to have regard to the fact that, should it do so, the name '*UK-Adopted International Accounting Standards'* would have to change as the current copyright license agreement with the International Financial Reporting Standards Foundation would prohibit any reference to IFRS or IAS or similar terms in the name if such changes are made. Further, this could potentially lead to confusion for stakeholders.

Other challenges on endorsement/adoption

29. UK-adopted international accounting standards comprise IAS adopted in the EU as at 31 December 2020 and any standards adopted subsequently. There are differences between UK-adopted international accounting standards and IFRS Accounting Standards as issued by the IASB. For example, the EU did not adopt IFRS 14 *Regulatory Deferral Accounts*, preferring instead to wait until the IASB had completed its full project on this topic before considering adoption. This means that IFRS 14 is not part of UK-adopted international accounting standards. However, the proposed standard includes reduced disclosure requirements for IFRS 14.

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14 See paragraph 44 of Agenda Paper 31A *Proposed scope of the draft Standard* of the May 2022 IASB meeting.

30. The interactions between Companies Act 2006 provisions which permit or require companies to prepare their annual accounts and consolidated financial statements using UK-adopted international accounting standards, and this proposed standard[15] will need further consideration given the inconsistency that will arise, if not resolved by the IASB.

31. A number of other jurisdictions would face similar adoption challenges as identified for the UK. The IASB is gathering information through ASAF on any challenges on adopting the proposed standard which will be considered in its redeliberation of the ED proposals. Whilst it is not clear at this stage whether and how the IASB can address these issues in finalising its proposals, we believe that some of these issues may warrant local jurisdiction-based solutions. However, there is a need to balance the implications of such solutions and the expected limited uptake of the proposed standard in the UK. We will continue to monitor the debate on these challenges.

Question for the Board
32. Does the Board have any comments on (i) the potential challenges of adopting the proposed standard in the UK or (ii) whether and how the IASB can address those challenges?

15 For example, the requirement in paragraph 110 of the proposed standard for an explicit and unreserved statement of compliance with all the requirements in IFRS Standards.

Project timeline / Next steps

33. The IASB plans to continue its redeliberation of proposals in the ED in the fourth quarter of 2022 in the order listed in the table:

Topics	Details
1. Objective and scope of the proposed standard	• Interaction of the proposed standard with local regulations. • Clarifying the term 'available for public use'.
2. How disclosure requirements are developed	• Retain or modify/refine aspects of the agreed approach.
3. Proposed disclosure requirements	• Discussing and developing plan for revaluating disclosures
4. Applying the proposed standard	• Statement of compliance (interaction of paragraph 22 and paragraph 110 of the draft Standard). • Interaction with IFRS 1 *First-time Adoption of International Financial Reporting Standards*. • Transitioning to the proposed standard including interaction with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and other transition-related issues. • Interaction with other IASB projects. • Maintenance of the proposed standard.
5. Structure and form of the proposed standard	• Comments on the organisation of proposed disclosures, footnotes that refer to disclosure requirements in other IFRS Accounting Standards, appendices to the proposed standard. • Whether the proposals should be set out in a separate IFRS Accounting Standard.

34. The UKEB Secretariat will continue to monitor developments on this project and will update the Board at future meetings. Discussions of work to be undertaken by the UKEB will be agreed with the Board as part of its workplan discussions and reported on the UEKB website when the workplan is updated.

Ongoing Monitoring of Other IASB Projects

IASB Financial Reporting related updates

Equity Method research project

1. At its April 2022 meeting the IASB considered three approaches to applying the equity method when an investor purchases an additional ownership interest in an associate without a change in significant influence. At that meeting the IASB asked the staff to:

   a) develop its analysis further applying its preferred approach—under this approach an investor that has obtained significant influence would measure the investment in the associate as an accumulation of purchases; and

   b) consider the implications for an alternative approach—under this approach, after obtaining significant influence, the investment in the associate is measured as a single asset.

2. At its June 2022 meeting the IASB will consider the staff analysis of its preferred approach and the implication for an alternative approach.

3. At future IASB meetings, the staff plans to: (a) present the staff analysis on other application questions identified within the scope of the project; and (b) highlight to the IASB other application questions that, based on the selection process, would not be addressed in the project. The IASB will be asked to consider whether these questions warrant extending the scope of the project.

Disclosure Initiative – Targeted Standards Level Review of Disclosure

4. At its May 2022 Board meeting IASB continued to hear feedback from the Disclosure Initiative – Targeted Standards Level Review of Disclosure (the "Disclosure Pilot") project. The board made no decisions. A summary of the feedback is below.

   a) Almost all respondents welcomed the proposals for IASB to work closely with users of financial statements and other stakeholders in developing disclosure requirements.

   b) Many respondents welcomed proposals for IASB to include overall and specific disclosure objectives in disclosure requirements, as they enabled respondents to understand users' information needs.

   c) Many respondents noted the overall and specific disclosure objectives proposed for IFRS 13 and IFRS 19 were too broad and vague, likely leading to the disclosure of excessive information, some of which could be beyond the remit of financial statements. Objectives with more precision would help in exercising judgement on the information to disclose. Some preparers suggested the disclosure objectives should be context setting paragraphs not mandatory requirements.

d) Many respondents did not agree with the proposed move away from prescriptive disclosures, suggesting that IASB include a list of minimum required disclosure items to satisfy each disclosure objective. Their main concerns were:

   i. How to achieve compliance in an objectives-based regime.

   ii. Whether the costs of applying such an approach exceed the benefits.

   iii. Whether the proposed approach would provide more useful information to users, especially given the potential loss of comparability.

   iv. Whether the project objectives could be achieved in a less disruptive way, for example by reinforcing the need to apply materiality judgements.

Dynamic Risk Management

5. At its May 2022 meeting the IASB decided to move the Dynamic Risk Management project from the research programme to its standard-setting programme. At this point in time there is no indication of the IASB's expected timeline for this project.

6. We intend to bring further information on this project, including the IASB's next steps once they become clearer, to the Board's future meetings.

IFRS Interpretations Committee update

7. The IFRS Interpretations Committee (IFRIC) met on 14 and 15 June 2022. We generally only provide an update once the IASB has published its IFRIC Update which incorporates amendments to Tentative and Final Agenda Decisions that have been suggested during the meeting. However, there are two matters to which we would like to draw the Board's attention.

IFRS Interpretations Committee: Tentative Agenda Decision – Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17)

8. The IFRS Interpretations Committee (IC) had considered a submission from some UK stakeholders that identified two different ways of interpreting IFRS 17's requirements relating to insurance coverage for annuities. On 23 March 2022, the IC issued a Tentative Agenda Decision (TAD) that only one of those interpretations was compliant with IFRS 17's requirements. At its April 2022 meeting, the Board agreed to respond to the IC's TAD, and a response was submitted to the IC on 23 May 2022.

9. The UKEB response to the IC emphasised the importance of the issue to the UK insurance industry and encouraged the Committee to finalise the agenda decision as soon as was

practicable. The response also encouraged the IC to recommend to the IASB that it conducts a broader review of revenue recognition under IFRS 17, as part of the IFRS 17 post-implementation review.

10. At its meeting on 15 May 2022, the IC discussed the comment letter feedback received. Many respondents disagreed with parts of the technical analysis underlying the TAD and almost all respondents commented on the consequences of issuing an agenda decision less than a year before IFRS 17's effective date. Respondents expressed concerns around possible operational and financial reporting complexity and about the time needed to implement the change necessary to comply with the decision.

11. The staff paper for the May 2022 meeting[1] addresses the comments and concludes that, subject to some refinement to the wording of the decision, the staff continue to agree with the analysis and conclusions in the TAD.

12. All bar one of the IC members present voted to finalise the Agenda Decision.

Tentative Agenda Decision – Cash Received via Electronic Transfer as Settlement for a Financial Asset

13. The IFRIC also agreed to finalise its TAD on *Cash Received via Electronic Transfer as Settlement for a Financial Asset*. In brief, the submission had asked whether an entity derecognises a trade receivable and recognises the cash on the date the transfer is initiated or the date the transfer is received. The Committee essentially concluded these are two separate assessments, and are dependent on facts and circumstances. The receivable may be derecognised when the cash transfer is initiated, and cash may be recognised when the cash is received.

14. This represents quite a significant change from general accounting practice for many entities, and raises a number of questions about what is the appropriate accounting in the interim period, how should a trade payable be accounted for, and the impact on a number of related transactions, such as credit card receipts and cheques. IFRIC did not make any findings with regard to these questions.

15. After much discussion, including one reference to the TAD "opening pandora's box", the IFRIC decided it had no choice but to publish the Agenda Decision, with some amendments to the wording, as there had been no significant disagreement with the technical conclusions. There were significant concerns raised by the Committee about the consequences of the agenda decision, but they concluded only the IASB could address these through standard setting.

[1] Staff paper available [here]

16. We have previously raised this issue with IASB Board members and highlighted the UKEB's suggested solution included in the comment letter to the Post Implementation Review of IFRS 9 – Classification and Measurement. In that letter we noted:

> "…we have considered the recent IFRS Interpretations Committee (IFRIC) tentative agenda decision (TAD) Cash Received via Electronic Transfer as Settlement for a Financial Asset. This is an important issue for UK stakeholders and, given the widespread implications of the TAD including the requirement for significant analysis, consideration of legal rights and potential creation of a new class of assets/liabilities … we agree with the stakeholder feedback provided to IFRIC that this matter should be addressed as part of the PIR of IFRS 9. We recommend that the IASB consider whether there is evidence of diversity in practice for which the benefits of standard setting are likely to exceed the costs. If the IASB considers that standard setting is needed, we recommend that it performs further research to assess potential solutions, including considering whether applying a practical expedient, such as that already taken for "regular way transactions", might meet the concerns with the TAD without creating unintended consequences."[2]

17. The Secretariat will update the Board on final wording of the Agenda Decision and the IASB's response at a future meeting. However, we expect that this topic may be discussed at the upcoming ASAF meeting so any Board feedback would be welcome and can be highlighted at that meeting.

Question for the Board
18. Do Board members have any comments on the IFRIC Agenda Decision?

Primary Financial Statements

19. At its May 2022 meeting, the IASB discussed the Primary Financial Statements project and made tentative decisions on unusual items and MPMs. The tentative decisions are on aspects of detail which were not included in the ED and on which, therefore, the UKEB Secretariat's comment letter did not comment. The Secretariat supports the tentative decisions made. The tentative decisions on unusual items are due to be discussed at the July 2022 ASAF meeting. The tentative decisions are summarised in the table below.

[2] Final Comment Letter - Post Implementation Review of IFRS 9 - Classification and Measurement.pdf

Unusual items		
IASB tentative decision	**Change from ED proposal?**	**UKEB Secretariat view on tentative decision**
To change the name of this category of items to 'income and expenses with limited recurrence'.	Yes – ED proposed the name 'unusual items.'	Support proposed change in name as it better reflects the objective to improve the predictive value of financial information.
To define income and expenses with limited recurrence as those where it is 'reasonable to expect that income or expenses that are similar in type and amount will cease, and once ceased will not arise again, before the end of the assessment period.'	Yes – definition proposed in ED was 'income and expenses with limited predictive value.'	Support proposed change in definition from that proposed in ED as it attempts to define 'limited predictive value.' However, challenges with consistent application remain, particularly in relation to: 'reasonable to expect' 'similar in type and amount' and 'assessment period.'
To explore how to define the assessment period (e.g., by linking it to budget and forecast periods).	Yes – concept of assessment period was not included in ED.	Support, as consistent application is needed for the proposals to meet their objective of providing financial information with enhanced predictive value.

Management Performance Measures (MPMs)		
IASB tentative decision	**Change from ED proposal?**	**UKEB Secretariat view on tentative decision**
For each item in the reconciliation of MPMs to the most directly comparable IFRS sub-total or total, require disclosure of the income tax effect and the effect on the non-controlling interest.	No	Recommend targeted field-test to provide insight into cost and benefit.
For the disclosure of tax effect noted above, specify how to calculate the income tax effect by requiring an entity to either: (i) Calculate the tax effect at the statutory tax rate applicable to the transactions in the relevant jurisdictions, or (ii) Calculate the tax effect at the statutory rate applicable to the transactions in the relevant jurisdictions and then to allocate any tax effects of underlying transactions based on a	Yes – ED proposed option (ii) only	Subject to outcome of targeted field-test proposed above, support because option (i) provides an appropriate balance between cost and benefit and option (ii) allows a more sophisticated approach where that would provide more useful information.