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. In line with discussions with the Board, the Secretariat proactively monitors a range of 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. The UKEB Chair and Technical Director also participate in various international standard setter meetings, including IASB's Accounting Standards Advisory Forum (ASAF), EFRAG's Consultative Forum of Standard Setters (CFSS), International Forum for Accounting Standard Setters (IFASS) and World Standard Setters (WSS), that contribute to the ongoing work of the IFRS Foundation. Discussion by the Board help inform those interactions and may identify specific concerns or areas of focus for future work.

Summary of the issue

The following IASB projects are discussed in this paper:

1. Contractual Cash Flow Characteristics of Financial Assets (Amendments to IFRS 9)
2. Post-implementation Review of IFRS 9 – Classification and Measurement
3. Post-implementation Review of Hedge Accounting – IFRS 9 and IFRS 16
4. Financial Instruments with Characteristics of Equity
5. Goodwill and Impairment
6. Primary Financial Statements
7. Equity Method
8. Rate Regulated Activities
9. Extractive Activities
10. IFRS Interpretations Committee

Decisions for the Board

The Board is not asked to make any decisions. However, Board members are asked for any questions or comments on the updates provided in this paper.

Recommendation

N/A

Appendices

None

Contractual Cash Flow Characteristics of Financial Assets (Amendments to IFRS 9)

1. This new standard setting project is the IASB's response to feedback received on the IASB's *Request for Information Post-implementation Review of IFRS 9 - Classification and Measurement*, including that provided in the UKEB Comment Letter[1] submitted to the IASB in January 2022.

2. The IASB plans to publish an exposure draft by the end of Q1 2023 to clarify particular aspects of IFRS 9 *Financial Instruments* relating to the assessment of an asset's contractual cash flow characteristics (that is, the 'solely payments of principal and interest' or 'SPPI' requirements). The UKEB will have the opportunity to provide formal feedback to the proposed amendments when the IASB's exposure draft is published. Outreach on this topic will commence with the Financial Instruments Working Group when established later this year.

3. In September, the IASB made tentative decisions on the following topics:

   a) General SPPI requirements - the concept of basic lending arrangement, contingent events, including related examples; and

   b) Specific SPPI requirements - applicable to financial assets with non-recourse features and contractually linked instruments.

   A high-level summary of the IASB's tentative decisions is presented in the following paragraphs.

General SPPI requirements

The concept of basic lending arrangement

4. An underlying principle in IFRS 9 is that amortised cost provides useful information to users of financial statements about the amount, timing and uncertainty of future cash flows of financial assets only if such cash flows are SPPI.

5. IFRS 9 B4.1.7A establishes the link between SPPI and a basic lending arrangement by stating that contractual cash flows that are SPPI are consistent with a basic lending arrangement. IFRS 9 does not provide a definition of basic lending arrangement, but instead states that in a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest, but this can also include consideration for other basic lending risks, costs associated with holding the financial asset for a particular period of time, and a profit margin.

6. In September, the IASB tentatively decided to clarify that for contractual cash flows to be SPPI, a basic lending arrangement does not give rise to variability in cash flows due

[1] UKEB Final Comment Letter - Post Implementation Review of IFRS 9 - Classification and Measurement

to risk or factors that are unrelated to the borrower, even if such terms and conditions are common in the specific market in which the entity operates.

Contingent events

7. The SPPI assessment is based on all contractual cash flows that could arise over the life of a financial instrument (i.e. it is not a probability-based assessment). For purposes of the SPPI assessment an entity must assume that a contingent event will occur. IFRS 9 B4.1.10 requires an entity to assess the contractual cash flows before and after the contingent event to determine whether the cash flows are SPPI.

8. In September, the IASB tentatively decided to clarify that a financial asset that includes contractual terms that change the timing and amount of the contractual cash flows could be consistent with a basic lending arrangement and therefore have SPPI cash flows, if:

    a) The contractual cash flows that could arise from any contingent events are SPPI in all circumstances (i.e. the probability of a contingent event occurring is not considered);

    b) The contingent event is specific to the borrower;

    c) The timing and amount of any variability in contractual cash flows are determinable and specified in the contract; and

    d) The contractual cash flows arising from the contingent event do not represent an investment in the borrower or exposure to the performance of the underlying assets.

9. The IASB's agenda paper acknowledges that the requirement in paragraph 8b) above (i.e. requiring the contingent event to be specific to the borrower) has similarities with the assessment for derivatives under IFRS 9. However, during the meeting it was highlighted that there is no intended link between the guidance on SPPI and that on derivatives, therefore such assessments are not meant to be used interchangeably or applied by analogy.

Illustrative examples

10. Examples will be added to IFRS 9 to illustrate the application of the SPPI requirements to specific fact patterns.

11. The following IASB example illustrates cash flows that are SPPI:

Instrument	Analysis
Instrument I Instrument I is a loan that pays a fixed interest rate over the life of the loan. The fixed interest rate is periodically adjusted by a set number of basis points to reflect the borrower's achievement of a pre-defined ESG target that is specific to the borrower. If the borrower achieves the target, the contractual interest rate for the next period is reduced by the set number of basis points.	The contractual cash flows of the instrument are solely payments of principal and interest. The contingent event (meeting a pre-defined ESG target) is specific to the borrower and the changes in the contractual cash flows arising from the contingent event are set out in the contractual terms. The contractual cash flows arising over the life of the instrument are solely payments of principal and interest and do not represent an investment in the borrower or the underlying assets.

12. The following IASB example illustrates cash flows that are <u>not</u> SPPI:

Instrument	Analysis
Instrument J Instrument J is a loan with a contractual interest rate that is adjusted in accordance with the carbon price index.	The contractual cash flows of the instrument are not solely payments of principal and interest. The contractual cash flows on the instrument vary in response to a market variable (the carbon price index). The contractual cash flows that arise over the life of the instrument do not compensate the lender for the risks and costs associated with lending the principal amount to a particular borrower for a specified period of time and therefore are not consistent with a basic lending arrangement. .

Specific SPPI requirements

Financial assets with non-recourse features

13. As noted in the IASB agenda paper, in a non-recourse instrument, the creditor's ultimate claim is limited to the value of the underlying asset(s). Non-recourse does not refer to 'normal' collateralised debt where the creditor has a claim on the debtor in addition to the claim on the underlying asset(s).

14. In the context of the SPPI assessment, a financial asset with contractual terms including a non-recourse feature, would be inconsistent with a basic lending arrangement if the lender is exposed to the performance risk of an underlying asset (or pool of assets), in addition to (or instead of) the credit risk of the borrower.

15. At the September meeting, the IASB tentatively decided to clarify that in the case of a financial asset with non-recourse features:

    a) The lender is exposed to the performance risk of the underlying asset(s) throughout the life of the instrument both for the payment of the contractual payments as well as any payments in default; and

    b) The lender's contractual right to receive contractual payments over the life of the instrument is restricted to the cash flows generated by the underlying asset.

16. In addition, the IASB tentatively decided to add to IFRS 9 the following examples of relevant factors an entity could consider when assessing the underlying assets or cash flows, such as:

    a) The legal or capital structure of the borrower;

    b) The extent to which the expected cash flows from the underlying assets exceeds the contractual cash flows on the financial asset; or

    c) Whether there are other sources of finance (i.e. loans) that are subordinated to the loan from the lender.

17. The following was noted, either from the IASB discussions or from the agenda papers presented:

    a) The examples (in paragraph 16) are not exhaustive and none of the factors are determinative on their own.

    b) Determining whether the cash flows of a financial asset with non-recourse features are SPPI depends on the specific facts and circumstances and judgement might be needed.

    c) One relevant consideration in determining whether the contractual cash flows are SPPI, might be the legal structure of the borrower.

        i. In some scenarios, the non-recourse feature is not an explicit contractual term but resulting from the substance of the contractual cash flows. For example, a loan to a special purpose entity (SPE) may have contractual cash flows described as payments of principal and interest, but the lender's contractual right to the cash flows is limited to cash flows from a specified portfolio of assets of the SPE, which do not themselves meet the SPPI test.

        ii. Although it is not appropriate to conclude that all financial instruments with SPEs are financial assets with non-recourse features that result in cash flows that are not SPPI, the specific facts and circumstances must be assessed.

    d) Another relevant consideration could be the extent to which the expected cash flows from the underlying assets exceed the required contractual cash flows. Where most cashflows generated by the assets are required to service the loan the lender would be exposed to any and all losses from the underlying assets and the loan would represent an investment in the underlying assets (rather than cash flows that are SPPI). On the other hand, if the loan from the lender only requires a small portion of the underlying cashflows to service the loan, or further funding is provided by junior (subordinate) lenders, the contractual cash flows could be SPPI despite the non-recourse feature.

Contractually linked instruments (CLIs)

18. The IASB's agenda paper notes that one of the key characteristics of CLIs is the 'concentrations of credit risk'. Not all financial assets with non-recourse features have the unique characteristics of CLIs.

19. The IASB's agenda paper also notes that, typically, financial assets with non-recourse features participate proportionately in the performance of the underlying (ring-fenced) assets, that is, there is no concentration of credit risk. In contrast, in a CLI, the contractual linkage between the tranches reallocates credit risk amongst the tranche holders by creating a concentration of credit risk that results in any loss being shared disproportionately between the tranches. Typically, the most junior tranche has a loss absorption potential akin to equity, and therefore junior tranches can be viewed as providing credit protection to the more senior tranches.

20. In September, the IASB tentatively decided to include distinguishing characteristics of CLIs as part of the IFRS 9 application guidance. The unique characteristics of a CLI structure are[2]:

    a) The use of multiple contractually linked instruments;

    b) Non-recourse features;

    c) The prioritisation of payments through a waterfall payment structure; that creates

    d) Concentrations of credit risk resulting in a disproportionate reduction in contractual rights in the event of cash flows shortfalls.

21. The IASB also tentatively decided to clarify that the reference to 'instruments' in IFRS 9 B4.1.23 also includes financial instruments that are not fully in the scope of IFRS 9 such as lease receivables.

22. **Next steps** - The IASB staff is expected to present papers on Disclosures and Transition at a future meeting. The UKEB Secretariat will continue monitoring the IASB discussions.

Question for the Board
23. Do Board members have any questions or comments on the Contractual Cash Flow Characteristics of Financial Assets (Amendments to IFRS 9) update?

[2] For a CLI to be in the scope of the requirements in IFRS 9 B4.1.20-B4.1.26, an instrument should have all these characteristics.

Post-implementation Review of IFRS 9 – Classification and Measurement

24. At its September meeting, the IASB continued analysing feedback from the post-implementation review of IFRS 9 *Financial Instruments* - Classification and Measurement.

25. The IASB considered the following six matters raised in the feedback not specifically covered in the *Request for Information Post-implementation Review of IFRS 9 – Classification and Measurement:*

    a) Application of the derecognition requirements to financial assets;

    b) Cash received via electronic transfer as settlement for a financial asset;

    c) Contracts to buy or sell non-financial items;

    d) Accounting for transaction costs on equity investments for which an entity has elected to present changes in fair value in OCI;

    e) Financial assets and financial liabilities held for trading; and

    f) Purchased or originated credit-impaired financial assets.

26. The IASB also considered feedback from the Accounting Standards Advisory Forum (ASAF) on two application questions about the requirements in IFRS 9 to assess the contractual cash flow characteristics of a financial asset:

    a) Whether interest rates that are contractually adjusted for inflation introduce leverage; and

    b) Whether interest rates that include a government-imposed leverage factor are regulated interest rates as described in IFRS 9.

27. An update on the matter described in paragraph 25(b) can be found below in the IFRS Interpretations Committee of this document. The IASB decided to consider the matter described in paragraph 25(f) when it analyses feedback on the upcoming Post-implementation Review of IFRS 9 Impairment. The IASB also decided to take no further action on the other matters listed, nor on the two application questions considered by ASAF, either because matters are not widespread, not expected to have a material effect, or because the IASB considers IFRS 9 provides sufficient guidance.

28. **Next steps** – At future meetings, the IASB will analyse feedback on the remaining topics being considered in this Post-implementation Review. A Feedback Statement is expected to be published by the IASB in December 2022. The UKEB Secretariat will continue monitoring the IASB discussions.

Question for the Board
29. Do Board members have any questions or comments on the Post-implementation Review of IFRS 9 – Classification and Measurement update?

Post-implementation Review of Hedge Accounting - IFRS 9 and IFRS 16

30. At its September meeting, the IASB decided to consider in the second half of 2023 when to begin the Post-implementation Reviews of the hedge accounting requirements of IFRS 9 *Financial Instruments* and of IFRS 16 *Leases*.

31. **Next steps** – Based on the IASB's decision the UKEB Secretariat does not expect the associated Request for Information to be issued any earlier than the second half of 2024, but we will continue to monitor the IASB discussions.

Question for the Board
32. Do Board members have any questions or comments on the Post-implementation Review of Hedge Accounting requirements of IFRS 9 and IFRS 16 update?

Financial Instruments with Characteristics of Equity

33. At its September meeting the IASB continued its discussions on Financial Instruments with Characteristics of Equity (FICE), addressing the accounting for obligations to redeem own equity instruments, including written put options on non-controlling interests.

34. Put options on non-controlling interests (NCI puts) are common in many jurisdictions. They are granted to non-controlling interest holders to provide them with liquidity and the right to sell their shares to the majority shareholder in the future. They are exercisable at either a variable strike price or a fixed strike price at a specified future date (or period).

35. IAS 32 *Financial Instruments: Presentation* paragraph 23 requires a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset to be recognised as a financial liability. Such liability is recognised initially at the present value of the redemption amount and is reclassified from equity.

36. The IASB tentatively decided to propose amendments to IAS 32 to clarify[3]:

[3] Clarifications apply to all obligations to redeem own equity instruments regardless of whether they relate to NCI or other issued shares. They also apply to obligations from forward purchase contracts and written put options, as long as they are settled on a gross physical basis (i.e. consideration is paid in exchange

a) That paragraph 23 of IAS 32 also applies to an obligation to redeem an entity's own equity instruments that is required to be settled in a variable number of a different type of the entity's own equity instruments (that is, not only to transactions to be settled in cash or another financial asset).

b) The accounting on initial recognition of the obligation to redeem an entity's own equity instruments, if the entity does not already have access to the returns associated with an ownership interest. If the obligation involves non-controlling interests, the debit entry is recognised against a component of equity other than non-controlling interests. In the case of an entity's other obligations to purchase its own shares, the debit entry is recognised against a component of equity other than issued share capital.

c) That on expiry of a written put option on an entity's own equity instruments:

i. The financial liability is reclassified to the same component of equity as that from which it was reclassified on initial recognition of the put option: and

ii. The cumulative amount in retained earnings related to remeasuring the financial liability could be reclassified to another component of equity but is not reversed in profit or loss.

37. The IASB also tentatively decided to clarify that written put options and forward purchase contracts on an entity's own equity instruments are required to be presented gross, instead of net, in order:

a) To align the accounting for these instruments with the accounting for other obligations that are conditional on events or choices that are beyond the entity's control: and

b) To assist users of financial statements in assessing the entity's exposure to liquidity risk.

38. During the meeting the IASB asked staff to include explanation of the rationale for these tentative decisions and the boundaries of the current scope of the FICE project. Some IASB members suggested this could be included either as educational material accompanying the exposure draft or as part of the basis for conclusions.

39. **Next steps** – The following topics are expected to be discussed by the IASB at a future meeting:

a) To address questions arising during the meeting, the IASB staff is expected to present a paper on the initial measurement of the obligation to redeem an entity's own equity instruments. The focus for that paper will be initial measurement only,

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for own equity instruments). If the obligations were net cash settled or net share settled, derivative accounting would apply [IASB agenda paper 5, paragraph 10].

as subsequent measurement is subject to IFRS 9 requirements and therefore outside the scope of IAS 32 / FICE project.

b) Disclosure requirements will be discussed when the IASB considers more comprehensively whether any further disclosures are required resulting from the potential clarifications made to IAS 32 in the FICE project.

40. The UKEB Secretariat will continue monitoring the IASB discussions.

Question for the Board
41. Do Board members have any questions or comments on the Financial Instruments with Characteristics of Equity update?

Goodwill and Impairment

42. The UKEB presented its research paper ‘Subsequent Measurement of Goodwill: A Hybrid Model’ at the September 2022 CFSS, IFASS and ASAF meetings. The paper was well-received and stimulated discussion on the feasibility of a transition to a hybrid model for subsequent measurement of goodwill.

43. As part of its ongoing redeliberations following feedback to its Discussion Paper *Business Combinations: Disclosures, Goodwill and Impairment*, at its September meeting, the IASB tentatively decided to propose a disclosure package for business combinations.

44. That disclosure package would consist of:

Headline	**Detail**
a) Two new disclosure objectives to be added to IFRS 3 Business Combinations.	Entities to disclose information to help users of financial statements understand: The benefits that an entity expected from a business combination when agreeing the price to acquire a business; and The extent to which an entity’s objectives for a business combination are being met.
b) Two disclosure requirements to be added to IFRS 3 for all business combinations.	Disclose, in the year of a business combination, quantitative information about expected synergies. Disclose the strategic rationale for the business combination (to replace the current IFRS 3 requirement to disclose ‘primary reasons for the business combination’).

c) Three further disclosure requirements to be added to IFRS 3 for 'strategically important' business combinations.	Disclose, in the year of a business combination, management's objectives for the business combination. Disclose, in the year of a business combination, the metrics and targets management will use to monitor whether those objectives are being met. In subsequent periods, disclose the extent to which management's objectives are being met, using those metrics, for as long as management monitors the business combination against its objectives.
d) A definition of 'strategically important' and criteria for identifying strategically important business combinations.	A 'strategically important' business combination is one where not meeting its objectives would seriously put at risk the entity achieving its overall business strategy. A business combination is 'strategically important' if it meets any one of the criteria below: Its operating profit exceeds 10% of the acquirer's operating profit. Its revenue exceeds 10% of the acquirer's revenue. Its assets (including goodwill on acquisition) exceed 10% of the acquirer's assets. It results in an entity entering a new geographical area of operations or a new major line of business.
e) An exemption where disclosure can be expected to prejudice seriously any of the entity's objectives for the business combination.	If disclosure can be expected to prejudice seriously any of the entity's objectives for the business combination, exemption from disclosing the following: Management's objectives for the business combination. The metrics and targets management will use to monitor whether the objectives for the business combination are being met. Quantitative information about synergies expected to arise from the business combination.

45. The proposed disclosures in (a) and (b) in the table in paragraph 44 were proposed in the IASB's Discussion Paper *Business Combinations: Disclosures, Goodwill and Impairment* (the DP). The UKEB Secretariat's comment letter expressed support for those proposals, subject to concerns about commercial sensitivity of the proposed disclosure of quantitative information on expected synergies. These concerns appear to be addressed by the proposed exemption in (e) of the table in paragraph 44.

46. The proposed disclosures in (c) in the table in paragraph 44 were proposed in the DP. However, the DP proposed these disclosures for all business combinations, whereas IASB's current proposal is to require these disclosures only for strategically important business combinations. Many respondents to the DP, including the UKEB Secretariat, supported the proposed disclosures but highlighted concerns about the potential volume of disclosures. The IASB's current proposals to require these disclosures for only strategically important acquisitions appear to address the issue of potential volume of disclosure.

47. The IASB and FASB September joint education session featured goodwill and impairment. During the session staff from both Boards shared insights on subsequent measurement of goodwill from their respective projects.

48. **Next steps** – The IASB will continue its redeliberation on the feedback received on the DP at future meetings. The IASB's October meeting papers include a summary of the key findings of the UKEB research paper 'Subsequent Measurement of Goodwill: A Hybrid Model'. At its November 2022 meeting, the IASB will vote on whether to explore further the reintroduction of amortisation of goodwill. Following that decision, the IASB will decide whether to proceed to standard setting.

49. The UKEB Secretariat will continue monitoring the IASB discussions.

Question for the Board
50. Do Board members have any questions or comments on the Goodwill and Impairment update?

Primary Financial Statements

51. At its September meeting, the IASB continued its redeliberation of feedback to its Exposure Draft General Presentation and Disclosures (the ED) and made tentative decisions.

52. Two of the tentative decisions were about proposals in the ED. These decisions were:

    a) To not proceed with the proposals on unusual income and expenses; and

    b) To withdraw the proposed prohibition on a mixed presentation of operating expenses.

53. The UKEB Secretariat responded to the IASB's ED General Presentation and Disclosures in September 2020, before the establishment of the UK Endorsement Board. That response supported the ED's proposals on unusual income and expenses and on the prohibition of mixed presentation of operating expenses at a conceptual level, whilst recognising their practical challenges. Therefore, the tentative decisions made at IASB's September meeting on these proposals do not reflect the recommendations in the UKEB Secretariat's response.

54. The other tentative decisions made at the IASB's September meeting were on proposals which were not included in the ED, but which relate to either:

a) The practical application of proposals in the ED, or
b) Other tentative decisions made by the IASB as part of its redeliberation. These tentative decisions are summarised below.

Classification of income and expenses from investments, associates and joint ventures

55. To require income and expenses from investments not accounted for using the equity method to be classified:

    a) In the operating category if investing is a main business activity, and

    b) In the investing category if investing is not a main business activity.

56. To require entities with specified main business activities to classify income and expenses from associates and joint ventures accounted for using the equity method in the investing category.

Subtotals

57. To propose a new subtotal: 'operating profit or loss and income and expenses from investments accounted for using the equity method.'

Presentation of operating expenses

58. To expand the explanation of how operating expenses are allocated to categories when using the function of expense method, in order to clarify that the method involves allocation of operating expenses by activity.

59. To require an entity that presents functional line items to disclose a narrative description of what types of expenses (based on their nature) are included in each functional expense line.

60. To require operating expenses to be presented in the statement of profit or loss using a classification based either on their nature or function and to include application guidance on how to decide which method of presenting operating expenses provides the most useful information.

61. To provide application guidance to clarify:

    a) the requirement for consistent presentation of operating expenses from one reporting period to the next; and

    b) how to label nature line items when a mixed presentation is used.

62. **Next steps** – The IASB will continue its redeliberation on the feedback received on the ED at future meetings. The IASB is undertaking targeted outreach on tentative decisions to date which differ from those in the ED. The UKEB is assisting with that targeted outreach through discussion at the Investor, Preparer and Accounting Firms and Institutes Advisory Groups.

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

Question for the Board
64. Do Board members have any questions or comments on the Primary Financial Statements update?

Equity Method

65. At its September meeting, the IASB continued its discussion on two application questions and started discussing the application question on transactions between an investor and its associate.

Application question	IASB discussion/tentative decisions
How does an investor apply the equity method when purchasing an additional interest in an associate while retaining significant influence?	The IASB tentatively decided at the June 2022 meeting on a preferred approach which measures the investment in the associate (after having obtained significant influence) as an accumulation of purchases. The IASB continued its discussion on the application question, exploring alternatives for measuring the portion of the carrying amount of an investment in an associate to be derecognised, when an investor applies the preferred approach to a partial disposal while retaining significant influence. The IASB asked the staff to further consider the application of the preferred approach in such a derecognition scenario.
How to apply the equity method to changes in an associate's net assets that change the investor's ownership interest?	The IASB continued its discussion on the application question discussing how an investor could apply the preferred approach to changes in the associate's net assets that change an investor's ownership interest while retaining significant influence. The IASB tentatively decided that when the investor retains significant influence, an investor applying the preferred approach would recognise an increase in its ownership interest as a purchase of an additional interest, and a decrease as a partial disposal.

How should an investor recognise gains and losses from the sale of a subsidiary to an investee given the requirements of IFRS 10 and IAS 28?	The IASB discussed four alternatives for how an investor recognises gains and losses that arise on the sale of a subsidiary to its associate: • Alternative 1—account for all contributions and sales applying IFRS 10. • Alternative 2—apply IFRS 10 requirements and then overlay with IAS 28 requirements (overlay approach). • Alternative 3—apply IFRS 10 to contributions and sales of businesses and of assets depending on whether they are ordinary activities (mixture). Alternative 4—account for all contributions and sales of businesses applying IFRS 10 and account for all other contributions and sales applying IAS 28 (Reviving the 2014 Amendment). The staff expects to bring a decision-making paper on this application question to the IASB in Q1 2023.

66. **Next steps**—at the October 2022 meeting, the staff will summarise the status of the Equity Method research project and ask if the IASB agrees to continue the project with with its current objective and approach.

67. The UKEB Secretariat will continue monitoring the IASB discussions.

Question for the Board
68. Do Board members have any questions or comments on the Equity Method update?

Rate-regulated Activities

69. The Exposure Draft *Regulatory Assets and Regulatory Liabilities* (RRA ED)[4] was published in January 2021 and the UKEB submitted its comment letter[5] at the end of July 2021. Since February 2022, the IASB has been discussing the feedback on its proposals. The ED proposed an accounting model to supplement the information that an entity already provides by applying IFRS Accounting Standards when reporting on rate-regulated activities.

70. The IASB discussed the interaction of the RRA standard with IFRIC 12 at its September meeting. In our comment letter we recommended that the proposed standard should explicitly exclude service concession arrangements from its scope unless there is clear

4 The IASB's Exposure Draft can be found here.
5 The UKEB's comment letter can be found here.

evidence that users would gain additional information from the application of both IFRIC 12 and the proposed standard to such arrangements.

71. The IASB tentatively decided to clarify that the other IFRS standards, including IFRIC 12, are applied to transactions and events before the applying the RRA standard to any remaining rights and obligations. Additionally, examples will be included.

72. These decisions appear to address the concerns we expressed in our comment letter given that there will be clarity as to what the regulatory asset and/or regulatory liability would represent over and above the amounts already recognised under IFRIC 12.

73. **Next steps** – The IASB will continue its redeliberation on the feedback received on the ED at future meetings.

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

Question for the Board
75. Do Board members have any questions or comments on the RRA update?

Extractive Activities

76. The IASB are continuing to explore developing requirements or guidance to improve an entity's disclosures about its exploration and evaluation expenditure and activities in order to provide more useful information to users of financial statements; and removing the temporary status of IFRS 6 Exploration for and Evaluation of Mineral Resources.

77. The IASB decided to conduct limited outreach with users, preparers and auditors to obtain their feedback on:

a) whether and how entities can disclose better information about the different accounting policies entities apply to E&E expenditure specifically in relation to:

i) unit of account;

ii) E&E expenditure; and

iii) when capitalisation starts and stops;

b) whether information about cumulative E&E expenditure could be provided to help compare entities that apply different accounting policies for E&E expenditure; and

c) whether information about the risks and uncertainties associated with E&E expenditure and activities could be provided.

78. **Next steps** - The IASB staff is expected to bring back the findings from the research and consider next steps for the project in H1 2023.

Question for the Board
79. Do Board members have any questions or comments on the Extractive Activities update?

IFRS Interpretations Committee

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

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

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

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

IFRS Interpretations Committee Agenda Decision: Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9 Financial Instruments)

81. The IASB considered the Interpretations Committee discussions and respondents' comments to the agenda decision (AD) *Cash Received via Electronic Transfer as Settlement for a Financial Asset* (IFRS 9). Instead of proceeding with ratifying the agenda decision the IASB decided to explore narrow-scope standard-setting as part of its Post-implementation Review IFRS 9.

82. This is consistent with recommendations in the UKEB Comment Letter submitted to the IASB in January 2022 in response to the *Request for Information Post-implementation Review IFRS 9 Classification and Measurement*. The UKEB letter expressed concern with then tentative agenda decision (TAD) and recommended that "*the IASB considers 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*".

83. **Next steps** – The IASB will explore possible narrow-scope standard-setting at a future meeting. The UKEB Secretariat will continue monitoring the IASB discussions.

Matters received but not yet presented to the Interpretations Committee

Topic	Lease payments linked to cadastral value	Consolidation of a non-hyperinflationary subsidiary by a hyperinflationary parent
Standard	IFRS 16	IAS 29 / IAS 21
Tabled	March	April
Question*	Lease payments in land leases (e.g. from municipal, regional or federal authorities) are often determined based on the valuations of the land plots recorded in the state register (cadastre). How should the lessee treat lease payments linked to cadastral value when measuring the lease liability?	How a parent with a functional and presentation currency that is hyperinflationary consolidates a subsidiary with a functional currency that is not hyperinflationary
UKEB staff view	We recommend no action at this time. We are not aware that this is a significant issue in the UK.	We recommend no action at this time. We are not aware that this is a significant issue in the UK.

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

Matters under consideration by the Interpretations Committee

TENTATIVE AGENDA DECISIONS OPEN FOR COMMENT	
Topic	**None to report**
Standard	
Comments due	
Question*	
Tentative conclusion*	
UKEB staff view	

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

TENTATIVE AGENDA DECISIONS CLOSED FOR COMMENT	
Topic	**None to report**
Standard	
Next Step	
Question*	
Tentative conclusion*	
Observation	

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

Agenda decisions waiting for IASB ratification

Topic	Multi-currency Groups of Insurance Contracts	Special purpose acquisition companies (SPAC): accounting for warrants at acquisition
Standard	IAS 21 / IFRS 17	IFRS 2; IAS 32
Question*	Whether, with regard to a group of insurance contracts that generate cash flows in more than one currency (a multi-currency group of insurance contracts), an entity considers currency exchange rate risk when applying IFRS 17 to identify portfolios of insurance contracts; and how an entity applies IAS 21 in conjunction with IFRS 17 in measuring a multicurrency group of insurance contracts.	Whether warrants issued by a private operating company to acquire a SPAC with certain conditions are in the scope of IFRS 2 *Share-based Payment* or IAS 32 *Financial Instruments: Presentation* at and after the acquisition.
Conclusion*	The Interpretations Committee concluded that, because paragraph 14 of IFRS 17 refers to 'similar risks' without specifying any particular types of risk, an entity is required to consider all risks—including currency exchange rate risks—when identifying portfolios of insurance contracts. However, 'similar risks' does not mean 'identical risks'. Therefore, an entity could identify portfolios of contracts that include contracts subject to different currency exchange rate risks. The entity's accounting policy on currency denomination determines which effects of changes in exchange rates are changes in financial risk accounted for applying IFRS 17 and which of these effects are exchange differences accounted for applying IAS 21.	The Interpretations Committee concluded that the entity applies IFRS 2 in accounting for instruments issued to acquire the stock exchange listing service and IAS 32 in accounting for instruments issued to acquire cash and assume any liabilities related to the SPAC warrants—those instruments were not issued to acquire goods or services and are not in the scope of IFRS 2.

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

Agenda decisions waiting for IASB ratification continued

Topic	[Lessor Forgiveness of Lease Payments]
Standard	IFRS 16; IFRS 9
Question*	a. how the lessor applies the expected credit loss model in IFRS 9 to the operating lease receivable before the rent concession is granted if it expects to forgive payments due from the lessee under the lease contract; and b. whether the lessor applies the derecognition requirements in IFRS 9 or the lease modification requirements in IFRS 16 in accounting for the rent concession.
Conclusion*	The Interpretations Committee concluded that, a. before the rent concession is granted, the lessor measures expected credit losses on the operating lease receivable in a way that reflects 'an unbiased and probability-weighted amount …', 'the time value of money', and 'reasonable and supportable information …' (as required by paragraph 5.5.17 of IFRS 9). This measurement of expected credit losses includes the lessor considering its expectations of forgiving lease payments recognised as part of that receivable. b. the lessor accounts for the rent concession described in the request on the date it is granted by applying: (a) the derecognition requirements in IFRS 9 to forgiven lease payments that the lessor has recognised as an operating lease receivable; and (b) the lease modification requirements in IFRS 16 to forgiven lease payments that the lessor has not recognised as an operating lease receivable.
Observation	This Agenda Decision has been raised in preliminary stakeholder feedback for the Post-implementation Review of IFRS 9-Impairment, as some stakeholders feel it expands the concept of "expected credit loss" beyond their current understanding. The UKEB secretariat have discussed this concern with IASB staff, and the issue was raised at the September 2022 ASAF meeting by several national standard setters including the UKEB. We will explore this issue further as part of the PIR of IFRS 9 – Impairment project.

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

Question for the Board
84. Do Board members have any questions or comments on the IFRS Interpretations Committee update?