Ongoing monitoring of IASB Projects—Other topics

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 setting meetings, including ASAF, CFSS and WSS, that contribute to the ongoing work of the IFRS Foundation. These discussions with the Board help inform those interactions, and may identify specific concerns, or areas of focus for future work.

Summary of the Issue

The following projects are discussed in this paper:

1. Primary Financial Statements
2. Business Combinations under Common Control
3. Contractual Cash Flow Characteristics of Financial Assets
4. Post Implementation Review (PIR) of IFRS 9
5. Subsidiaries without Public Accountability: Disclosures
6. Non-Current Liabilities with Covenants
7. Supplier Finance Arrangements
8. Financial Instruments with Characteristics of Equity
9. Equity method
10. IFRS Interpretations Committee

Questions for the Board

Do Board members have any questions or comments on the updates provided in this paper?

Next steps

Feedback from the Board will help inform future UKEB discussions and, where appropriate, project work.

Ongoing monitoring of IASB projects

IASB financial reporting related updates

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

Question for the Board
2. Do Board members have any questions or comments on the updates provided in this paper?

Primary Financial Statements

3. The IASB's Exposure Draft (ED) proposed the prohibition of multi-column formats for the presentation of management performance measures (MPMs) in the statement of profit or loss. The view in the ED was that such presentation gives too much prominence to non-IFRS measures.

4. At its June 2022 meeting, the IASB tentatively decided not to prohibit the use of multi-column formats for the presentation of MPMs in the statement of profit or loss. This was consistent with the UKEB Secretariat comment letter recommendation that multi-column formats for the presentation of MPMs in the statement of profit or loss should not be prohibited.

5. At the July 2022 ASAF meeting, IASB staff will ask NSS for support with targeted outreach in H2 2022 on some specific aspects of the Primary Financial Statement project. IASB staff have identified the topics below for targeted outreach. We agree that these topics are the most suitable ones for targeted outreach.

   a) Income and expenses of limited recurrence (unusual items)

   b) Disclosure of operating expenses by nature

   c) Management performance measures

   d) Classification of income and expenses in the financing category

   e) Aspects of proposals for entities with specified business activities

Business Combinations under Common Control

6. At its June 2022 meeting, the IASB was presented with staff analysis of feedback on selecting the measurement method to apply to a business combination under common control (BCUCC). No decisions were made.

7. The exposure draft had proposed that when selecting the measurement method:
   a) Neither the acquisition method nor book-value method should apply to all BCUCCs.
   b) The acquisition method should be applied if the BCUCC affects non-controlling shareholders of the receiving entity.
   c) A book value method should be applied to all other BCUCCs.
8. Based on their analysis of feedback received the staff recommended that when IASB deliberate the selection method for the purpose of standard setting a two step process should be used:
   a) Consider and tentatively decide whether conceptually the acquisition method/ book-value method should apply to BCUCCs; and
   b) Consider practical reasons, such as the cost constraint, as to why the conceptual approach above may require modification and make adjustments to the tentative decision.
9. Following the above methodology, the staff concluded that conceptually the acquisition method should apply to all BCUCCs. Practical considerations will be considered at a future meeting.

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

10. In May 2022 the IASB decided to start a standard setting project to clarify particular aspects of IFRS 9 relating to the assessment of an asset's contractual cashflow characteristics. At its June 2022 meeting, the IASB was presented with proposed objectives, scope and timing for such a project.
11. Further information on the project was included in the IFRS 9 update provided to the June 2022 UKEB Board meeting. The IASB aims to publish an exposure draft on these topics by the end of Q1 2023.

Post Implementation Review (PIR) of IFRS 9

12. At its June 2022 meeting, the IASB was presented with further feedback from the Classification and Measurement stage of the IFRS 9 PIR. This focussed on the topics of equity instruments and Other Comprehensive Income (summarised below), and a literature review. No decisions were made. The IASB staff will present a further analysis of these matters at a later meeting.
13. Most respondents who commented on equity instruments said the requirements in IFRS 9 were largely working as intended, and that fair value measurement is the most appropriate basis for investments in equity instruments. A few respondents expressed the view that this is only appropriate for the statement of financial position, not for assessing performance. Feedback presented to the March 2022 IASB meeting on the Other Comprehensive Income (OCI) election had indicated that stakeholders were

polarised between those who are supportive of the status quo, and those who feel strongly that the election should be available for a wider scope of instruments.

14. Many respondents said that generally the option to present fair value changes on investments in equity instruments in OCI works well. Reasons for support included the view that such gains/losses are incidental to performance, that this approach simplifies previously complex accounting, that it does not distort the presentation of financial performance and allows users to easily identify the associated fair value changes. One regulator referenced public reports which had observed "no evidence yet" of the previous concern that this accounting treatment may negatively affect long-term investment decisions.

15. Some respondents said that the prohibition on recycling (preventing fair value gains and losses on equity instruments initially recognised in OCI from being recognised in profit or loss on disposal) could distort the reporting of core business performance. In their view IFRS 9 does not provide users with the most useful information about the performance of equity investments held for the long term. Others supported non-recycling noting that fair value gains and losses should be recognised only once, that recycling could incentivise managing disposals to achieve an accounting outcome, and that recycling would require an impairment model which was considered complex and difficult to develop. Some respondents questioned whether the requirements were being applied consistently, particularly in relation to IFRS 9 para 5.7.5 which provides the criteria for equity investments eligible for the OCI election.

16. Many respondents asked the IASB to broaden the scope of equity investments that are eligible for the OCI election as they were either using, or intended to use, the OCI election for non-trading investments beyond "strategic investments", or for "equity like" investments.

Subsidiaries without Public Accountability: Disclosures

17. At its June 2022 meeting, the IASB decided to proceed with the ED proposals and develop a final IFRS Accounting Standard. The IASB agreed a plan for redeliberating the feedback on the ED and will continue its redeliberation in the fourth quarter of 2022 for topics other than scope (May 2022) and the definition of public accountability (May and June 2022).

18. The ED was developed considering all IFRS Standards issued as at 28 February 2021 and Exposure Drafts published as at 1 January 2021, except for the Exposure Draft *General Presentation and Disclosures*. At its June 2022 meeting, the IASB tentatively decided to proceed with that approach and to consider amendments to the disclosure requirements in IFRS Accounting Standards issued after 28 February 2021 following the issuance of the new standard.

19. At the July 2022 ASAF meeting, IASB staff will ask NSS for any challenges that might arise on adopting the proposed standard and that the IASB can address in finalising its

proposals. We have suggested that the following jurisdiction-specific challenges could be raised at the meeting:

a) The interaction between the IASB's definition of public accountability and the proposed new UK definition of a public interest entity (PIE).

b) The eligibility criteria in the ED which only permit the use of the proposed standard by a subsidiary whose ultimate or intermediate parent produces consolidated financial statements in accordance with IFRS.

c) Differences between UK-adopted international accounting standards and IFRS Accounting Standards as issued by the IASB. For example, IFRS 14 *Regulatory Deferral Accounts* is not part of UK-adopted international accounting standards. However, the proposed standard includes reduced disclosure requirements for IFRS 14.

Non-Current Liabilities with Covenants

20. At its June 2022 meeting, the IASB discussed feedback on its Exposure Draft *Non-current Liabilities with Covenants* (ED), which proposed amendments to IAS 1 *Presentation of Financial Statements*.

21. The table on the following page summarises the IASB's proposals in its ED, the UKEB's response in our comment letter[1], and the tentative decisions made by the IASB at their June board meeting. We are pleased to note that many of the decisions made at the June IASB board meeting align with recommendations in our final comment letter.

1 IFRS - Exposure Draft and comment letters: Non-current Liabilities with Covenants

IASB proposal	UKEB final position[2]	IASB Tentative Decision
That the classification of a liability as current or non-current should be based on conditions that exist at the end of the reporting period, even if that compliance is only tested later.	We agreed in principle with this approach. However, we believed that "specified conditions" either needed to be defined or the term "condition" should be used. We also recommended some redrafting for clarity.	The IASB retained this proposal but there will be some rewording in the final standard to enhance clarity of the paragraph
When an entity classifies a liability subject to conditions as non-current, it would be required to disclose information in the notes that enables users of financial statements to assess the risk that the liability could become repayable within twelve months.	We supported the objective of enhancing disclosure in the notes to provide useful information that enables users of financial statements to assess the risk that a liability classified as non-current could become repayable within twelve months. However, we suggested that a number of proposed requirements were deleted as we did not consider that they are directly relevant to the disclosure objective.	The IASB has made a number of modifications to the specific disclosure requirements proposed in the original exposure draft. The proposals we suggested be deleted have been removed. A specific requirement to disclose information about facts and circumstances that indicate the entity may have difficulty complying with covenants when it is required to do so has been added.
To require an entity to present separately, in its statement of financial position, liabilities classified as non-current for which the entity's right to defer settlement for at least twelve months after the reporting period is subject to compliance with specified conditions within twelve months after the reporting period.	We did not support this proposal for a number of reasons, including concerns that few liabilities would not meet these conditions, and that such a requirement was not consistent with a principle-based approach to financial accounting.	The IASB has deleted this requirement. It is to be replaced with a requirement to disclose the carrying amount of non-current liabilities with covenants in the notes.
To clarify circumstances in which an entity does not have a right to defer settlement of a liability for at least twelve months after the reporting period.	We believed the proposals in paragraph 72C(b) were likely to lead to diversity in practice and have unintended consequences when it comes to classification. We recommended deletion of paragraph 72C.	The IASB has deleted paragraph 72C.
To require retrospective application of the amendments and defer the effective date of the 2020 amendments to IAS 1 to no earlier than 1 January 2024.	We agreed but noted that entities should not be able to early adopt the 2020 amendments without also adopting these amendments.	The IASB retained this proposal but will make it clear that entities cannot early adopt the 2020 amendments without also adopting these amendments.

22. IASB Board members asked that IASB staff move quickly to finalise the amendments. The UKEB expect that the effective date will be agreed at the next IASB meeting, and that the amendments will be published in Q4 2022. Once the IASB issue the final

2 See the UKEB's Feedback Statement on the ED: [Feedback Statement - Non-Current Liabilities with Covenants]

amendment, the UKEB will undertake its endorsement process for UK adoption of the amendment.

Supplier Finance Arrangements

23. In November 2021 the IASB published an Exposure Draft *Supplier Finance Arrangements* proposing amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*. The UKEB submitted its comment letter on 28 March 2022. While we support the objective of the project, we suggested some recommendations to enhance the IASB's proposals.

24. The IASB plans to discuss an analysis of the feedback received at their July 2022 meeting. We plan to present a summary of the IASB's feedback analysis at the UKEB's September Board meeting.

Financial Instruments with Characteristics of Equity

25. The IASB continued its discussions on Financial Instruments with Characteristics of Equity (FICE) at its meetings in the first half of 2022, addressing the topic of reclassifications between financial liabilities and equity.

26. IAS 32 *Financial Instruments: Presentation* contains no general requirements on reclassifications between financial liabilities and equity. The IASB staff noted that there was evidence from feedback on the 2018 FICE Discussion Paper and from informal discussions with the large accounting firms that the requirements of IAS 32 are unclear and that there may be diversity in practice.

27. Discussions focused on changes in the substance of the contractual terms when there is no modification to the contract. Examples could include:

    a) Changes in the substance of the contractual terms due to the passage of time: for example, when exercise prices or the terms of a conversion option are fixed not at inception but only at a later date; or when a contractual option expires.

    b) Changes arising from changes in circumstances outside the contract, for example a change in functional currency or in a group's structure.

28. In June 2022 the IASB tentatively decided to add general requirements on reclassification to IAS 32 to prohibit reclassification other than for changes in the substance of the contractual terms arising from changes in circumstances outside the contract (i.e. b) above). A principal reason for excluding 'passage of time' type changes is that the contractual terms are known at initial recognition and classification is based on the contractual terms over the life of the instrument, consistent with the assessment of contractual cash flow characteristics of a financial asset under IFRS 9. Further, requiring reclassification for all changes in the substance of the contractual terms would represent a more fundamental change to IAS 32, inconsistent with the intended scope of the project.

29. The IASB also tentatively decided to clarify that:

a) a financial liability reclassified from equity would be measured at fair value at the date of reclassification, and any difference from the carrying amount of the equity would be recognised in equity;

b) an equity instrument reclassified from financial liabilities would be measured at the carrying value of the financial liability at the date of reclassification, meaning no gain or loss would be recognised; and

c) any reclassification would be accounted for in the reporting period in which the change in circumstances occurred.

30. The IASB will discuss other topics in the FICE project during the remainder of 2022. Further information on the project will be brought to the UKEB at its future meetings.

Equity Method

31. At its June 2022 meeting, the IASB continued the discussion, started at its April 2022 meeting, on the application question:

how does an investor apply the equity method of accounting when purchasing an additional interest (or disposing of an interest) in an associate while retaining significant influence?

32. The IASB considered staff analysis of its preferred approach to applying the equity method of accounting, along with the implications of an alternative approach. Under the preferred approach, after gaining significant influence, an investor measures its additional interests in an associate as an accumulation of purchases. Under the alternative approach, after gaining significant influence, an investor measures its investment in the associate as a single asset.

33. The IASB tentatively decided that applying the preferred approach to a partial disposal, where significant influence is retained, an investor would measure the portion of the carrying amount of an investment in an associate to be derecognised using:

a) a specific identification method—if the specific portion of the investment being disposed of and its cost can be identified; and

b) the last-in, first-out method—if the specific portion of the investment being disposed of cannot be identified.

34. The IASB decided to explore practical methods of measuring the portion of the carrying amount of an investment in an associate to be derecognised applying the preferred approach.

35. At a future meeting the IASB will continue its discussion on how to apply its preferred and alternative approaches to other changes in an associate's net assets that change an investor's ownership interest (other than purchases and disposals). The IASB will discuss the other application questions within the scope of the project at future

meetings and will decide whether to consider other application questions outside the scope of the project.

IFRS Interpretations Committee

36. 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 (IFRIC). 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 IFRIC's analysis; or

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

37. The tables below identify matters considered by IFRIC as at its June 2022 meeting, and where appropriate provide recommendations about further actions for the UKEB.

38. UKEB Board Members and the Secretariat are talking to IASB staff about IFRIC's Agenda Decision *Cash Received via Electronic Transfer as Settlement for a Financial Asset* and watch with interest what the IASB will decide when the Agenda Decision is brought to the IASB for ratification. We expect to update the Board on this decision in September.

39. The Secretariat have not made any recommendations for other action in the July report.

Matters received but not yet presented to IFRIC

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 IFRIC

TENTATIVE AGENDA DECISIONS OPEN FOR COMMENT	
Topic	**Multi-currency Groups of Insurance Contracts**
Standard	IAS 21 / IFRS 17
Comments due	19/08/22
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.
Tentative IFRIC conclusion*	IFRIC acknowledged that IFRS Accounting Standards include no explicit requirements on how to determine the currency denomination of transactions or items that generate cash flows in more than one currency. They did identify specific elements of IFRS 17 and IAS 21 that would apply, but noted that an entity would need to use its judgement to developing and applying an accounting policy (in accordance with IAS 8) based on its specific circumstances and the terms of the contracts in the group. In the light of its analysis, IFRIC considered whether to add to the work plan a standard-setting project on how to account for the foreign currency aspects of insurance contracts. IFRIC observed that it has not obtained evidence that such a project would be sufficiently narrow in scope that it could address it in an efficient manner. Consequently, they have recommended not to add a standard-setting project to the work plan.
UKEB staff view	We recommend no action at this time. The matter was raised by a single member of the UKEB's Insurance TAG as a potential topic for the TAG to discuss in summer 2020. While it may be of most relevance to Lloyd's and London Market insurers with international books of business, the principal issues were the lack of guidance in the Standard and technical complexity. There was no suggestion there was a problem with the Standard's requirements, so it was not discussed at the TAG on the basis it was (i) interpretation and (ii) probably not significant.

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

TENTATIVE AGENDA DECISIONS CLOSED FOR COMMENT IN MAY 2022			
Topic	Special purpose acquisition companies (SPAC): accounting for warrants at acquisition	Special purpose acquisition companies (SPAC): classification of public shares as liabilities or equity	Lessor Forgiveness of Lease Payments
Standard	IFRS 2; IAS 32	IAS 32	IFRS 16; IFRS 9
Next Step	TAD Feedback September 2022	Agenda Decision July	TAD Feedback September 2022
Question*	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.	Whether and under what circumstances class B shares in SPAC should be classified as liabilities or as equity instruments. What impact do the following features have on the classification: a) the existence of a right to demand reimbursement of shares in the event of an acquisition. b) provisions regarding the SPAC's liquidation, in particular the possibility to extend the life of the SPAC.	a) How a lessor and lessee account for voluntary forgiveness of lease payments by the lessor. b) How a lessor estimates an impairment allowance for a lease receivable when it expects to forgive future lease payments.
Tentative IFRIC conclusion*	IFRIC 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.	IFRIC concluded that the matter described in the request is, in isolation, too narrow for the IASB or IFRIC to address in a cost-effective manner. Instead, the IASB should consider the matter as part of its broader discussions on the FICE project.	IFRIC concluded that the lessor accounts for the rent concession described in the request by applying the derecognition requirements in IFRS 9 to forgiven lease payments that the lessor had included in an operating lease receivable on the date the rent concession is granted; and the lease modification requirements in IFRS 16 to forgiven lease payments that the lessor had not included in an operating lease receivable.
Observation	11 comment letters. 5 Standard Setters; 4 large accounting firms.	9 comment letters. 3 Standard Setters; 2 large accounting firms.	24 comment letters. 8 Standard Setters; 6 large accounting firms.

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TENTATIVE AGENDA DECISIONS CLOSED FOR COMMENT IN APRIL 2022	
Topic	[Negative Low Emission Vehicle Credits]
Standard	IAS 37
Next Step	Agenda Decision July
Question*	Whether particular measures to encourage reductions in vehicle carbon emissions give rise to obligations that meet the definition of a liability in IAS 37.
Tentative IFRIC conclusion*	IFRIC concluded that an entity that has produced or imported vehicles with average fuel emissions higher than the government target has a legal obligation that meets the definition of a liability in IAS 37, unless accepting sanctions is a realistic alternative to eliminating negative credits for that entity. In the latter situation IFRIC concluded that such an entity could have a constructive obligation that meets the definition of a liability in IAS 37. The entity would have such an obligation if it has taken an action (for example, made a sufficiently specific current statement) that has created valid expectations in other parties that it will eliminate negative credits generated from its past production or import activities.
Observation	15 Comment Letters. 6 Standard Setters; 2 large accounting firms; ICAEW

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Agenda decisions waiting for IASB ratification

Topic	[Cash Received via Electronic Transfer as Settlement for a Financial Asset]	[Transfer of Insurance Coverage under a Group of Annuity Contracts]
Standard	IFRS 9	IFRS 17
Question*	Whether an entity can derecognise a trade receivable and recognise cash on the date the cash transfer is initiated (its reporting date), rather than on the date the cash transfer is settled (after its reporting date).	IFRIC received a request about a group of annuity contracts. The request asked how an entity determines the amount of the contractual service margin to recognise in profit or loss in a period because of the transfer of insurance coverage for survival in that period.
Tentative IFRIC conclusion*	IFRIC concluded that, applying paragraphs 3.2.3 and 3.1.1 of IFRS 9, the entity derecognises the trade receivable on the date on which its contractual rights to the cash flows from the trade receivable expire; and recognises the cash (or another financial asset) received as settlement for that trade receivable on the same date.	IFRIC concluded that, in applying IFRS 17 to determine the quantity of the benefits of insurance coverage for survival provided under each annuity contract, a method based on the amount of the annuity payment the policyholder is able to validly claim meets the principle in paragraph B119 of IFRS 17 of reflecting the insurance coverage provided in each period by: a) assigning a quantity of the benefits only to periods for which the entity has an obligation to investigate and pay valid claims for the insured event (survival of the policyholder); and b) aligning the quantity of the benefits provided in a period with the amount the policyholder is able to validly claim in each period.
Observation	27 Comment Letters: 5 Standard Setters; 5 of Big Six; BP; Natwest Group. UKEB Board Members have noted concerns about the potential impact of Agenda Decision. We are continuing to monitor.	30 comment letters: 8 Standard Setters; 2 large accounting firms; ICAEW; Rothesay; AVIVA; Legal & General. UKEB submitted a comment letter supporting finalisation of the Agenda Decision.

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