Ongoing monitoring of IASB Projects — 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 projects are discussed in this paper (the topics that will be discussed at the ASAF meeting are asterisked):

1. Rate-regulated Activities*
2. Primary Financial Statements
3. Contractual Cash Flow Characteristics of Financial Assets
4. Post-implementation Review (PIR) of IFRS 9 – Classification and Measurement
5. Post-implementation Review (PIR) of IFRS 9 – Impairment*
6. Non-current Liabilities with Covenants
7. Supplier Finance Arrangements
8. Financial Instruments with Characteristics of Equity
9. Disclosure Initiative: Targeted Standards-level Review of Disclosures
10. IFRS Interpretations Committee work

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

Rate-regulated Activities

1. The Exposure Draft *Regulatory Assets and Regulatory Liabilities* (ED)[1] was published in January 2021 and the UKEB submitted its comment letter[2] 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.

2. The Rate-regulated Activities project will be discussed at the ASAF meeting on 29 September 2022. Board views on the topics where the IASB has made tentative decisions would help inform the UK feedback.

3. The table below summarises the IASB's proposals contained in the ED, the recommendations made by the UKEB in its comment letter and the IASB's tentative decisions to date. The topics that will be discussed at the ASAF meeting are asterisked.

Question for the Board
4. Do Board members have any questions or comments on the Rate-regulated Activities table below?

1 The IASB's Exposure Draft can be found here.
2 The UKEB's comment letter can be found here.

Rate-regulated Activities: Summary of IASB's tentative decisions to date

Meeting date	ED Proposal	UKEB comment letter	IASB tentative decision[3]
Scope—Determining whether a regulatory agreement is within the scope of the proposals			
22/02/22 AP9B	3 An entity shall apply this [draft] Standard to all its regulatory assets and all its regulatory liabilities. 4 A regulatory asset is an enforceable present right, created by a regulatory agreement, to add an amount in determining a regulated rate to be charged to customers in future periods because part of the total allowed compensation for goods or services already supplied will be included in revenue in the future. 5 A regulatory liability is an enforceable present obligation, created by a regulatory agreement, to deduct an amount in determining a regulated rate to be charged to customers in future periods because the revenue already recognised includes an amount that will provide part of the total allowed compensation for goods or services to be supplied in the future.	We are supportive of the scope of the Exposure Draft, however, we have identified the following potential issues: a) It is not immediately clear that many types of regulatory agreement are out of the scope. b) The explicit inclusion of service concession arrangements in the proposed standard. [The IASB will be discussing this topic at their September 2022 meeting.] **Types of regulatory agreement** We recommend that the title of the definition of "regulatory agreement" should be amended to make it clear that it only applies to a very small subset of all regulatory agreements, e.g., by using the term "specified regulatory agreement". It would also be helpful to set out the types of regulatory agreements that are out of the scope, e.g., by including an example of simple price cap regulation. [It is not clear from the IASB's tentative decisions whether the final standard will be clear that it only applies to a small sub-set of regulatory agreements.]	a. To reconfirm the proposals in the ED on: i. requiring an entity to apply the Standard to all its regulatory assets and regulatory liabilities. ii. requiring the Standard to apply to all regulatory agreements and not only to those that have a particular legal form. iii. the conditions necessary for a regulatory asset or a regulatory liability to exist. b. Not explicitly to specify in the Standard which regulatory schemes would be within or outside its scope. c. to clarify in the Standard that: i. a regulatory agreement may include enforceable rights and enforceable obligations to adjust the regulated rate beyond the current regulatory period. ii. regulatory agreements that create either regulatory assets or regulatory liabilities, but not both, are within its scope. iii. a regulatory agreement that causes differences in timing when a specified regulatory threshold is met creates regulatory assets or regulatory liabilities. iv. a regulatory agreement is not required to determine a regulated rate using an entity's specific costs for the regulatory agreement to create regulatory assets or regulatory liabilities.
Scope—Definition of a regulator			
22/02/22 AP9C	The ED did not define "regulator".	The proposed standard should require an entity's regulator to be an independent third-	The IASB tentatively decided that the Standard will:

3 Extracted from relevant IASB Update.

Meeting date	ED Proposal	UKEB comment letter	IASB tentative decision[3]
		party. This can be achieved by defining what is meant by a regulator in the context of the standard. [The IASB has agreed to include a definition of regulator but does not appear to go as far as requiring the regulator to be an independent third-party.]	1. include the existence of a regulator as part of the conditions necessary for a regulatory asset or a regulatory liability to exist. 2. define a regulator as 'a body that is empowered by law or regulation to determine the regulated rate or a range of regulated rates'. 3. include guidance to clarify that: a. self-regulation is outside the scope of the Standard. b. a situation in which an entity or its related party determines the rates, but does so in accordance with a framework that is overseen by a body empowered by law or regulation, is not self-regulation for the purposes of the Standard.
Scope—Customers*[4]			
26/05/22 AP9D	6 A regulatory asset or a regulatory liability can exist only if: (a) an entity is party to a regulatory agreement; (b) the regulatory agreement determines the regulated rate the entity charges for the goods or services it supplies to customers; and (c) part of the total allowed compensation for goods or services supplied in one period is charged to customers through the regulated rates for goods or services supplied in a different period. **Definitions** **Regulatory asset**—An enforceable present right, created by a regulatory agreement, to add an amount in determining a regulated rate to be charged to customers in future periods because part of the total allowed compensation for goods	No view expressed in UKEB comment letter.	The IASB tentatively decided to clarify in the Standard that, for a regulatory asset or a regulatory liability to arise, it is necessary that differences in timing originate from, and reverse through, amounts included in the regulated rates that an entity accounts for as revenue in accordance with IFRS 15 *Revenue from Contracts with Customers*. This is the case even when: a. an entity charges the regulated rates to its customers indirectly through another party. b. the origination and reversal of differences in timing occur in different revenue streams through regulated rates charged to different groups of customers.

[4] Topics with an asterisk indicate that the ASAF will discuss at its 29 September 2022 meeting.

Meeting date	ED Proposal	UKEB comment letter	IASB tentative decision[3]
	or services already supplied will be included in revenue in the future. **Regulatory liability**—An enforceable present obligation, created by a regulatory agreement, to deduct an amount in determining a regulated rate to be charged to customers in future periods because the revenue already recognised includes an amount that will provide part of the total allowed compensation for goods or services to be supplied in the future. **Regulatory agreement**—A set of enforceable rights and obligations that determine a regulated rate to be applied in contracts with customers. **Regulated rate (for goods or services)**—A price for goods or services, determined by a regulatory agreement, that an entity charges its customers in the period when it supplies those goods or services. **Total allowed compensation (for goods or services)**—The full amount of compensation for goods or services supplied that a regulatory agreement entitles an entity to charge customers through the regulated rates, in either the period when the entity supplies those goods or services or a different period.		
Scope—Financial Instruments within the scope of IFRS 9*			
26/05/22 AP9E	3 An entity shall apply this [draft] Standard to all its regulatory assets and all its regulatory liabilities. The ED does not specifically exclude instruments that are within the scope of IFRS 9.	No view expressed in UKEB comment letter.	The IASB tentatively decided: a. not to exclude from the scope of the Standard regulatory assets or regulatory liabilities related to financial instruments within the scope of IFRS 9. b. to explain in the Basis for Conclusions on the Standard that the regulation of interest rates is typically limited to setting a cap or floor on interest rates. This type of regulation is not expected to give rise to differences in timing.

Meeting date	ED Proposal	UKEB comment letter	IASB tentative decision[3]
Components of total allowed compensation*			
21/07/22 AP9A	B2 Total allowed compensation comprises: (a) amounts that recover allowable expenses minus chargeable income (see paragraphs B3–B9); (b) target profit (see paragraphs B10–B20); and (c) regulatory interest income and regulatory interest expense (see paragraphs B21–B27).	We agreed with the components of total allowed compensation (TAC) except for the proposals relating to regulatory returns relating to assets not yet available for use in TAC (which is covered in the next topic below). [The IASB appears to be taking a different approach to that in the ED by changing the focus from listing specific items in the TAC to identifying items that have differences in timing.]	The IASB heard stakeholders' concerns that the proposed components of TAC did not reflect the economics of incentive-based schemes. The IASB tentatively decided that in the Standard, the application guidance focus on: a. helping entities to identify differences in timing instead of specifying the components of total allowed compensation; and b. the most common differences in timing that could arise from various types of regulatory schemes.
Total allowed compensation—Regulatory returns on an asset not yet available for use*			
21/07/22 AP9B–AP9C	B15 Sometimes a regulatory return includes an amount determined by applying a specified return rate to a base containing a balance relating to an asset not yet available for use. That balance might be a separate base or part of a larger base. The return on that balance shall not be treated as forming part of the total allowed compensation for goods or services supplied before the asset is available for use. Once the asset is available for use, the return on that balance forms part of total allowed compensation for goods or services supplied over the remaining periods in which the entity recovers the carrying amount of the asset through the regulated rates. An entity shall use a reasonable and supportable basis in determining how to allocate the return on that balance over those remaining periods and shall apply that basis consistently.	In our outreach we heard that regulatory returns relating to assets not yet available for use should be included in TAC as the return is not dependent on the assets becoming operational. Rather it is a component of regulatory returns calculated by applying a return rate to a total regulatory capital base. These preparers have stated that this component of the regulatory return is a part of the return on the capital invested even if the construction of the asset is not continued in the future. These should follow the economic substance of the requirements in the regulatory agreements. [The IASB appears to be taking a different approach to that in the ED by changing the focus from excluding regulatory returns from assets that are not yet available for use to determining whether the entity has an enforceable present right to regulatory returns on an asset not yet available for use.]	The IASB tentatively decided that the Standard specify that when an entity has an enforceable present right to regulatory returns on an asset not yet available for use, those returns would form part of the TAC for goods or services supplied during the construction period of that asset. The Standard will provide guidance for entities to assess whether their rights to these regulatory returns are enforceable.

Primary Financial Statements

5. At its July 2022 meeting, the IASB discussed the Exposure Draft's proposals[5] on the following topics:

Entities with specified main business activities

6. The IASB made the following tentative decisions, all of which are consistent with recommendations in the UKEB Secretariat's comment letter[6]:

   a) Entities that invest as a main business activity should classify income and expenses from investments in the operating category.

   b) Entities that invest in financial assets as a main business activity should classify income and expenses from cash and cash equivalents in the operating category.

   c) To explore withdrawing the accounting policy choice for classifying income and expenses from cash and cash equivalents proposed for entities that provide financing to customers as a main business activity.

Disclosures of operating expenses by nature in the notes

7. The IASB tentatively decided:

   a) To require an entity to disclose the amounts of depreciation, amortisation and employee benefits included in each line item in the statement of profit or loss.

   b) To explore an approach that would require an entity to disclose, for all operating expenses disclosed in the notes, the amounts included in each line item in the statement of profit or loss.

8. These tentative decisions will be explored further in IASB targeted outreach. The topic is on the agenda for the UKEB Advisory Groups.

Unusual income and expenses

9. The IASB discussed the questions it will need to resolve to proceed with a definition of unusual income and expenses and areas to explore in targeted outreach. No decisions were made. The topic is on the agenda for the UKEB Advisory Groups.

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

5 The IASB's Exposure Draft can be found here.
6 The UKEB Secretariat's Final Comment Letter can be found here.

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

11. The IASB plans to publish an exposure draft by the end of Q1 2023 to clarify particular aspects of IFRS 9 relating to the assessment of an asset's contractual cash flow characteristics (that is, the 'solely payments of principal and interest' or SPPI requirements).

12. The IASB intends:

    a) clarifying the concept of a 'basic lending arrangement'[7];

    b) clarifying whether and how the nature of a contingent event is relevant to determining whether the cash flows are SPPI; and

    c) including additional examples for financial assets with ESG-linked features.

13. In addition, for non-recourse features and the contractually linked instruments (CLI) requirements, key areas for clarification are: a) the meaning and characteristics of non-recourse features (including consideration of the need to assess the underlying assets or cash flows); b) the scope of instruments to which the CLI requirements are applied; and c) the SPPI requirements for the underlying pool of instruments for a CLI.

14. At its July 2022 meeting, the IASB project team presented their preliminary analysis. The IASB was not asked to make any decisions. A high-level summary of the IASB staff's preliminary views is discussed in the following paragraphs.

Concept of basic lending arrangement and contingent events

15. In the IASB staff's view, the assessment of whether the contractual terms of a financial asset constitute a 'basic lending arrangement' is based on the lender's overall compensation (that is, *what* the lender is being compensated for), rather than the descriptions of various components of this compensation or *how much* the lender receives for a particular element. [IFRS 9 BC4.182(b)]

16. Financial instruments are frequently issued with conditionality attached to the interest rate. It is often the case that the contingent event is not a financial or market variable that reflect general market conditions, but a variable that is specific to the borrower, for example, meeting a specified ESG-linked target.

17. The IASB staff suggests clarifying the guidance in IFRS 9 B4.1.10 that a financial asset that includes contractual terms that change the timing and amount of the contractual

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[7] The notion of 'basic lending arrangement' is central to the SPPI test and as part of its Post-implementation Review of IFRS 9 - Classification and Measurement, the IASB received requests for clarifying/providing more guidance on this topic.
As per IFRS 9 B4.1.7A '*Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement*'. IFRS 9 does not define the term 'basic lending arrangement' but provides some examples, such as the time value of money and credit risk.

cash flows could be consistent with a basic lending arrangement and therefore have SPPI cash flows, if:

a) the contractual cash flows before and after the reset point represent SPPI;

b) the contingent event is specific to the borrower and specified in the contract; and

c) the contractual terms do not represent an investment in or exposure to particular assets or cash flows that are not SPPI applying paragraph IFRS 9 B4.1.16 (for example, contractual terms that stipulated that the financial asset's cash flows increase as more automobiles use a particular toll road).

18. In the IASB staff's view, it would not be appropriate to introduce a quantitative threshold to assess whether contractual terms that change the timing or amount of contractual cash flows are SPPI, since the focus is on *what* the entity is being compensated for and not *how much*.

19. The IASB staff will present recommendations for applicable examples at a future IASB meeting.

Contractually linked instruments and non-recourse features

20. For CLIs, that is, financial assets using multiple contractually linked instruments that create concentrations of risk (usually referred as tranches), the SPPI assessment is performed for each tranche. Under IFRS 9, a tranche has cash flows that are SPPI only if:

    a) the contractual terms of the tranche give rise to SPPI cash flows;

    b) the underlying pool of financial assets contain instruments with SPPI cash flows (with the exceptions noted in B4.1.24); and

    c) the exposure to credit risk in the underlying pool of financial instruments inherent in the tranche is equal to or lower than the exposure to credit risk of the entire underlying pool of financial instruments.

21. Non-recourse does not refer to 'normal' collateralised debt where the lender has a claim on the borrower and, in addition, the protection of the collateral. The term 'non-recourse' is used in IFRS 9 to refer to a contractual feature of some financial instruments (including, but not limited to CLIs) where the lender's claim is limited to specified assets of the borrower or the cash flows from specified assets (IFRS 9 B4.1.16). Not all financial assets with non-recourse features have the unique characteristics of CLIs.

22. IFRS 9 application guidance differs whether a financial asset has non-recourse features or whether it meets the CLI criteria. For example, in both cases, an entity assesses ('looks through to') the underlying assets or cash flows to determine whether the contractual cash flows of the financial asset being classified are SPPI. However, in the case of non-recourse finance, whether the underlying assets are financial assets or non-financial assets does not in itself affect the assessment, while for CLIs it is required that the underlying pool for CLIs must consist of financial assets that meet the SPPI criteria. Most respondents to the PIR expressed their view that the scope of

transactions to which the CLI requirements apply is not clear and some respondents argued that there could be different classification outcomes depending on which requirements are applied.

23. The IASB staff is of the view that the scope of the CLI requirements could be clarified by analysing the similarities and differences between CLIs and other similar structures (especially other financial assets with non-recourse features) as well as the unique characteristics of CLIs that led to the IASB developing specific requirements to assess whether the contractual cash flows of a tranche are SPPI.

24. In the IASB staff's view, the IASB intended IFRS 9's CLI requirements to apply to financial instruments that:

   a) have non-recourse features;

   b) are contractually linked;

   c) are subject to a waterfall payment structure; and

   d) create concentrations of credit risk resulting from the disproportionate reduction in contractual rights in the event of cash flow shortfalls.

25. The IASB staff is of the view that there are significant differences in the economic substance of CLIs and other types of financial instruments, and that, therefore, different classification outcomes are often required to faithfully represent the underlying economics. The IASB staff will discuss how the characteristics of the underlying pool of instruments affect the SPPI assessment for CLIs and other financial assets with non-recourse features at a future meeting.

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

Post-implementation Review (PIR) of IFRS 9 – Classification and Measurement

27. At its July 2022 meeting, the IASB was presented with further feedback from the Classification and Measurement stage of the IFRS 9 PIR. At that meeting the IASB agreed to add a project to the research pipeline to clarify particular aspects of the IFRS 9 requirements for the application of the effective interest method and for modifications of financial assets and financial liabilities. A high-level summary of feedback received and IASB staff recommendations is presented in the following paragraphs.

Modification of financial assets and financial liabilities

28. Most respondents provided feedback about modifications of financial assets and financial liabilities, even though they acknowledged that the modification requirements were not necessarily introduced by IFRS 9.[8]

29. Most respondents, including most accounting firms, said that modifications of financial assets is one of the areas for which most questions arise in practice and that IFRS 9 could benefit from clarification and additional application guidance. However, some respondents considered the requirements work as intended and suggested that no amendments or clarifications are needed. These respondents noted concerns that any potential amendments would disrupt practice and involve significant costs for preparers to implement which would exceed any incremental benefit to be gained by users of financial statements. This was consistent with what the UKEB heard, from some preparers, during its outreach when developing a response to the PIR.

30. The key application challenges identified by the IASB staff from the feedback relate to:

    a) what constitutes a modification;

    b) when a modification leads to derecognition;

    c) what is the difference between partial derecognition and a modification; and

    d) calculation and recognition of a modification gain or loss.

31. Some respondents noted that the IBOR Reform and its Effects on Financial Reporting (IBOR Reform) project had led to confusion, as previously they had assumed that modifications were changes in contractual terms arising from bi-lateral agreement of the parties to the contract. The IBOR Reform project appeared to expand this scope to include changes to methodologies to calculate an underlying index. This caused practical difficulties for the assessment of modification and the calculation of EIR.

32. The IASB staff noted that all feedback on this topic related to application questions that have arisen in practice, and not only since IFRS 9 was issued. Over the years, several requests for clarification and/or additional guidance on modifications have been submitted to the IFRS Interpretations Committee and/or the IASB. IASB staff note that whether a modification is substantial or whether it is accounted for as an adjustment to EIR, as opposed to a modification gain or loss, will have consequential effects on other areas such as hedge accounting, SPPI and business model assessments and the measurement of expected credit losses. The IASB staff expects that issuing educational material or adding illustrative examples could supplement but not replace the need to clarify the scope and the application requirements. It is the IASB staff's view that standard-setting, rather than other actions from the IASB or IFRS Interpretations

[8] The derecognition and modification requirements for financial assets and financial liabilities were carried forward from IAS 39 largely unchanged.

Committee, would be required to eliminate diversity in practice and support consistent application of the requirements.

Amortised cost measurement and the effective interest method

33. IFRS 9's requirements for amortised cost measurement and the effective interest method were carried forward from IAS 39 unchanged. Most respondents believe that amortised cost provides useful information to users of financial statements about the amount, timing and uncertainty of future cash flows.

34. In relation to the effective interest method, most respondents noted it is an area that gives rise to many questions in practice for which the IASB could make helpful clarifications and provide additional application guidance. However, some respondents considered the requirements to work as intended. These respondents noted concerns that any potential amendments would disrupt existing practice and involve significant costs for preparers which would exceed any incremental benefit to be gained by users of financial statements. This was consistent with what the UKEB heard during outreach when developing a response to the PIR.

35. The key application challenges identified by the IASB staff from the feedback relate to a) how to reflect in the effective interest rate (EIR) conditions attached to the contractual interest rate; and b) how to account for subsequent changes in estimates of future cash flows (such as by adjusting the EIR or through a cumulative catch-up adjustment). There is interdependency between these two application challenges and there might also be interaction with the expected credit loss requirements in IFRS 9.

36. In the IASB staff's view, providing clarity, as has been requested by stakeholders for a long time, would most effectively be done through standard-setting. The staff expect that issuing educational material or adding illustrative examples could supplement, but not replace, the need to clarify the scope and the requirements of the effective interest method. They believe it is important to also consider potential interdependencies with other areas of IFRS 9 (such as modification of financial assets and financial liabilities and expected credit losses).

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

Post-implementation Review (PIR) of IFRS 9 – Impairment

38. At its July meeting, the IASB was presented with a project plan and expected timeline for the Impairment stage of its Post-implementation Review of IFRS 9. The PIR will take place in two phases.

39. Phase 1 involves an initial identification and assessment of the matters to be examined and draws on a wide range of preparers, auditors, users, regulators and other bodies with an interest in IFRS Accounting Standards. This is intended to provide IASB with sufficient information to identify the matters for which it will seek further feedback through the Request for Information (RfI). This is followed by public consultation on the RfI.

40. In Phase 2 the IASB will consider the comments received during public consultation and consider whether to act on the findings, and, if so, the relative priority of these actions.

41. The IASB timetable for outreach is as follows:

Activity	**Timeline**
Phase 1 outreach (pre-RfI)	September 2022 – February 2023
Publication of Request for Information	H1 2023
Comment period for the RfI	120 days

42. The Financial Instruments Working Group, once established, will be helpful in providing feedback on IFRS 9 Impairment to the IASB in all phases of the consultation.

43. The Post-implementation Review (PIR) of IFRS 9 – Impairment project will be discussed at the ASAF meeting on 29 September 2022.

Question for the Board
44. Do Board members have any questions or comments on the Post-implementation Review (PIR) of IFRS 9 – Impairment update?

Non-current Liabilities with Covenants

45. At its July 2022 meeting, the IASB discussed the effective date for the amendments *Non-current Liabilities with Covenants* (the 2022 Amendments), which amend IAS 1 *Presentation of Financial Statements*.

46. The IASB agreed to set an effective date of annual reporting periods beginning on or after 1 January 2024. The amendments *Classification of Liabilities as Current or Non-current* issued in 2020 (the 2020 Amendments) will have the same effective date. The earliest expected date of issue of the Amendments is currently around November 2022.

47. The UKEB has not yet endorsed the 2020 Amendments, so the Secretariat expects to bring both the 2020 Amendments and the 2022 Amendments to the Board for endorsement in H1 2023.

Question for the Board
48. Do Board members have any questions or comments on the Non-current Liabilities with Covenants update?

Supplier Finance Arrangements

49. At its July meeting, the IASB was presented with a summary of the feedback received on its Exposure Draft *Supplier Finance Arrangements*[9]. The IASB was not asked to make any decisions.

50. The UKEB submitted its comment letter on 28 March 2022[10]. While we support the objective of the project, we suggested some recommendations to enhance the IASB's proposals.

51. The IASB received 94 comment letters. Most respondents to the IASB said there is a need to improve disclosure about Supplier Finance Arrangements (SFA). Many respondents support aspects of the proposals, while also suggesting that the IASB require additional or alternative disclosures. Some of these respondents asked the IASB to also pursue a broader project to address requirements on presentation, classification and labelling in the statements of financial position and cash flows. A few respondents disagreed with the need for, or expressed concerns, about the project. A few of these respondents suggested a more comprehensive project on the disclosure of information about an entity's working capital management.

52. Overall, feedback was mixed. At a future meeting, the IASB staff plans to present an analysis of the feedback and provide recommendations on project direction. We will provide further updates when more information is available on the IASB direction for this project.

Question for the Board
53. Do Board members have any questions or comments on the Supplier Finance Arrangements update?

Financial Instruments with Characteristics of Equity

54. At its July meeting the IASB continued its discussions on Financial Instruments with Characteristics of Equity (FICE), addressing the accounting for obligations to redeem own equity instruments. The IASB staff presented background information and a preliminary analysis of practice issues identified. The IASB was not asked to make any decisions.

9 See IASB's Exposure Draft: Supplier Finance Arrangements (ifrs.org)
10 See UKEB's Final Comment Letter - Supplier Finance Arrangements.pdf (kc-usercontent.com)

55. 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).

56. IAS 32 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.

57. The IASB staff noted there is evidence of accounting diversity in practice in accounting for NCI puts and suggested the following clarifications to reduce or eliminate such accounting diversity and improve the usefulness of information provided in the financial statements:

   a) Clarifying IAS 32 so that the debit entry for initial recognition of the financial liability is against parent equity and not NCI.

   b) Adding further explanation or rationale in the application guidance to IAS 32 to clarify the underlying principle of gross presentation of the financial liability.

   c) Confirming that changes in the subsequent measurement of the financial liability should be recognised in profit or loss in accordance with IFRS 9. Dividends paid to NCI shareholders after recognition of the NCI put would be recognised in equity. The IASB staff believe that if the clarification suggested in a) above is made, then the subsequent measurement of the liability and accounting for dividends would be clear.

   d) Clarifying that the accounting model for NCI puts would also be applicable to other obligations to repurchase own equity instruments, such as forward contracts.

   e) Clarifying paragraph 23 of IAS 32 so that it also applies to an obligation to redeem own equity instruments that is settled in a variable number of another type of own shares[11] (that is, not only to transactions to be settled in cash or another financial asset).

58. Based on the IASB's feedback provided at the meeting, the IASB staff will develop a proposal for the clarified principles and bring back a further analysis at a future meeting.

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

[11] The July 2022 IASB staff paper only addresses share-for-share exchanges involving a receipt of a fixed number of one type of equity instrument for a variable number of another type of equity instrument. The IASB staff will consider any remaining types of share-for share exchanges when it presents an analysis of remaining issues to the IASB at a future meeting.

Disclosure Initiative: Targeted Standards-level Review of Disclosures

60. At its July meeting, the IASB considered feedback from ASAF on the *Disclosure Requirements in IFRS Standards – A Pilot Approach (the Disclosure Pilot)* project and discussed potential next steps for the project. The IASB staff had previously provided the IASB with a summary of feedback received on the exposure draft (summarised for the UKEB at its 23 June 2022 meeting). No decisions were made by the IASB in this session.

61. For the purposes of analysing courses of action the exposure draft was divided into four parts.

   a) **Approach to developing disclosure requirements**. The IASB staff noted widespread support for the proposals (which included early engagement with users and considering implications for digital reporting) and suggested the IASB could decide to finalise the methodology.

   b) **Approach to drafting the disclosure requirements**. Based on feedback received the IASB staff concluded there was good support for mandatory Specific Disclosure Objectives, but only limited support for mandatory Overall Objectives and Items of Information. The staff suggested the IASB could finalise the approach with limited changes, terminate the project or develop a middle ground approach (which the UKEB recommended in its comment letter). It was noted that at the July ASAF meeting five ASAF members (including the UKEB) supported the middle ground approach. Three ASAF members disagreed with this approach as they did not believe it would effectively solve the disclosure problem.

   c) **Proposed amendments to IFRS 13**. The IASB staff proposed options for finalising the amendments with some modifications to respond to feedback received (such as clarifying that certain requirements would apply only to Level 3 measurements). As an alternative staff also noted an option to terminate the proposals. Five ASAF members (including the UKEB) said the IASB should not proceed with the proposals, and instead suggested the IASB apply the proposed approach prospectively when developing new accounting standards. Four ASAF members supported amending IFRS 13 as some disclosure proposals would provide more useful information and would provide a framework that might be useful when the IASB undertakes new projects in future.

   d) **Proposed amendments to IAS 19**. Based on feedback received, the IASB staff proposed either (i) options to finalise the amendments with some modifications to respond to feedback (such as whether to retain mandatory disclosures on topics such as sensitivity analysis and expected return on plan assets), or (ii) an option terminating this proposal. Five ASAF members (including the UKEB) said the IASB should not proceed with the proposals, and instead suggested the IASB apply the proposed approach prospectively when developing new accounting standards. Four ASAF members supported amending IAS 19 as the current disclosure requirements are unpopular with both users and preparers. Further, some disclosure proposals would provide more useful information and the proposed amendments would provide a framework that might be useful when IASB undertakes new projects in future.

62. The IASB discussion acknowledged that much had been learnt on this project which could be applied to IASB work in future. However, stakeholder feedback made clear there was insufficient support to adopt the project proposals in full. IASB board members appeared to have little appetite to move forward with changes to IFRS 13 or IAS 19. It was acknowledged that the PIR of IFRS 13 had intended this project to address disclosure issues related to IFRS 13, however this did not necessarily give rise to a requirement for standard-setting. Any changes would require re-exposure and it was suggested this may not be the best use of IASB resources. There was more positive support for the idea of a middle ground solution (use of Specific Disclosure Objectives), but the IASB acknowledged there was currently no clear definition of what a middle ground solution might consist of, and this would need to be developed before a decision to proceed or close the project could be taken. Note: a middle ground solution was proposed by UKEB in our comment letter, so this would be our preferred solution.

63. A new paper summarising the paths for project conclusion will be presented at a future meeting, at which time the IASB is expected to make a final decision on the future of the project.

Question for the Board
64. Do Board members have any questions or comments on the Disclosure Initiative: Targeted Standards-level Review of Disclosures update?

IFRS Interpretations Committee

65. 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.

66. The Secretariat will provide an update on the Interpretations Committee's September meeting at the next Board Meeting.

67. The following Agenda Decisions were ratified at the IASB's July meeting:

    a) *Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity* (IAS 32 *Financial Instruments: Presentation*).

b) *Transfer of Insurance Coverage under a Group of Annuity Contracts* (IFRS 17 *Insurance Contracts*).

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

68. The IASB will consider a paper[12] at its September 2022 meeting that recommends that, instead of finalising this Agenda Decision, "the IASB explore narrow-scope standard-setting in response to respondents' comments as part of its post-implementation review of IFRS 9. On balance, we think it is possible that the benefits of narrow-scope standard-setting could outweigh the costs" (para 61).

69. This is consistent with the UKEB's position, as set out in its comment letter in response to the Post Implementation Review (PIR) of IFRS 9 – Classification and Measurement (paragraphs A14 – A18)[13].

70. The UKEB Secretariat will provide the UKEB with an oral update on the IASB's decision regarding this Agenda Decision.

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

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13 Final Comment Letter - Post Implementation Review of IFRS 9 - Classification and Measurement.pdf