21 September 2023
Agenda Paper 5

UK Endorsement Board

IASB General Update

Executive Summary

Project Type	Monitoring
Project Scope	Various
Purpose of the paper	

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

As agreed with the Board, the Secretariat monitors projects being undertaken by the IASB and IFRS Interpretations Committee. This is undertaken to inform the Board about the progress and decisions being made by the IASB on active projects. Discussion by the Board may also help inform interactions with international standard setter meetings, including the IASB's Accounting Standards Advisory Forum (ASAF).

Summary of the Issue

At its July 2023 meeting, the Board agreed that this update will focus primarily on projects being discussed at ASAF on 28 September 2023, but the papers also include tentative decisions from the IASB's July meeting:

Topics on ASAF agenda for discussion:

- Rate-regulated Activities
- Application of 'own use' exception to Power Purchase Agreements
- Equity Method
- IAS 12 Pillar Two Implementation
- Primary Financial Statements

Topics for noting:

- Subsidiaries without Public Accountability: Disclosures
- IFRIC Agenda Decisions Update

Questions for the Board

The Board is not asked to make decisions on any of the topics presented in this paper.

However, the Board is asked for its views on the following questions:

Items for discussion:

Board members are asked the following questions regarding the **topics for discussion**:

Rate-regulated Activities **(Agenda Paper 5: Appendix A)**

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

Application of 'own use' exception to Power Purchase Agreements

(Agenda Paper 5: Appendix B)

1. Do Board members have any comments on the prevalence of PPAs in the UK (physical or virtual) or on their likely effects in financial statements?
2. Do Board members have any comments on the IASB's approach to this project?

Equity Method **(Agenda Paper 5: Appendix C)**

1. Do Board members have any questions or comments on the IASB's tentative decisions?
2. Do Board members have views on the alternatives set out in C30?

IAS 12 Pillar Two Implementation **(Agenda Paper 5: Appendix D)**

1. There are no questions for the Board in this paper.

Primary Financial Statements **(Agenda Paper 5: Appendix E)**

1. Do Board members have any questions or comments on the IASB's tentative decisions to start the balloting process of the forthcoming standard and to include transition provisions?
2. Do Board members agree that there are no laws or regulations in the UK that require entities to provide comparative information for more than one comparative period in their financial statements?
3. Do Board members agree that the ASAF question about whether *laws or regulations permit an entity to provide only one year of comparative information when a new IFRS Accounting Standard is applied* is not applicable as in the UK the requirement is to present only one comparative period?

<u>Items for noting</u>:

Subsidiaries without Public Accountability: Disclosures **(Agenda Paper 5: Appendix F)**

1. There are no questions for the Board in this paper.

IFRIC Agenda Decisions Update **(Agenda Paper 5: Appendix G)**

1. Do Board members agree that the UKEB will NOT respond to the matter presented to the Interpretations Committee "Payments Contingent on Continued Employment during Handover Periods"?

Recommendation

N/A

Appendices

Appendix A: Rate-regulated Activities

Appendix B: Application of own use exception to Power Purchase Agreements

UK Endorsement Board

Appendix A: Rate-regulated Activities

UKEB Project Status: Monitoring **IASB Next Milestone:** Continued redeliberations on remaining topics throughout 2023 and early 2024.	UKEB Project page UKEB Final comment letter (Published July 2021)

Matters to be discussed at the September 2023 ASAF meeting

A1. The IASB has continued to redeliberate on the Exposure Draft *Regulatory Assets and Regulatory Liabilities* (ED). This paper focuses on the tentative decisions made by the IASB between January and June 2023 because at the September 2023 ASAF meeting, the IASB staff will seek views on these tentative decisions. We ask the Board for input on the questions for ASAF members.

A2. As a reminder, one of the earlier IASB tentative decisions (from December 2022) has caused the UKEB concern. This was the IASB's tentative decision to require an entity to recognise a regulatory asset or a regulatory liability relating to an allowable expense or performance incentive included in its regulatory capital base (RCB) only when:

a) the entity's RCB and its property, plant and equipment (PPE) have a direct relationship; and

b) meets the definition of a regulatory asset or a regulatory liability.

A3. When the entity has no direct relationship between its PPE and RCB then no recognition of a regulatory asset or a regulatory liability is permitted.

A4. The concern relates to how this tentative decision could impact on UK entities as it is likely that all UK entities with rate-regulated activities have no direct relationship between their PPE and RCB.

A5. The IASB is asking ASAF members whether the tentative decisions on the following topics help address feedback from stakeholders in your jurisdiction?

a) Total allowed compensation (TAC).

b) Recognition.

c) Derecognition.

d) Measurement.

Total allowed compensation

A6. During its redeliberations, the IASB made several tentative decisions relating to TAC:

a) The Standard will retain the proposed requirement relating to performance incentives. Amounts relating to performance incentives should form part of, or reduce, the TAC for goods or services supplied in the period in which the entity's performance gives rise to the incentive. These amounts would include those that result from an entity's performance of construction work.

b) The Standard will retain the proposal to require an entity to estimate the amount of a long-term performance incentive, and to determine the portion of that estimated amount that relates to the reporting period using a reasonable and supportable basis.

A7. The UKEB's Rate-regulated Activities Technical Advisory Group (RRA TAG) discussed long-term performance incentives at its June 2023 meeting. Members agreed that uncertainties often exist in determining the portion of the rate-regulated performance incentive relating to the reporting period. They considered that entities would continue to be able to make estimates as the proposals in the ED were consistent with other areas of measurement uncertainty within IFRS Accounting Standards. The Members were generally satisfied with the IASB's tentative decisions relating to long-term performance incentives.

Recognition

The recognition threshold

A8. The IASB has made several tentative decisions relating to recognition. These are that the Standard will:

a) retain the proposal to require an entity to recognise a regulatory asset or a regulatory liability whose existence is uncertain if it is more likely than not that such an asset or liability exists;

b) not include a recognition threshold based on the probability of a flow of economic benefits;

c) not include a recognition threshold based on the level of measurement uncertainty, except for those regulatory assets and regulatory liabilities described in paragraph (e) (where measurement is dependent on a regulatory benchmark determined after the financial statements are authorised for issue);

d) retain the proposed symmetric recognition threshold for regulatory assets and regulatory liabilities; and

e) require an entity to recognise a regulatory asset or regulatory liability—whose measurement depends on a regulatory benchmark determined after the financial statements are authorised for issue—when the regulator determines the benchmark.

A9. The UKEB Secretariat considers that these tentative decisions are appropriate.

Enforceability and recognition

A10. The IASB has made several tentative decisions on enforceability and recognition. These are that the Standard will:

a) retain and clarify the proposed single assessment for the existence of enforceable present rights and enforceable present obligations at the level of the individual regulatory assets or regulatory liabilities;

b) clarify that rights and obligations can be enforceable even if their existence is uncertain: and

c) include requirements for assessing the existence of enforceable present rights for regulatory returns on an asset not yet available for use, and for assessing the existence of enforceable present rights or enforceable present obligations for long-term performance incentives. Those requirements will be developed considering the principles in paragraph 35(c) of IFRS 15 *Revenue from Contracts with Customers* that relate to an entity's right to payment for performance completed to date.

A11. During July and August 2023, the Secretariat conducted interviews with 13 stakeholders (as part of its economic effects study on the UK long-term public good) and the majority of views heard during these interviews was that enforceability is typically considered to be likely and that it would be very unlikely for a regulator not to honour the regulatory returns that arise from the regulatory agreement, even beyond the current price control period.

A12. It is the UKEB Secretariat's view that these tentative decisions broadly address the issue of enforceability.

Timing of initial recognition

A13. The IASB's tentative decisions on the timing of initial recognition are that the Standard will:

a) retain the proposal to require recognition of all regulatory assets and all regulatory liabilities existing at the end of the reporting period; and

b) retain the proposal to treat any regulatory assets or regulatory liabilities arising from regulated rates denominated in a foreign currency as monetary items when applying IAS 21 *The Effects of Changes in Foreign Exchange Rates.*

A14. The RRA TAG discussed this topic at the Group's June 2023 meeting. They generally agreed that they were generally satisfied with the IASB's tentative decisions relating to timing of initial recognition.

Derecognition

A15. The ED did not contain any guidance on derecognition. The IASB, in its deliberations tentatively decided that the Standard will:

a) Require an entity to derecognise:

i. a regulatory asset as it recovers part or all of the regulatory asset by adding amounts to future regulated rates charged to customers; and

ii. a regulatory liability as it fulfils part or all of the regulatory liability by deducting amounts from future regulated rates charged to customers.

b) Explain that the derecognition of regulatory assets and regulatory liabilities, as described in paragraph (a), is the most common way in which regulatory assets and regulatory liabilities would be derecognised. Therefore, in applying the recognition and measurement requirements at the end of each reporting period, an entity would not be required to consider explicitly when and how its regulatory assets and regulatory liabilities should be derecognised.

c) Clarify that an entity would derecognise a regulatory asset or a regulatory liability if the asset or liability ceased to meet the 'more likely than not' recognition threshold.

d) Include guidance on the derecognition of regulatory assets and regulatory liabilities settled by a regulator or another designated body. The guidance would also require an entity to recognise the difference between the derecognised regulatory asset or regulatory liability and any new asset or liability in profit or loss.

e) Specify that if a regulatory asset or a regulatory liability is added to or deducted from an entity's RCB and the entity's RCB has no direct relationship with its PPE, the entity would derecognise:

i. the regulatory asset and recognise any associated regulatory expense in profit or loss; and

ii. the regulatory liability and recognise any associated regulatory income in profit or loss.

A16. The UKEB Secretariat considers that these tentative decisions are appropriate.

Measurement

A17. The IASB made tentative decisions on estimating uncertain future cash flows. These decisions are that the Standard will:

a) retain the proposal that an entity estimate uncertain future cash flows using whichever of the two methods—the 'most likely amount' method or the 'expected value' method—the entity expects would better predict the cash flows;

b) require an entity to reassess the method of estimating uncertain future cash flows only if there is a significant change in facts and circumstances such that the entity no longer expects the method to better predict the cash flows;

c) clarify that when an entity uses the 'expected value' method to estimate uncertain future cash flows the entity should consider the entire range of outcomes, including those outcomes in which a regulatory asset or a regulatory liability would not exist, or would exist but produce no future cash flows; and

d) retain the proposal not to require a separate impairment test for regulatory assets.

A18. The Standard will not provide additional guidance on circumstances in which the 'most likely amount' method might better predict uncertain future cash flows.

A19. The UKEB Secretariat considers that these tentative decisions are appropriate. The topic will be discussed at the RRA TAG meeting on 22 September 2023.

Next steps

A20. The RRA TAG will hold its third meeting on 22 September 2023.

A21. The topics presented by the UKEB Secretariat and discussed by the Group will include:

a) An overview of the IASB's tentative decisions in June 2023.

b) Specific regulatory adjustments analysed against the definitions in the ED and the IASB's tentative decisions.

c) An overview of feedback from the interviews conducted for the economic effects study, specifically on the direct (no direct) relationship concept.

A22. The IASB will continue its redeliberations on the feedback received on the ED at future meetings. Future redeliberations will focus on the following topics:

a) Discount rate.

b) Items affecting regulated rates only when related cash is paid or received.

c) Presentation and disclosure.

d) Amendments to other IFRS Accounting Standards.

e) Effective date and transition.

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

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Appendix B: Application of the 'own use' exception to power purchase agreements

B1. In June 2023 the IFRS Interpretations Committee referred[1] a request to the IASB about whether IFRS 9 *Financial Instruments* paragraphs 2.4 to 2.6 (the "own use" exception) could be applied to physical power purchase agreements[2] (PPAs). The own use exception, broadly, enables entities to avoid derivatives accounting for such agreements. Following this referral, the IASB decided to add[3] a research project on this topic to its workplan.

B2. Stakeholders have told the IASB that, by analogy with a March 2019 Interpretations Committee decision[4] on load-following swaps,[5] they were unable to designate virtual PPAs[6] as hedging instruments in a qualifying hedging relationship.

B3. The IASB's research project will therefore address the question of applying hedge accounting requirements to virtual PPAs as well as that of whether there is diversity in practice in the current accounting practice for physical PPAs.

B4. At the ASAF meeting on 28 September 2023 the IASB will ask national standard-setters for views on the following areas:

- the prevalence and types of power purchase agreements in each jurisdiction;
- the effects of PPAs within financial statements; and
- if standard-setting were to be undertaken, the scope of a potential solution.

B5. The Secretariat has set out its understanding of the current UK position in the following paragraphs. This is based on the limited work undertaken to date,

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1 The IFRIC Staff Paper Agenda Reference 2 summarises the IFRIC initial considerations and paragraph 85 includes the recommendation and rationale. The fact patterns submitted were summarised in the UKEB April 2023 IASB General Update Appendix 8H.

2 Physical power purchase agreements are those in which an energy generator physically delivers power to a user, often called an *offtaker*, for a price.

3 See the IASB 25 July 2023 PM meeting and the July 2023 Agenda Paper 12.

4 See the IFRIC March 2019 decision and accompanying staff paper.

5 In that decision, the Interpretations Committee considered that the forecast energy sales lacked the required specificity to be designated as a hedged item and therefore did not qualify for hedge accounting. See IAS 39 Implementation Guidance F.3.10: "*[…] a forecast transaction cannot be specified solely as a percentage of sales or purchases during a period.*"

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

comprising desktop research, brief discussions with the FIWG and feedback from the UK Technical Partners forum.

B6. The questions for the Board included below are based on the questions the IASB will ask ASAF members.

Prevalence and types of power purchase agreements in the UK

B7. Feedback from the UK accounting firm technical partners and desktop research indicate that power purchase agreements are increasingly common.[7] Their usage appears to be driven in part by corporates seeking to reduce their carbon footprint, and to demonstrate that reduction, by securing a supply of certified renewable energy. Equally, PPAs provide price certainty for the renewable energy generators. Feedback from the Financial Instruments Working Group suggests that UK stakeholders are beginning to acknowledge that the accounting issues arising from such agreements are more widespread than previously thought.

B8. We understand there is a variety of types of arrangement. The majority of UK PPAs are sleeved PPAs.[8] In this arrangement, a licensed electricity supplier acts as an intermediary to convey the electricity from the renewable energy generator to the energy user across the National Grid in exchange for a fee. This means that the two parties do not have to be in the same geographical location.

B9. Another type arises from the annual contracts for differences auctions held by the UK Government, in which renewable energy generators can enter into a long-term contract with a government-owned company in order to receive a fixed strike price in return for delivering renewable electricity[9]. If the market price falls below the strike price, generators receive money from the company; if it exceeds the strike price, generators pay money to the company. This structure is similar to a virtual PPA arrangement.[10]

7 See e.g. Bird and Bird (2022) *Corporate PPAs – An international perspective*, page 58; Aquaswitch blog (undated), *What is a PPA?*; Gowling WLG (July 2017) podcast.

8 Bird and Bird (2022) *Corporate PPAs – An international perspective*, page 58.

9 See https://www.gov.uk/government/publications/contracts-for-difference/contract-for-difference for more information on the scheme. In 2018, 68 companies bought electricity through this mechanism.

10 Welsh Energy Service (February 2023) Power Purchase Agreements briefing note, page 7.

The effects of PPAs within financial statements and the scope of any standard-setting

B10. From a preliminary desktop review, PPAs are not generally disclosed separately in financial statements. However, we understand that approaches can include:

a) Recognition of a lease, when the contract contains a lease of the underlying asset;

b) Recognition of an executory contract, when there is no lease and the 'own use' criteria are satisfied; and

c) Recognition of a derivative, when there is no lease and the 'own use' criteria are not satisfied.

B11. UK accounting firm technical partners emphasised the need not to disrupt current practice for these long-term contracts.

IASB approach to project

B12. The IASB has suggested that the potential amendments could apply to:

a) Underlying items with specific characteristics, such as the inability to be stored economically and/or the need to be consumed or sold within a short time in accordance with the market structure;

b) PPAs in general; or

c) Renewable energy contracts.

B13. If the scope is determined based on the characteristics of the underlying items, the IASB has also asked for views on the characteristics that should be used.

Questions for the Board
1. Do Board members have any comments on the prevalence of PPAs in the UK (physical or virtual) or on their likely effects in financial statements? 2. Do Board members have any comments on the IASB's approach to this project?

Appendix C: Equity Method[1]

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

C1. This Appendix first provides an update on tentative decisions made by the IASB in June and July 2023 and then, from paragraph C27, presents the questions to be posed at the September 2023 ASAF meeting.

C2. At its June and July 2023 meetings, the IASB:

a) Decided whether it should develop proposals on how an investor applies the equity method when an associate issues an equity-settled share-based payment[2] or a share warrant[3] (i.e., shares in the associate).

b) Discussed the following new application questions:

i. How to, initially and subsequently, recognise and measure contingent consideration on acquisition of an investment in an associate applying IAS 28 *Investments in Associates and Joint Ventures*.

ii. Whether an investor assesses a decline in fair value in relation to the original cost or the carrying amount at the reporting date.

c) Decided whether to expand the project's scope for five of the application questions that were not selected but are considered resolved by the IASB's tentative decisions to date.

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1 A condensed summary of the IASB's tentative decisions on application questions can be accessed here.

2 A share-based payment is a transaction in which an associate grants share options to its employees in exchange for their services. When the share options vest and are exercised, the associate issues shares to the employees.

3 A share warrant is a transaction in which an associate gives a third party the right to receive the associate's shares at a future date and immediately receives a premium in cash from that party. When the share warrant is exercised, an associate will issue shares and receive additional cash for the subscription price.

Transactions and other events that change an investor's ownership interest – equity-settled share-based payments and share warrants

C3. At its June 2023 meeting, the IASB discussed whether it should develop proposals on how an investor applies the equity method when an associate issues an equity-settled share-based payment or a share warrant.

Share-based payments

C4. An associate applies the requirements in IFRS 2 *Share-based Payments* to the share-based payment.

C5. Paragraph 15 of IFRS 2 requires an entity granting share-based payments to recognise an expense during the vesting period for the services received and credit a corresponding amount in equity.

C6. When the share options vest, the entity recognises a transfer from one component of equity to another.

Share warrants

C7. An associate applies the requirements in IFRS 9 *Financial Instruments* and IAS 32 *Financial Instruments: Presentation* to a share warrant.

C8. When the share warrant is classified as equity in accordance with paragraph 22 of IAS 32, the entity recognises the cash received as premium when the warrant is issued and credits a corresponding amount in equity.

C9. If the share warrant expires, the associate may reclassify the premium within equity.

IASB discussion

C10. The IASB's tentative decisions in this project do not resolve how to apply the equity method when an associate issues a share-based payment or a share warrant. This is because in these cases, although amounts are recognised in equity during the vesting period or at inception of the transaction, the investor's ownership interest does not change until shares are issued.[4]

C11. The IASB staff paper observed that there is a wide range of potentially dilutive instruments and transactions and trying to provide requirements for all possible fact patterns is not the objective of the project.

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[4] Paragraphs 18–28 of IASB staff Agenda paper 13A of the June 2023 meeting provide further explanation of why the requirements in IAS 28 and the IASB's tentative decision on changes in ownership whilst retaining significant influence are not sufficient to address changes in an investor's ownership interest that arise from an associate's issuing a share-based payments and a share warrant.

C12. In addition, outreach undertaken by IASB staff with accounting firms did not indicate that an associate issuing share-based payments has a pervasive and material effect on an investor.

C13. Some IASB members were of the view that it would be challenging to develop proposals for all possible fact patterns and the benefit of developing new requirements would not justify the cost. A few IASB members mentioned that there is no significant diversity in practice and that current practice is acceptable.

C14. Whilst a few IASB members agreed with the staff's view, that the most important information during the vesting period is the information on the potential dilutive effect which IAS 33 *Earnings per Share* requires the associate to provide, other IASB members noted that IAS 33 is not applicable to all entities. It might therefore be relevant to think about disclosures for other entities, and consider whether the disclosure requirements in other IFRS Accounting Standards e.g IAS 1 *Presentation of Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities* would provide adequate information in such instances.

C15. A few IASB members suggested that the rationale for not developing proposals for this application question should be included in the Basis for Conclusions. It was also suggested that the consideration of the application question should be explained in the Exposure Draft i.e. when explaining the scope, without asking a question on this topic.

IASB tentative decision

C16. The IASB tentatively decided not to develop proposals on how an investor applies the equity method when an associate grants an equity-settled share-based payment or a share warrant.

Secretariat views

C17. We support the tentative answer on the application question. The cost of developing proposals on how an investor applies the equity method when an associate grants an equity-settled share-based payment or a share warrant would be likely to outweigh the benefits. Such proposals would also be likely to add complexity to IAS 28.

C18. We think explaining the rationale in the Basis for Conclusions for not developing proposals for this application question would be helpful for stakeholders.

Contingent consideration on acquisition of an investment in an associate, including subsequent measurement

C19. At its June 2022 meeting, the IASB discussed the following application question:

> How to, initially and subsequently, recognise and measure contingent consideration on acquisition of an investment in an associate applying IAS 28.

Background

C20. An example to illustrate the application question is as follows:

a) An investor acquires a 25% interest in an associate, which results in it having significant influence, for consideration that is payable in two tranches:

i. an immediate payment of CU1,000 on acquisition of the investment in the associate (cash consideration); and

ii. a further payment that would be calculated as 5% of the associate's profits (before interest and tax) in the two years following the acquisition (**contingent consideration**).

C21. At its April 2022 meeting, the IASB tentatively decided that an investor would measure the cost of an investment, when an investor obtains significant influence in an associate, at the fair value of the consideration transferred, including the fair value of any previously held interest in the associate.

C22. To answer the application question, the IASB considered:

a) if consideration transferred includes contingent consideration, as part of the cost of an investment; and

b) if (a) is yes, how an investor recognises changes in the fair value of contingent consideration, at each reporting date, until it is settled (subsequent measurement of contingent consideration)?

IASB discussion

C23. Given the IASB's tentative decision to measure the cost of an investment, when an investor obtains significant influence, at the fair value of the consideration transferred, the IASB staff paper indicated that it is logical to extend that decision such that consideration transferred has the same meaning as set out in IFRS 3 *Business Combinations*. This has the advantage that the IASB is using consistent definitions and, in this instance, is particularly important to investors who are familiar with the recognition and measurement requirements of IFRS 3 related to contingent consideration on the acquisition of a business.

C24. Whilst one IASB member was of the view that the measurement period principle in IFRS 3[5] must also be considered for application in the proposals for this application question, other IASB members disagreed on the ground of complexity and introduction of a new concept in IAS 28.

C25. A few IASB members, whilst agreeing with the staff recommendations, were of the view that these recommendations should not be based on IFRS 3. These IASB members think the staff should explain why the recommendations are logical within the framework of IAS 28 and consistent with other standards i.e., IFRS 3.

IASB tentative decision

C26. The IASB tentatively decided to propose that:

a) on acquisition of an investment in an associate, an investor would recognise contingent consideration as part of the cost of the investment and measure that contingent consideration at fair value; and

b) after the acquisition date:

i. *for contingent consideration classified as equity*—an investor would account for its subsequent settlement within equity; and

ii. *for other contingent consideration*—an investor would measure it at fair value at each reporting date and recognise changes in fair value in profit or loss.

Secretariat views

C27. We support the tentative answer on the application question. The clarification for the initial and subsequent recognition and measurement of contingent consideration on acquisition of an investment in an associate is consistent with requirements in IFRS Accounting Standards and other tentative decisions within this project.

C28. The tentative answer should help to reduce any diversity in practice and provide better clarity for preparers.

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[5] If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. See IFRS 3 paragraphs 45-50.

Impairment of investments in associates

C29. At its July 2023 meeting, the IASB discussed the following application question:

> Does an investor assess a decline in fair value in relation to the original purchase price or the carrying amount at the reporting date?

Background

C30. Paragraph 40 of IAS 28 requires an investor to apply paragraphs 41A–41C of IAS 28 to determine whether there is objective evidence that its net investment in an associate or joint venture is impaired. An investor tests its net investment in an associate for impairment in accordance with IAS 36 *Impairment of Assets*.

C31. The application question asks if an investor (applying paragraph 41C of IAS 28) should assess if there is objective evidence of impairment by comparing the fair value of an investment to the carrying amount of the net investment in the associate at the reporting date instead of the cost on obtaining significant influence.

C32. The application question can be illustrated by assuming:

a) the investor acquired a 25% interest for CU100 and obtained significant influence at 1/1/20X1;

b) in the following years, the investor recognises its share of the associate's profit or loss, for a cumulative amount of CU80. At 31/12/20X3 the carrying amount of the investment is CU180; and

c) at 31/12/20X3, the fair value of the associate is CU120.

C33. Based on paragraph 41C of IAS 28, an investor might compare the fair value of CU120 to the cost on obtaining significant influence of CU100 and conclude there is no objective evidence of impairment, even if the net investment in the associate is higher than the fair value.

IASB tentative decisions

C34. The IASB staff paper observed that the cost on obtaining significant influence is not the correct comparator to fair value for investments in associates, therefore the staff supported the view that it should be amended to the carrying amount of the net investment in the associate.

C35. The IASB tentatively decided to propose amendments to IAS 28 to change the term 'cost' to 'carrying amount' in paragraph 41C of IAS 28.

C36. At its June 2022 meeting, the IASB tentatively decided that the investor would recognise a gain from a bargain purchase in profit or loss[6]. During that discussion, some IASB members noted that the bargain purchase may provide evidence of impairment of the net investment in the associate.

C37. All IASB members agreed with the staff recommendation to add as objective evidence of impairment a purchase price an investor pays for an additional interest in an associate, or a selling price for part of the interest, that is proportionally lower than the carrying amount of the investment in the associate at the date of the purchase or sale of that interest.

C38. Further, in the staff's view, the assessment of whether a decline in the fair value of an investment in an associate is significant or prolonged presents the same operational difficulties as those that arose in applying IAS 39 *Financial Instruments: Recognition and Measurement*.

C39. The IASB tentatively decided to remove the term 'significant or prolonged'.

Secretariat views

C40. We agree with the tentative decision to change the term 'cost' to 'carrying amount', to be consistent with the requirements in IAS 36 *Impairment of Assets*. We also concur with the proposal to add that a bargain purchase may provide evidence of impairment of the net investment in the associate.

C41. We agree with the tentative decision to remove the phrase 'significant or prolonged' given that the phrase is not defined, is difficult to apply because of the judgement required and is inconsistent with the tentative decision to add bargain purchase as evidence of impairment. However, we consider that the rationale for removing the term should be clarified: it would be helpful for the IASB to clarify that removal of the term is not intended to impose an additional requirement to determine the fair value of the associate at the end of each reporting period, unless there was an event or trigger for an impairment indicator.

Questions for the Board–tentative decisions
1. Do Board members have any questions or comments on the IASB's tentative decisions?

[6] In a bargain purchase, at the date of the purchasing the additional interest, the fair value of the consideration transferred is less than the investor's additional share in the fair value of the associate's net assets.

Applying the IASB's tentative decisions to application questions that were not selected[7]

C42. The IASB staff have identified five application questions that were not selected (that is, were outside the project's scope), but are considered resolved applying the IASB's tentative decisions, as at the date of the July 2023 meeting. These five application questions are set out in the Annex to this Appendix C.

September 2023 ASAF meeting

C43. At the September 2023 ASAF meeting, ASAF members will discuss the implications of the IASB's tentative decisions in respect of associates for other investments that are accounted for applying the equity method[8], including investments in:

a) subsidiaries in separate financial statements; and

b) joint ventures.

C44. The outreach undertaken by IASB staff with some NSSs indicates that use of the equity method to account for investments in subsidiaries in parent entity separate financial statements is not widespread.

C45. The IASB's tentative decision to recognise the full gain or loss on all transactions with equity-accounted investments, would change current practice for entities that either (i) applied the requirement in paragraph 28 of IAS 28, thereby partially restricting any gain or loss; or (ii) applied the requirement in paragraph B86(c) of IFRS 10, thereby fully restricting any gain or loss.

C46. The IASB staff identified the following two possible alternatives:

a) Alternative 1—Equity method as applicable in IAS 28.

b) Alternative 2—Equity method as applicable in IAS 28, with a requirement to restrict gains or losses from transactions between the parent and its subsidiaries.

In both alternatives, 'equity method as applicable in IAS 28' refers to the equity method as it would be amended by the IASB's tentative decisions.

C47. The IASB intends to ask ASAF members for their views on these alternatives.

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7 At its March 2021 meeting, the IASB agreed the selection of application questions is an iterative process. As the project progresses, answers could be found to application questions that were not selected or conversely answers found could raise new application questions.

8 Link to ASAF handout: Agenda Paper 13A and Agenda reference 13B

Secretariat views

C48. We would support Alternative 1 for the following reasons:

a) It avoids creating a new version of IAS 28.

b) It is consistent with the IASB's decision in 2012 to limit differences between the equity method as applied in separate and in consolidated financial statements.

c) It is simpler than Alternative 2—the cost of Alternative 2 for investment in subsidiaries for parent entities would outweigh the benefits for users.

Question for the Board– implication of IASB's tentative decision
2. Do Board members have views on the alternatives set out in C46?

Next steps

C49. At a future IASB meeting, the staff will ask the IASB to:

a) decide whether to add three further application questions to the project's scope;

b) discuss any implications of applying its tentative decisions to investments other than those in associate entities accounted for using the equity method (this topic will be discussed at the September 2023 ASAF meeting);

c) discuss possible improvements to disclosure requirements; and

d) discuss transition requirements for the proposals to revise IAS 28.

C50. The IASB work plan, at the time of writing, indicates that the Exposure Draft is expected in H2 2024.

C51. The UKEB Secretariat will continue to monitor the IASB discussions.

Annex 1 to Agenda Paper 5: Appendix C

<table>
<tr><th></th><th>Application question not selected</th><th>Related IASB tentative decision</th></tr>
<tr><td>1.</td><td>How does an investor determine the initial carrying amount of an investment in an associate?</td><td rowspan="2">The IASB tentatively decided that an investor would measure the cost of an investment, when an investor obtains significant influence, at the fair value of the consideration transferred, including the fair value of any previously held interest in the associate.</td></tr>
<tr><td>2.</td><td>An investor, with a previously held interest in an entity, acquires an additional interest and obtains significant influence. Does the initial measurement include the original purchase cost of the previously held interest or the carrying amount of that interest applying IFRS 9 Financial Instruments?</td></tr>
<tr><td>3.</td><td>How does an investor account for the associate’s issuance of shares? Common transactions include the repurchase or issuance of shares by the associate.</td><td>The IASB tentatively decided that when the investor’s ownership interest:

(a) increases and the investor retains significant influence, the investor would recognise that increase as a purchase of an additional interest.

(b) decreases and the investor retains significant influence, the investor would recognise that decrease as a partial disposal.</td></tr>
<tr><td>4.</td><td>An investor sells an item of Property, Plant and Equipment to an associate and leases it back:

(a) IFRS 16 Leases requires recognition of only the amount of gain or loss that relates to the rights transferred; whereas

(b) IAS 28 requires adjustment for the investor's portion of gain or loss.</td><td>The IASB tentatively decided:

(a) that an investor would recognise the full gain or loss on all transactions with its associate.

(b) to propose improvements for the disclosure requirements when an investor recognises the full gain or</td></tr>
</table>

	Application question not selected	Related IASB tentative decision
	Concerns were expressed about possible double counting	loss on transactions with its associate.
5.	Does an investor eliminate its portion of gain or loss in a downstream transaction against the transaction gain or loss or the share of the associate's profit or loss?	

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Appendix D: Pillar Two implementation

Status of implementation of Pillar Two tax legislation and endorsement of accounting Amendments

D1. The UK tax legislation, including the Income Inclusion Rule (IIR)[1] and a Qualifying Domestic Minimum Top-Up Tax (QDMTT)[2], was substantively enacted on 20 June 2023. There are plans to introduce the Undertaxed Payments Rule (UTPR, i.e. the backstop rule[3]) at a later date. The IIR and the QDMTT will be effective in the UK for accounting periods beginning on or after 31 December 2023.

D2. The UKEB endorsed the Amendments *International Tax Reform: Pillar Two Model Rules* (the Amendments) on 19 July 2023.

The disclosure requirements in practice in the UK

D3. Based on a limited sample[4] of UK groups, practice appears mixed. However, there is no evidence that any of the approaches taken is contrary to the requirements.

D4. All reporters are required to disclose that they have applied the exception, where material (IAS 12.88A).

D5. Annual reporters (but not 2023 interim reporters - IAS 12.98M(b)) should disclose quantitative and qualitative information about their exposure to Pillar Two top-up taxes (IAS 12.88C and D). However, if that information is not known or reasonably estimable, annual reporters must disclose a statement to that effect and provide information on their progress on assessing their exposure (IAS 12.88D).

D6. To date (5 September 2023), one UK-listed reporter has published annual accounts ending after the date of enactment. It applied the exception from accounting for deferred tax in relation to Pillar Two top-up taxes (IAS 12.88A). As permitted by IAS 12.88D, it reported its progress in assessing its exposure.

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1 The Income Inclusion Rule applies on a top-down basis, such that in most cases any tax due is calculated and paid by the ultimate parent company to its domestic tax authority.
2 The Qualifying Domestic Minimum Top-up Tax is a minimum tax rate incorporated within the domestic law of a jurisdiction.
3 The UTPR applies in cases where the effective tax rate in a country is below the minimum rate of 15%, but the IIR has not been applied.
4 We looked at ten sets of accounts: one set of accounts for the year ended 30 June 2023 and nine interim financial reports for the period ended 30 June 2023.

D7. June 2023 interim UK reporters variously stated that:

- the effect of the amendments was immaterial or insignificant;
- they had applied the exception without further disclosure (IAS 12.98M(b)); or
- they had applied the exception (IAS 12.88A), in addition to providing information on their progress in assessing their exposure to Pillar Two top-up taxes (IAS 12.88D).

Analysis of disclosures

Disclosure detail	Interim	Year end	Total
Statement that new accounting standards are not material or significant (IAS 1.31 and IAS 34.15A).	2		2
Statement that new accounting standards are not material or significant and disclosure on progress made (IAS 12.88D)	1		1
Solely disclosure that the entity has applied the exception, as permitted for 2023 interims (IAS 12.98M(b)).	2		2
Disclosure that the entity has applied the exception (IAS 12.88A) and disclosure on progress made (IAS 12.88D).	3	1	4
Disclosure on progress made, but no statement that the exception has been applied (IAS 12.88D)[5]	1		1
Total	**9**	**1**	**10**

Next steps

D8. In the Basis for Conclusions for the Amendments, the IASB noted that it would monitor developments in the worldwide implementation of the Pillar Two model rules in order to determine when to undertake further work (IAS 12 Amendments BC106). The IASB has not yet added a review of the Amendments to its workplan.

[5] This disclosure could be appropriate, if the entity has assessed the exposure to be immaterial.

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Appendix E: Primary Financial Statements

Topics for Discussion

UKEB Project Status: Active Monitoring **IASB Next Milestone:** IFRS Accounting Standard	**UKEB project page** **UKEB Secretariat Comment Letter (Published in September 2020)**

Purpose of this update

E1. In June 2023 the IASB completed redeliberations on the proposals in the Exposure Draft General Presentation and Disclosures (the ED) as part of its project on **Primary Financial Statements** (PFS). A high-level summary of all the tentative decisions made by the IASB (since the ED was published) can be accessed here.

E2. At its July meeting the IASB tentatively decided to start the balloting process of the forthcoming **IFRS Accounting Standard 18 *Presentation and Disclosure in Financial Statements*** (the 'forthcoming standard'). The IASB also made decisions on the effective date and on the transition requirements of the forthcoming standard.

E3. The IASB is also considering whether to develop additional transition relief in the forthcoming standard. For this purpose, is seeking ASAF members' input at their September 2023 meeting. The input received from the Board at this meeting will help inform the UKEB's feedback to the IASB [link to ASAF paper here].

E4. In this paper we present a summary of the outcome of the IASB's discussions at the July 2023 IASB meeting, and we ask the Board for input on the questions for ASAF members.

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Update on tentative IASB decisions in July 2023

Decision not to re-expose and start the balloting process

E5. The IASB tentatively decided to issue the forthcoming standard without re-exposing the proposals and to begin the balloting process. The IASB's decision was based on an analysis of the IASB's re-exposure criteria[1]. It was observed that[2]:

a) There are no fundamental changes on which respondents have not had the opportunity to comment.

b) It is unlikely that re-exposure will reveal any new information or concerns.

E6. The IASB members were satisfied that:

a) The applicable due process requirements had been complied with[3]; and

b) Sufficient consultation and analysis had been undertaken to begin the process for balloting the standard.

IFRS 18 draft

E7. In mid-August 2023 the IASB staff circulated to IFASS members a first draft[4] of the forthcoming standard. UKEB Secretariat reviewed it on a confidential basis and submitted comments to the IASB staff. We understand that any sweep issues identified by the IASB during the balloting process will be brought for discussion at future IASB meetings (during Q4 2023).

Effective date

E8. The IASB tentatively confirmed the proposal in the ED to require the application of the forthcoming Standard **retrospectively** in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; for **annual reporting periods beginning on or after 1 January 2027** and to permit earlier application[5].

E9. The IASB is expected to complete its balloting process and issue the final IFRS 18 in the first half of 2024. IFRS 18 will replace IAS 1 *Presentation of Financial Statements*.

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1 The re-exposure criteria can be found in paragraphs 6.25–6.29 of the IASB and IFRS Interpretations Committee Due Process Handbook (IASB Handbook), August 2020.

2 The summary of these discussions is based on IASB agenda paper 21A (July 2023).

3 The summary of these discussions is based on IASB agenda paper 21C (July 2023).

4 The IASB shares this draft for editorial review in line with the requirements in paragraph 3.32 of the IASB Handbook.

5 This effective date is aligned with the Board's observations that 24 months is a reasonable transition period. (see paragraph 7 in UKEB agenda paper 5 (March 2023)).

Transition requirements

Background

E10. Unless a new IFRS Standard includes specific transitional provisions, IAS 8[6] requires retrospective application of a change in an accounting policy to the extent practicable. Retrospective application requires the restatement of information as if the new accounting requirements had always been applied. Applying new accounting requirements retrospectively could be burdensome and could require entities to have to collect information from previous years that may not be available or may be difficult to recreate.

E11. The forthcoming standard will affect presentation and disclosure only and will not affect recognition and disclosure requirements. However, some of these requirements will involve classification or disaggregation requirements that are not currently required in IFRS Standards and may require some system changes. For example, some new requirements are:

a) To classify income and expenses into the operating, investing or financial sections of the statement(s) of financial performance.

b) To identify the entity's management performance measures and calculate the effect on tax and non-controlling interests of any adjustments.

c) To provide greater disaggregation of information.

E12. Accordingly, the IASB decided to include specific transitional provisions to facilitate the transition to the new forthcoming standard.

Decisions on transition at the July 2023 IASB meeting

E13. At its July 2023 meeting, the IASB tentatively decided to:

a) Confirm the transition requirements included in paragraph 118 of the Exposure Draft regarding the presentation of headings and subtotals in condensed financial statements provided in interim financial reports.

b) Include additional transition provisions that will be applicable in the first year of applying the forthcoming standard. These provisions relate to the application of some of the requirements in IAS 8 and IAS 34 *Interim Financial Reporting* for annual and condensed interim financial statements, respectively.

E14. The transition requirements for the forthcoming standard are summarised in the next page.

6 See paragraphs 19–27 of IAS 8.

Requirements in IFRS Standards	IFRS 18 transition provisions
Annual financial statements	
IAS 8 Paragraph 28(f) of IAS 8 requires an entity to disclose the amount of the adjustment for each line item affected for the current period and each prior period presented when initial application of an IFRS Accounting Standard has an effect on the current or any prior period.	Reconciliation of comparatives [new] IFRS 18 will require an entity to disclose a reconciliation between each line item in the annual statement of profit or loss presented by applying IAS 1 and each line item presented by applying the Standard. This disclosure would replace the disclosure required in paragraph 28(f) of IAS 8 and would be: a) Only required for the comparative period immediately preceding the period in which the Standard is first applied. b) Permitted but not required for the reporting period in which the Standard is first applied; and c) Permitted but not required for comparative periods presented other than the comparative period specified in subparagraph (a).
Condensed interim financial statements	
Headings and subtotals IAS 34 Paragraph 10 of IAS 34 requires an entity to include each of the headings and subtotals that were included in its most recent annual financial statements.	Headings and subtotals *[proposal included in paragraph 118 of the ED and confirmed at the July 2023 meeting]* IFRS 18 will require an entity to include each of the headings and subtotals required by IFRS 18 in its condensed interim financial statements in the first year of applying the Standard despite the requirements in the paragraph 10 of IAS 34. An entity will apply the requirements in paragraph 10 of IAS 34 after its first set of financial statements.
IAS 34 Paragraph 16A(a) of IAS 34 requires an entity to disclose a description of the nature and effect of the change in accounting policies and computation methods.	Reconciliation of comparatives [new] IFRS 18 will require an entity to disclose as part of the information required by paragraph 16A(a) of IAS 34, a reconciliation for the comparative period immediately preceding the current period for each line item presented in the statement of profit or loss in the interim financial statements.

UK Endorsement Board

Question for the Board
1. Do Board members have any questions or comments on the IASB's tentative decisions to start the balloting process of the forthcoming standard and to include transition provisions?

Request for input for ASAF September 2023 meeting

E15. The IASB is considering whether transitional relief would be needed for those entities that are required by their local laws and regulations to present comparative information for more than one comparative period ('additional comparative information'). This relief would be in line with the relief that is provided in other IFRS Standards which:

a) Permits but does not require an entity to present adjusted comparative information and related disclosures for earlier periods than the annual period immediately preceding the date of initial application of the Standard[7]; and

b) Requires entities to:

i. clearly identify any information provided that has not been adjusted; and

ii. state that any information that has not been adjusted has been prepared on a different basis and to explain that basis.

E16. As a first step the IASB is seeking feedback from ASAF members on the existence of local laws and regulations in their jurisdiction that require entities to provide additional comparative information.

[7] For example, we note that paragraphs C3(a), C25 to C28 of IFRS 17 *Insurance Contracts* state that entities are not required to disclose, for the current period and for each prior period presented, the amount of the adjustment for each financial statement line item affected, as required by paragraph 28(f) of IAS 8. As explained in paragraph BC400 of IFRS 17's Basis for Conclusions "the cost of providing this disclosure, which would include the running of parallel systems, would exceed the benefits, particularly because IFRS 4 permitted an entity to use a wide range of practices".

Questions for ASAF members

E17. The specific questions for ASAF members are reproduced below.

> **Questions for ASAF members** (page 2 of ASAF agenda paper 5)
>
> 1. **Are there any laws or regulations in your jurisdiction that require entities to provide comparative information for more than one comparative period in their financial statements?**
> 2. **Do those laws or regulations permit an entity to provide only one year of comparative information when a new IFRS Accounting Standard is applied?**

E18. We welcome any comments on these questions. To aid this discussion we have performed some initial research for companies producing annual accounts in accordance with:

a) UK GAAP; and

b) UK-adopted international accounting standards (IAS).

Preliminary findings

Companies producing annual accounts in accordance with UK GAAP

E19. The laws and regulations in the UK require the presentation of only **one comparative period for UK companies.** The legal requirements are set out below:

Requirements in Companies Act 2006

a) More specifically, the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 No. 410 has the following requirements for the presentation of the balance sheet and for the profit and loss account:

i. Schedule 1 Companies Act Individual Accounts: Companies which are not banking or insurance companies, paragraph 7 requires the presentation of only one comparative period.

ii. Schedule 6 Companies Act group accounts in paragraphs (1) and (2) require **group accounts** to follow the provisions on Schedule 1, therefore, requiring the presentation of only one comparative period as well.

UK GAAP – Requirements in FRS 102

b) FRS 102 is the accounting standard that is applied when a company prepares Companies Act accounts. Paragraph 3.14 in FRS 102 requires comparative information in respect of the preceding period for all amounts in the financial statements unless the standard permits or requires otherwise.

E20. The relevant paragraphs from the Companies Act 2006 and from FRS 102 are reproduced in **Annex 1** of this paper.

Companies producing annual accounts reports using UK-adopted IAS

E21. Companies Act 2006 does not impose any requirements on companies producing annual accounts and reports using UK-adopted IAS in relation to provision of comparative information.

E22. Companies are required to apply IAS 1, which sets out the overall requirements for financial statements. We describe below the relevant paragraphs from IAS 1 that companies using UK-adopted IAS are required to apply.

E23. Paragraph 10 of IAS 1 requires the presentation of a complete set of financial statements which includes the presentation of:

a) One comparative period in respect of the preceding period as specified in paragraphs 38 and 38A. These paragraphs require the presentation of minimum comparative information in respect of the preceding period for all amounts reported in the current period's financial statements.

b) A statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A–40D of IAS 1.

E24. An entity may provide additional comparative information in accordance with the requirements in paragraphs 38C–38D of IAS 1.

Tentative conclusion

E25. We have concluded that in response to:

Question 1: Are there any laws or regulations in your jurisdiction that require entities to provide comparative information for more than one comparative period in their financial statements?

Draft response: There are no laws or regulations in the UK that require entities to provide comparative information for more than one comparative period in their financial statements.

Question 2: Do those laws or regulations permit an entity to provide only one year of comparative information when a new IFRS Accounting Standard is applied?

Draft response: This question is not applicable as in the UK the requirement is to present only one comparative period.

Next steps

E26. As mentioned in paragraph E9, the IASB is expected to publish the final IFRS 18 Standard in the first half of 2024.

E27. The UKEB Secretariat has commenced planning activities for the UKEB's endorsement assessment of the forthcoming standard.

Questions for the Board
2. Do Board members agree that there are no laws or regulations in the UK that require entities to provide comparative information for more than one comparative period in their financial statements? 3. Do Board members agree that the ASAF question about whether *laws or regulations permit an entity to provide only one year of comparative information when a new IFRS Accounting Standard is applied* is not applicable as in the UK the requirement is to present only one comparative period?

Annex 1 – Requirements for comparative information in UK GAAP

We reproduce below the requirements for comparative information from the Companies Act 2006 and from FRS 102 for companies producing annual accounts in accordance with UK GAAP. We have included hyperlinks to these regulations and highlighted the relevant parts.

Companies producing annual accounts in accordance with UK GAAP

Companies Act 2006 – the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 No. 410

Schedule 1–Companies Act Individual Accounts: Companies which are not banking or insurance companies.

7. (1) For every item shown in the balance sheet or profit and loss account the corresponding amount for the immediately preceding financial year must also be shown.

(2) Where that corresponding amount is not comparable with the amount to be shown for the item in question in respect of the financial year to which the balance sheet or profit and loss account relates, the former amount may be adjusted, and particulars of the non-comparability and of any adjustment must be disclosed in a note to the accounts.

Schedule 6. Companies Act Group accounts

1. (1) Group accounts must comply so far as practicable with the provisions of Schedule 1 to these Regulations as if the undertakings included in the consolidation ("the group") were a single company (see Parts 2 and 3 of this Schedule for modifications for banking and insurance groups).

(2) Where the parent company is treated as an investment company for the purposes of Part 5 of Schedule 1 (special provisions for investment companies) the group must be similarly treated.

2.(1) The consolidated balance sheet and profit and loss account must incorporate in full the information contained in the individual accounts of the undertakings included in the consolidation, subject to the adjustments authorised or required by the following provisions of this Schedule and to such other adjustments (if any) as may be appropriate in accordance with generally accepted accounting principles or practice.

Requirements in FRS 102

FRS 102 – paragraph 3.14

3.14 Except when this FRS permits or requires otherwise, an entity shall present comparative information in respect of the preceding period for all amounts presented in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

UK Endorsement Board

Appendix F: Subsidiaries without Public Accountability: Disclosures

UKEB Project Status: Monitoring **IASB Next Milestone:** IFRS Accounting Standard	UKEB project page UKEB Final Comment Letter **(Published February 2022)**

Background

F1. At its July 2023 meeting, following completion of its redeliberation of the proposals in the Exposure Draft: Subsidiaries without Public Accountability: Disclosures (the ED), the IASB staff requested permission from the IASB to start the balloting process.

Effective date and transition

F2. The IASB discussed the effective date of, and transition to, the forthcoming Standard and tentatively decided:

a) to permit an eligible subsidiary to apply the Standard on 1 January 2027;

b) to permit an eligible subsidiary to apply the Standard early and to require a subsidiary that elects to do so to disclose that fact; and

c) to confirm the proposals of the ED about the comparative information that an eligible subsidiary would be required to provide when either electing to apply the Standard for the first time or revoking its election to apply the Standard in the current period.

F3. The IASB also confirmed that disclosure requirements in other amended IFRS Accounting Standards between 1 March 2021[1] and the date of issue of the subsidiaries Standard remain applicable[2], including the disclosure requirements in:

[1] The ED was developed considering all IFRS Accounting Standards issued as at 28 February 2021 and EDs published as at 1 January 2021, except for the ED *General Presentation and Disclosures*.

[2] These disclosure requirements will be dealt with through a "catch-up Exposure Draft" which will propose new or amended disclosure requirements based on applying the principles for reducing disclosures for the subsidiaries Standard.

a) IAS 1 *Presentation of Financial Statements* as a result of its Non-current Liabilities with Covenants project;

b) IAS 12 *Income Taxes* as a result of its International Tax Reform—Pillar Two Model Rules project;

c) IFRS 7 *Financial Instruments: Disclosures* and IAS 7 *Statement of Cash Flows* as a result of its Supplier Finance Arrangements project; and

d) IAS 21 *The Effects of Changes in Foreign Exchange Rates* as a result of its Lack of Exchangeability project

F4. The IASB also decided to specify as part of the transition requirements in the new Standard, the disclosures an eligible subsidiary is required to make if it applies the Standard early but does not apply the IFRS Accounting Standard *General Presentation and Disclosures* (GPD) early[3].

Permission to begin the balloting process

F5. All IASB members confirmed they were satisfied the IASB has complied with the applicable due process requirements and has undertaken sufficient consultation and analysis to begin the process for balloting the Standard.

Next steps

F6. The IASB staff will bring any matters that arise in drafting the subsidiaries Standard (for example, matters that may arise in updating the language of the draft Standard to be the same as the language in IFRS Accounting Standards) to the IASB as sweep issues.

F7. At the September 2023 meeting the IASB will consider proposed amendments to the subsidiaries Standard in respect of the disclosure requirements the IASB has tentatively decided to include in the forthcoming ED on its Business Combinations—Disclosure, Goodwill and Impairment project.

F8. The IASB expects to issue the subsidiaries Standard in the first half of 2024. We plan to present a Project Initiation Plan to the Board in due course.

[3] The IFRS Accounting Standard *General Presentation and Disclosures* (GPD) will replace IAS 1 *Presentation of Financial Statements*. The GPD Standard will: (a) relocate disclosure requirements from IAS 1 to either the GPD Standard or to other IFRS Accounting Standards; and (b) introduce new disclosure requirements in the GPD Standard. The subsidiaries Standard will include an Appendix that will require the disclosures proposed in the ED for IAS 1 if a subsidiary applies the subsidiaries Standard early but does not apply GPD Standard.

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Appendix G: IFRIC Agenda Decisions Update

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

Background

G1. The UKEB's Due Process Handbook notes that the UKEB expects to respond to a limited number of tentative agenda decisions published by the IFRS Interpretations Committee (Interpretations Committee). Some factors to consider when deciding whether to respond may be:

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

G2. The Interpretations Committee held a short meeting on 12 September 2023.

G3. We will provide an update to the Board at its next meeting on the decisions made at that meeting.

G4. One new matter has been added to the Interpretations Committee pipeline: "Payments Contingent on Continued Employment during Handover Periods (IFRS 3)".

G5. The Interpretations Committee has tentatively concluded that the matter described in the request does not have widespread effect and that a standard-setting project should therefore not be added to the work plan.

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NEW MATTERS PRESENTED TO THE INTERPRETATIONS COMMITTEE	
Topic	Payments Contingent on Continued Employment during Handover Periods
Standard	IFRS 3
Question	How an entity accounts for payments to the sellers of a business it acquired when those payments are contingent on the sellers' continued employment during a post-acquisition handover period.
Tentative Conclusion (subject to some minor editorial revisions)	Evidence gathered by the Committee [to date] does not indicate significant diversity in the accounting for payments that are contingent upon continued employment in fact patterns such as those described in the request. In these fact patterns, entities apply the accounting described in the agenda decision *Contingent payments to shareholders and continuing employment* (published in January 2013) and account for the payments as compensation for post-combination services rather than additional consideration for the acquisition, unless the service condition is not substantive. Based on its findings, the Committee concluded that the matter described in the request does not have widespread effect. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

G6. The Secretariat has reviewed the submission and concurs with the tentative view that the issue is unlikely to have a widespread effect on companies. The Secretariat has not undertaken outreach with UK stakeholders.

Question for the Board
1. Do Board members agree that the UKEB will NOT respond to the matter presented to the Interpretations Committee "Payments Contingent on Continued Employment during Handover Periods"?

UK Endorsement Board

Appendix H. List of IASB projects

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

List of IASB projects	
Amendments to the Classification and Measurement of Financial Instruments	
UKEB Project Status: Influencing **IASB Next Milestone:** Exposure Draft Feedback September 2023 Submit letter by: 19/07/23	UKEB project page UKEB Project Initiation Plan (Published May 2023) UKEB Final Comment Letter (Published July 2023) UKEB Feedback Statement (Published July 2023)
Annual Improvements (Amendments to IFRS Accounting Standards: IAS 7, IFRS 1, IFRS 7, IFRS 9, IFRS 10)	
UKEB Project Status: Monitoring **IASB Next Milestone:** Exposure Draft September 2023	

[1] This list does not include projects related to the IFRS Interpretations Committee or IASB's projects outside the UKEB's work remit (such as the Second Comprehensive Review of the *IFRS for SMEs* Accounting Standard).

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List of IASB projects	
Business Combinations under Common Control	
UKEB Project Status: Monitoring **IASB Next Milestone:** Decide Project Direction September 2023	UKEB project page UKEB Final Comment Letter **(**Published August 2021) UKEB Feedback Statement (Published August 2021)
Business Combinations—Disclosures, Goodwill and Impairment	
UKEB Project Status: Monitoring **IASB Next Milestone:** Exposure Draft H1 2024	UKEB project page UKEB Report: Subsequent Measurement of Goodwill - A Hybrid Model (Published September 2022)
Climate-related Risks in the Financial Statements	
UKEB Project Status: Monitoring **IASB Next Milestone:** Review research September 2023	
Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures	
UKEB Project Status: Monitoring **IASB Next Milestone:** IFRS Accounting Standard (H1 2024)	UKEB project page UKEB Final Comment Letter (Published February 2022)

List of IASB projects	
	UKEB Feedback Statement (Published February 2022)
Dynamic Risk Management	
UKEB Project Status: Monitoring **IASB Next Milestone:** Exposure Draft (2025)	
Equity Method	
UKEB Project Status: Monitoring **IASB Next Milestone:** Exposure Draft (H2 2024)	
Extractive Activities	
UKEB Project Status: Monitoring **IASB Next Milestone:** Decide Project Direction September 2023	
Financial Instruments with Characteristics of Equity	
UKEB Project Status: Monitoring	

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List of IASB projects	
IASB Next Milestone: Exposure Draft November 2023	
Post-implementation Review of IFRS 15 Revenue from Contracts with Customers	
UKEB Project Status: Influencing **IASB Next Milestone:** Request for Information Q1 2024 Submit letter by: 27/10/23	UKEB project page UKEB Project Initiation Plan (Published June 2023) UKEB Draft Comment Letter (Published July 2023)
Post-implementation Review of IFRS 9—Impairment	
UKEB Project Status: Influencing **IASB Next Milestone:** Request for Information November 2023 Submit letter by: 27/09/23	UKEB project page Project Initiation Plan (Published June 2023) Draft Comment Letter (Published August 2023)
Primary Financial Statements	
UKEB Project Status: Monitoring **IASB Next Milestone:** IFRS Accounting Standard (H1 2024)	UKEB project page UKEB Final Comment Letter (Published September 2020)

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List of IASB projects	
Provisions—Targeted Improvements	
UKEB Project Status: Monitoring **IASB Next Milestone:** Decide Project Direction Q4 2023	
Rate-regulated Activities	
UKEB Project Status: Monitoring **IASB Next Milestone:** IFRS Accounting Standard (2025)	UKEB project page UKEB Final Comment Letter (Published August 2021)