Financial Reporting Council

MONTHLY UPDATES (March 2024) – What's new from the International Accounting Standards Board (IASB)

The topics discussed at the IASB's March 2024 with respect to IASB meetings were on the following:

A. Research and standard-setting

B. Maintenance and consistent application

A. Research and standard-setting

1. Post-implementation Review of IFRS 15 Revenue from Contracts with Customers

The IASB met to analyse stakeholder feedback on the Request for Information *Post-implementation Review of IFRS 15* Revenue from Contracts with Customers. The analysis covered matters raised by stakeholders in relation to:

- determining a transaction price;
- determining when to recognise revenue; and
- applying disclosure requirements.

Determining the transaction price

In response to the feedback, the IASB tentatively decided to take no further action on the matters related to:

a. variable consideration;
b. sales-based taxes;
c. non-cash consideration; and
d. other aspects of determining the transaction price.

Determining when to recognise revenue

In response to the feedback, the IASB tentatively decided to take no further action on the matters related to:

a. the application of the concept of control and the criteria for recognising revenue over time;
b. the measurement of progress for performance obligations satisfied over time; and
c. other aspects of determining when to recognise revenue.

Disclosure requirements

In response to the feedback, the IASB tentatively decided to take no further action on the matters related to:

a. respondents’ concerns about the cost–benefit balance of some disclosure requirements;
b. variation in the quality of disclosed information; and
c. other aspects of disclosure requirements.

Next step

The IASB will analyse the feedback on other topics identified in the project plan.

2. Rate-regulated Activities

The IASB met to redeliberate proposed requirements in the Exposure Draft *Regulatory Assets and Regulatory Liabilities* to be included in the prospective IFRS Accounting Standard on rate-regulated activities (prospective RRA Standard). These requirements relate to discounting estimated future cash flows.

The IASB also discussed whether to develop reduced disclosure requirements for the prospective RRA Standard that could be included in the prospective IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures* (prospective Subsidiaries Standard).

Discounting estimated future cash flows

Regarding the prospective RRA Standard, the IASB tentatively decided:

a. to retain the proposal that an entity be required to discount estimates of future cash flows that arise from a regulatory asset or regulatory liability;
b. to retain the proposal that an entity be required to use the regulatory interest rate for a regulatory asset or regulatory liability as the discount rate for that regulatory asset or regulatory liability;
c. to retain the definition of a regulatory interest rate proposed in the Exposure Draft;
d. to exempt an entity from applying the proposed requirement described in (a) to discount estimates of future cash flows from a regulatory asset or regulatory liability, if the entity expects the period between recognition of that regulatory asset or regulatory liability and its recovery or fulfilment to be 12 months or less;
e. to require an entity that elects to apply the exemption described in (d) to disclose that fact and disclose the carrying amount of regulatory assets and regulatory liabilities at the end of the reporting period to which the entity has applied that exemption;
f. not to exempt an entity from applying the proposed requirement described in (a) to discount estimates of future cash flows from a regulatory asset or regulatory liability for which the regulatory agreement does not specify a time frame for recovery or fulfilment;
g. to retain the proposal that an entity be required to compute a single discount rate when a regulatory agreement specifies, at initial recognition, different regulatory interest rates over the life of a regulatory asset or regulatory liability;
h. not to provide guidance on the computation of the single discount rate described in (g);
i. to exempt an entity that measures regulatory assets or regulatory liabilities described in (g) from applying the proposed requirement described in (a) to discount estimates of future cash flows for the period between recognition and the date from which regulatory interest starts to accrue, if the entity expects that period to be 12 months or less;
j. to require an entity that elects to apply the exemption described in (i) to disclose that fact and disclose the carrying amount of regulatory assets and regulatory liabilities at the end of the reporting period to which the entity has applied that exemption; and
k. to clarify that the proposed requirement described in (g) does not apply to a regulatory asset or regulatory liability that attracts regulatory interest rates that depend on an interest rate benchmark, and not to provide further guidance on measuring such a regulatory asset or regulatory liability.

Reduced disclosures for rate-regulated entities

The IASB tentatively decided:

a. not to develop reduced disclosures for the prospective RRA Standard now; and
b. to include a question seeking stakeholders' views on the decision not to develop reduced disclosures in the 'catch-up' exposure draft the IASB plans to publish after it issues the prospective Subsidiaries Standard.

Next step

The IASB will continue to redeliberate the project proposals.

3. Equity Method

The IASB met to discuss:

- transitional requirements for the proposed amendments to IAS 28 *Investments in Associates and Joint Ventures*; and
- the due process steps for the prospective exposure draft proposing amendments to IAS 28 (exposure draft).

Towards an exposure draft—Transitional requirements

The IASB tentatively decided:

a. to clarify its tentative decision that an investor or joint venturer would retrospectively apply the requirement to recognise the full gain or loss on all transactions with its associates or joint ventures. An investor or joint venturer would apply the proposed requirement by recognising the remaining portion of the restricted gain or loss. The cumulative effect of that gain or loss would be recognised as an adjustment to the opening balance of retained earnings at the transition date in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

b. to propose that if, on initial application of the proposed requirements, an investor or joint venturer had estimated, at the transition date, the recoverable amount of an investment in an associate or joint venture, the investor or joint venturer would:
   i. reduce the carrying amount to that recoverable amount; and
   ii. recognise the impairment loss in the opening balance of retained earnings.

c. to propose that an investor or joint venturer that chooses (or is required by legislation) to present more than one period of comparative information may present comparative information for any additional prior periods:
   i. adjusted for the effects of the proposed requirements—the transition date would be the beginning of the earliest adjusted comparative period presented; or
   ii. unadjusted for the effects of the proposed requirements—the investor or joint venturer would identify the comparative information as unadjusted and disclose that the comparative information has been prepared on a different basis, explaining that basis.

d. to propose an exemption from disclosing the information required by paragraph 28(f) of IAS 8 for the current period and for any additional prior period that the investor or joint venturer presents unadjusted.

Towards an exposure draft—Due process and permission to begin the balloting process

The IASB set a 120-day comment period for the exposure draft.

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 exposure draft.

One IASB member indicated an intention to dissent from the proposals in the exposure draft.

Next step

The IASB will begin the balloting process of the exposure draft.

4. Post-implementation Review of IFRS 9—Impairment

The IASB met to discuss feedback on the impairment requirements in IFRS 9 *Financial Instruments,* given in response to its Request for Information of the Post-implementation Review of IFRS 9—Impairment.

The IASB discussed stakeholder views on the main requirements in IFRS 9 for measuring expected credit losses (ECL). The discussion focused on:

a. the use of forward-looking scenarios;
b. the use of post-model adjustments or management overlays; and
c. some application questions related to measuring ECL.

The IASB tentatively decided to take no action on these matters.

Next step

The IASB will discuss the feedback on other topics identified in the project plan.

5. Second Comprehensive Review of the IFRS for SMEs Accounting Standard

The IASB met to redeliberate the proposals in the Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard.*

Proposed revised Section 23 Revenue from Contracts with Customers—Redeliberation topics

The IASB tentatively decided:

a. to withdraw the proposal that if any of the circumstances in paragraph 23.38(a)–(c) of the Exposure Draft apply, the SME is a principal; and
b. to withdraw the proposal to require an SME to account for a warranty as a separate promise if:
    i. the customer has the option to purchase the warranty separately; or

ii. the warranty, or part of the warranty, provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.

Instead, the IASB tentatively decided to require an SME:

a. to apply the requirements based on the principle and indicators of control in IFRS 15 *Revenue from Contracts with Customers* to determine whether the SME is a principal or agent; and
b. to account for a warranty as a separate promise only if the customer has the option to purchase the warranty separately.

The IASB tentatively decided:

a. to require an SME that is evaluating whether a customer obtains control of an asset to consider any agreement to repurchase the asset;
b. to specify in the *IFRS for SMEs* Accounting Standard that a customer does not obtain control of an asset if an SME has an obligation or a right to repurchase the asset;
c. to include no requirements specifying how an SME accounts for repurchase agreements that arise from contracts with customers in the *IFRS for SMEs* Accounting Standard;
d. to withdraw the proposed requirements for accounting for unexercised rights in paragraphs 23.119–23.120 of the Exposure Draft;
e. to confirm its proposal to require an SME to present contract assets and receivables separately; and
f. to confirm its proposal to require an SME to apply the criteria in paragraph 23.78(a), (c) and (d) of the Exposure Draft to determine whether the SME satisfies a promise over time or at a point in time.

Proposed revised Section 23 Revenue from Contracts with Customers—Additional and alternative simplifications

The IASB tentatively decided to use the term 'collectability', instead of 'customer's credit risk', to describe the requirement for an SME to estimate the recoverable amount of assets recognised from the costs incurred to fulfil a contract with a customer.

Other issues raised by respondents to the Exposure Draft Third edition of the IFRS for SMEs Accounting Standard

The IASB tentatively decided:

a. to finalise paragraph 30.8A in the Exposure Draft, which clarifies the requirements for transactions that include payment or receipt of advance consideration in a foreign currency, and to clarify in this paragraph that:
   i. an SME generally recognises a non-monetary asset or non-monetary liability; and
   ii. an SME that makes multiple payments or receipts in advance is required to determine a date of the transaction for each payment or receipt.

b. to align the requirements for offsetting income tax assets and liabilities in Section 29 *Income Tax* of the *IFRS for SMEs* Accounting Standard with those in paragraphs 71 and 74 of IAS 12 *Income Taxes*.

c. to clarify in paragraph 28.17 of the *IFRS for SMEs* Accounting Standard that an SME is required to assess the depth of the market for high-quality corporate bonds at a currency level.
d. to clarify the requirement in proposed paragraph 26.14A of the Exposure Draft by explaining that the cumulative amount ultimately recognised for goods or services received as consideration for cash-settled share-based payments equals the amount of cash paid.

Proposed revised Section 2 Concepts and Pervasive Principles

The IASB tentatively decided to proceed with the proposals in Section 2 of the Exposure Draft and to make changes to these proposals only to improve drafting.

Updating the paragraph numbers of the IFRS for SMEs Accounting Standard

The IASB tentatively decided to renumber paragraphs for sections that will be revised and to retain the original paragraph numbers for sections with few amendments.

Next step

The IASB will continue to redeliberate the proposals in the Exposure Draft.

6. Updating the Subsidiaries without Public Accountability: Disclosures Standard

The IASB met to discuss the 'catch-up' exposure draft it plans to publish after issuing the prospective IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures* (prospective Subsidiaries Standard). The IASB expects the prospective Subsidiaries Standard will include all the disclosure requirements from the prospective IFRS Accounting Standard *Presentation and Disclosure in Financial Statements* (prospective PFS Standard).

Disclosure requirements from the new PFS Standard

The IASB tentatively decided to propose, in the catch-up exposure draft, amending the disclosure requirements in the prospective Subsidiaries Standard from the prospective PFS Standard by:

a. replacing the requirements relating to management-defined performance measures with a reference to those requirements in the prospective PFS Standard; and
b. deleting the disclosure objective from a disclosure requirement relating to non-current liabilities.

The IASB also tentatively decided not to propose, in the catch-up exposure draft, amending disclosure requirements that are expected to be carried forward from IAS 1 *Presentation of Financial Statements* to the prospective PFS Standard, because the IASB has already considered them during the development of the prospective Subsidiaries Standard.

Next step

The IASB will decide whether to start the balloting process for the catch-up exposure draft.

B. Maintenance and consistent application

1. Power Purchase Agreements

The IASB met to discuss:

- amendments to IFRS 9 *Financial Instruments*, IFRS 7 *Financial Instruments: Disclosures* and the prospective IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures* (prospective Subsidiaries Standard) on power purchase agreements the IASB expects to propose in the prospective Exposure Draft *Contracts for Renewable Electricity* (PPA Exposure Draft); and
- the due process steps—including permission to begin the balloting process—for the PPA Exposure Draft.

Scope of the Exposure Draft Contracts for Renewable Electricity and the proposed amendments to the own-use

Scope of the PPA Exposure Draft

The IASB tentatively decided to limit the scope of the PPA Exposure Draft to 'contracts for renewable electricity' that are contracts for which:

a. the source for production of the renewable electricity is nature-dependent so that supply cannot be guaranteed at particular times or in particular volumes. Examples of sources include wind-, solar- and hydroelectricity.
b. the purchaser is exposed to substantially all of the volume risk under the contract through pay-as-produced features. Volume risk is the risk that the volume of electricity produced does not coincide with the purchaser's demand at the time of production.

Proposed amendments to the own-use requirements

To apply the own-use requirements in paragraph 2.4 of IFRS 9 to such contracts for renewable electricity, the IASB tentatively decided to propose that, from the contract's inception and throughout its duration, the purchaser under the contract be required to consider:

a. the purpose, design and structure of the contract, and whether the volume expected to be delivered under the contract continues to be consistent with the entity's expected purchase or usage requirements for the remaining duration of the contract.
b. the reasons for past and expected sales of unused renewable electricity and whether such sales are consistent with the entity's expected purchase or usage requirements. A sale is consistent with the entity's expected purchase or usage requirements if:
    i. the sale arises from mismatches between the renewable electricity delivered and the entity's demand at the time of delivery.
    ii. the design and operation of the market in which the renewable electricity is traded restricts the entity from having the practical ability to determine the timing or price of such sales.
    iii. the entity expects to repurchase the sold volumes of renewable electricity within a reasonable time after the sale.

Proposed amendments to the hedge-accounting requirements

The IASB tentatively decided—for cash-flow-hedging relationships in which a contract for renewable electricity within the scope of the proposed amendments is designated as a hedging instrument—to propose that an entity be permitted to designate as the hedged item a variable nominal volume (or quantity) of forecasted sales or purchases of renewable electricity only if:

a. the volume of the hedged item is specified as a proportion of the hedging instrument's variable volume.
b. the hedged item is measured using the same volume assumptions used for the hedging instrument. (All other assumptions used for measuring the hedged item reflect the nature of the hedged item and do not impute the features of the hedging instrument, such as the pricing structure.)
c. the designated forecasted sales or purchases of electricity are:
    i. for purchasers—highly probable if the entity has sufficient highly probable forecasted purchases that exceed the estimated variable volume (or quantity) to be designated by the entity as the hedged item.
    ii. for sellers—not required to be highly probable because the designated quantity of sales is certain to be hedged if it occurs.

Proposed disclosure and transition requirements

General disclosures

The IASB tentatively decided to propose setting specific disclosure objectives that would require an entity to disclose information that enables users of financial statements to assess the effects of contracts for renewable electricity on:

a. the entity's financial performance; and
b. the amount, timing and uncertainty of the entity's future cash flows.

The IASB also tentatively decided to propose that an entity be required to disclose—as items of information for all its contracts for renewable electricity:

a. the terms and conditions of contracts. For example, the contracts' duration, type of pricing (including whether they include price adjustment clauses), minimum or maximum quantities, cancellation clauses and whether they include Renewable Energy Credits (RECs).
b. the net volume purchased or the total volume for which amounts were net-settled for the reporting period, and an explanation of any significant variances in the volume. These entities are also required to disclose the average market price per unit of electricity for the reporting period.
c. either the fair value of the contracts at the reporting date accompanied by the information required by paragraph 93(g)–(h) of IFRS 13 *Fair Value Measurement*, or:
    i. the volume of renewable electricity the entity expects to sell or purchase over the remaining duration of the contracts. This information could be provided as a range for each of the following periods: not later than one year; later than one year and not later than five years; and later than five years.
    ii. the methods and assumptions used in preparing the analysis in (i), including information about changes in those methods and assumptions from the previous period and the reasons for such changes.

Entities applying the prospective IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures*

The IASB tentatively decided to propose that an entity within the scope of the prospective Subsidiaries Standard be required to disclose for all its contracts for renewable electricity:

a. the terms and conditions of contracts. For example, the contracts' duration, type of pricing (including whether they include price adjustment clauses), minimum or maximum quantities, cancellation clauses and whether they include RECs.
b. the net volume purchased or the total volume for which amounts were net-settled for the reporting period, and an explanation of any significant variances in the volume. These entities are also required to disclose the average market price per unit of electricity for the period.
c. either the fair value of the contracts at the reporting date accompanied by the information required by the prospective Subsidiaries Standard for assets and liabilities measured as Level 3 fair value, or:
    i. the volume of renewable electricity the entity expects to sell or purchase over the remaining duration of the contracts. This information could be provided as a range for each of the following periods: not later than one year; later than one year and not later than five years; and later than five years.
    ii. the methods and assumptions used in preparing the analysis in (i), including information about changes in those methods and assumptions from the previous period and the reasons for such changes.

Transition

The IASB tentatively decided to propose that an entity be required to apply the proposed amendments:

a. retrospectively for own-use requirements, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, but not to require the entity to restate prior periods to the reflect the application of the proposed amendments.
b. prospectively for the hedge-accounting requirements. However, during the annual reporting period in which an entity first applies the proposed amendments, the entity would be permitted to alter the designation of hedged items in already-designated cash hedging relationships. Such alterations would not discontinue the hedging relationship.

The IASB also tentatively decided:

a. to exempt an entity from disclosing, for the current period and for each prior period presented, the quantitative information required by paragraph 28(f) of IAS 8;
b. to permit early application of the proposed amendments from the date the final amendments are issued and require an entity that applies the amendments early to disclose that fact; and
c. to provide no transition relief for first-time adopters.

Due process requirements

The IASB discussed the due process steps for the proposed amendments.

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 PPA Exposure Draft.

Next step

The IASB expects to publish the PPA Exposure Draft in May 2024.

2. **Use of a Hyperinflationary Presentation Currency by a Non-hyperinflationary Entity (IAS 21)**

The IASB met to discuss, in relation to the proposed amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*:

- the disclosure requirements for subsidiaries without public accountability; and
- the due process requirements.

The amendments relate to non-hyperinflationary entities with a presentation currency that is hyperinflationary.

For subsidiaries without public accountability (eligible subsidiaries) as defined in the prospective IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures,* the IASB tentatively decided to propose that*:*

a. an eligible subsidiary within the scope of the proposed amendments be required to disclose that its financial statements (or the results and financial position of its foreign operation) and corresponding figures for previous periods have been translated at the closing rate at the date of the most recent statement of financial position; and
b. an eligible subsidiary whose presentation currency ceases to be hyperinflationary be required to disclose that fact.

The IASB tentatively decided to propose that an eligible subsidiary that translates the results and financial position of a foreign operation that has a non-hyperinflationary functional currency into a hyperinflationary presentation currency be required to disclose summarised financial information about the results and financial position of that foreign operation.

The IASB set a 120-day comment period for the exposure draft.

Next step

The IASB expects to publish the exposure draft in the third quarter of 2024.

For further information: http://www.ifrs.org

Financial Reporting Council
March 2024