

# Financial Reporting Council

## MONTHLY UPDATES (July 2024) – What’s new from the International Accounting Standards Board (IASB)

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

### A. Research and standard-setting

1. [Dynamic Risk Management](#)
2. [Post-implementation Review of IFRS 15 Revenue from Contracts with Customers](#)
3. [Rate-regulated Activities](#)
4. [Second Comprehensive Review of the IFRS for SMEs Accounting Standard](#)

### B. Maintenance and consistent application

1. [Consistent application activities](#)
2. [Disclosure of Revenues and Expenses for Reportable Segments \(IFRS 8\)](#)

## A. Research and standard-setting

### 1. Dynamic Risk Management

**The IASB met to continue its discussions on the Dynamic Risk Management (DRM) model, in particular on:**

- which risk management activities would be applicable to the DRM model; and
- whether to make applying the DRM model mandatory or optional for entities with applicable risk management activities.

#### *Applicable risk management activities for the DRM model*

The IASB discussed which risk management activities would be applicable to the DRM model. The IASB also considered initial feedback from targeted discussions with insurers on their risk management strategies and activities.

The IASB tentatively decided that an entity would only be able to apply the DRM model if it:

- a. has business activities that expose it to interest rate repricing risk arising from financial assets and financial liabilities;
- b. adopts a dynamic risk management strategy with a dual objective that aims to mitigate the variability of both the net interest income and the economic value of equity, based on an aggregated (combined or net) repricing risk over a predetermined period;
- c. uses a systematic process to determine the net repricing risk exposure based on a specified managed rate and frequently adjusts its risk mitigation activities; and
- d. has free access to a liquid market that enables it to raise funding or invest excess cash at the prevailing benchmark interest rate.

The IASB also tentatively decided to include a specific question for insurers in the prospective DRM exposure draft to collect more information about their risk management strategies and activities.

#### *Optional application of the DRM model*

The IASB redeliberated whether to make applying the DRM model mandatory or optional for entities with applicable risk management activities.

The IASB tentatively decided to make applying the DRM model optional for such entities.

#### ***Next step***

The IASB will continue its discussions on the topics in the project plan, including the proposed disclosure requirements in the prospective DRM exposure draft.

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

The IASB met:

- to finalise its decisions in the Post-implementation Review (PIR) of IFRS 15 *Revenue from Contracts with Customers*; and
- to discuss a summary of the work it carried out in response to feedback from the second phase of the PIR of IFRS 15, and the IASB's next steps.

### *Finalising decisions in the PIR of IFRS*

The IASB:

- a. concluded that, overall, the requirements in IFRS 15 are working as intended; and
- b. decided not to include in the Standard itself explanations from paragraphs BC105, BC116K, BC385E and BC385H of the Basis for Conclusions on IFRS 15.

The IASB decided to confirm its tentative decisions on application matters raised by stakeholders. Specifically, the IASB decided:

- a. to consider in the next agenda consultation matters categorised as low priority during the PIR of IFRS 15. These matters relate to:
  - i. assessing control over services and intangible assets to determine whether an entity acts as a principal or an agent.
  - ii. reporting consideration payable to a customer.
  - iii. applying IFRS 15 with IFRIC 12 *Service Concession Arrangements*—including accounting for contractual obligations to maintain or restore service concession infrastructure.
- b. to consider in the next agenda consultation, instead of as part of this PIR, matters previously considered by the IASB during the PIR of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* or during the Third Agenda Consultation. These matters relate to applying IFRS 15 with:
  - i. IFRS 10—in particular, accounting for transactions in which an entity, as part of its ordinary activities, sells an asset by selling an equity interest in a single-asset entity that is a subsidiary (a so-called 'corporate wrapper'); and
  - ii. IFRS 11—in particular, accounting for collaborative arrangements.
- c. to gather further evidence during the forthcoming PIR of IFRS 16 *Leases* on matters related to assessing whether the transfer of an asset is a sale in a sale and leaseback transaction.
- d. to take no action on the other matters identified during the PIR of IFRS 15.

### *Summary of the IASB's work undertaken and next steps*

The IASB decided that sufficient work has been completed to conclude the PIR of IFRS 15 and to prepare a project summary and feedback statement.

### **Next steps**

Subject to approval from the Due Process Oversight Committee, the IASB will publish a project summary and feedback statement on the PIR of IFRS 15.

### **3. Rate-regulated Activities**

The IASB met regarding the prospective IFRS Accounting Standard on rate-regulated activities (prospective RRA Standard):

- to discuss extending the application of the proposed requirements set out in paragraphs 61 and 69 of the Exposure Draft *Regulatory Assets and Regulatory Liabilities* (Exposure Draft);
- to redeliberate the proposed transition requirements and effective date; and
- to discuss the re-exposure criteria and the due process requirements.

*Extending the measurement proposals dealing with items affecting regulated rates on a cash basis*

The IASB tentatively decided:

- a. not to extend the application of the measurement requirement for items affecting regulated rates only when related cash is paid or received (on a cash basis)—proposed in paragraph 61 of the Exposure Draft—to items affecting regulated rates on other bases.
- b. to exempt an entity from discounting the estimates of future cash flows arising from a regulatory asset or regulatory liability if:
  - i. the regulatory asset or regulatory liability arises from an item of expense or income that relates to liabilities or assets measured on a present value basis and that affects regulated rates on an accrual basis; and
  - ii. the entity, having considered all reasonable and supportable information that is available without undue cost or effort, is unable to estimate the amount and timing of those future cash flows.
- c. to require an entity that chooses to apply the exemption described in (b) to disclose that fact and also to disclose the carrying amounts at the end of the reporting period of regulatory assets and regulatory liabilities to which the entity has applied that exemption.
- d. to include—as another example to which the proposed requirement described in (a) can be applied—expected credit losses that affect regulated rates only once the regulator determines that there is no reasonable expectation of the entity receiving the related cash.

*Extending the presentation proposals dealing with items affecting regulated rates on a cash basis*

The IASB tentatively decided to extend the application of the presentation requirement for items affecting regulated rates on a cash basis—proposed in paragraph 69 of the Exposure Draft—to items affecting regulated rates on other bases.

### *Transition—Analysis of the proposals for retrospective application*

The IASB tentatively decided to permit an entity already applying IFRS Accounting Standards to apply the prospective RRA Standard retrospectively either in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* or by using a modified retrospective approach.

The IASB tentatively decided, regardless of which transition approach the entity elects in applying the prospective RRA Standard:

- a. to require the entity to restate comparative information for the period immediately preceding the period in which the prospective RRA Standard is first applied (the comparative period); and
- b. to permit the entity either to restate comparative information or to present unadjusted comparative information for any earlier periods presented and, if the entity presents unadjusted comparative information, to require the entity to identify clearly the comparative information that has not been adjusted, disclose that the comparative information has been prepared on a different basis and explain that basis.

The IASB also tentatively decided:

- a. to amend IFRS 1 *First-time Adoption of International Financial Reporting Standards* to permit a first-time adopter to use a modified retrospective approach in applying the prospective RRA Standard;
- b. to retain the proposal in the Exposure Draft to require a first-time adopter to present comparative information in accordance with the requirements in IFRS 1 (and the definition of the date of transition to IFRSs [IFRS Accounting Standards] in IFRS 1); and
- c. to retain the amendments proposed in the Exposure Draft:
  - i. to align the terminology and requirements in the deemed cost exemption in paragraph D8B of IFRS 1 with the prospective RRA Standard; and
  - ii. to delete paragraph 39V of IFRS 1.

### *Transition reliefs*

The IASB tentatively decided:

- a. to require an entity using the modified retrospective approach to state that fact, disclose which transition reliefs it has applied and, where appropriate, describe how it has applied them;
- b. to permit an entity using the modified retrospective approach whose regulatory capital base has a direct relationship with its property, plant and equipment to limit the application of the requirements for regulatory returns on assets not yet available for use to assets that are not yet available for use at the beginning of the comparative period; and
- c. to permit an entity using the modified retrospective approach:
  - i. to use hindsight; and
  - ii. to use the regulatory interest rate at the beginning of the comparative period as the regulatory interest rate for the purpose of applying the requirements for discounting estimates of future cash flows, including the

minimum interest rate and the uneven regulatory interest rate requirements.

The IASB tentatively decided, regardless of which transition approach an entity elects in applying the prospective RRA Standard (that is, retrospectively either in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* or by using the modified retrospective approach):

- a. to require the entity to disclose the quantitative information required by paragraph 28(f) of IAS 8 for the comparative period; and
- b. to permit, but not require, the entity to disclose the quantitative information required by paragraph 28(f) of IAS 8 for the current period or for any earlier periods presented.

The IASB also tentatively decided to amend IFRS 1:

- a. to permit a first-time adopter to apply any of the transition reliefs in the prospective RRA Standard, except that a first-time adopter that applies the exemption in paragraph D8B of IFRS 1:
  - i. is not permitted to apply the transition relief for regulatory returns on assets not yet available for use; and
  - ii. is required instead to apply prospectively the requirement to account for a regulatory asset arising from regulatory returns on assets not yet available for use.
- b. to require a first-time adopter applying any transition reliefs in the prospective RRA Standard to disclose which reliefs it has applied and, where appropriate, describe how it has applied them.

#### *Past business combinations*

The IASB tentatively decided:

- a. not to include the requirement proposed in the Exposure Draft for an entity to apply the retrospective or simplified approach to regulatory assets acquired or regulatory liabilities assumed in a past business combination, but instead to require the entity to apply the transition requirements of the prospective RRA Standard to these regulatory assets and regulatory liabilities;
- b. to require an entity applying the transition requirements of the prospective RRA Standard to take the net adjustment to retained earnings (or another category of equity, as appropriate), including in that net adjustment adjustments related to regulatory assets acquired and regulatory liabilities assumed in a past business combination; and
- c. to omit the proposal in the Exposure Draft to amend paragraph C4 of IFRS 1 to specify how a first-time adopter accounts for the derecognition of goodwill-related regulatory balances.

#### *Effective date*

The IASB tentatively decided to require an entity to apply the prospective RRA Standard for annual periods beginning on or after 1 January 2029, with earlier application permitted.

### *Consideration of the re-exposure criteria*

The IASB decided that re-exposure of the proposals in the Exposure Draft with the changes made by its tentative decisions is not required.

### *Due process requirements*

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 prospective RRA Standard.

Three IASB members indicated an intention to dissent from issuing the prospective RRA Standard.

### **Next step**

The IASB expects to issue the prospective RRA Standard in the second half of 2025.

## **4. 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*.

### *Impairment of financial assets*

The IASB tentatively decided to withdraw its proposal to introduce an expected credit loss model for the impairment of some financial assets.

The IASB tentatively decided to add a requirement for an SME to disclose its analysis of financial assets by due date (ageing analysis).

### *Issued financial guarantee contracts*

The IASB tentatively decided:

- a. to include intragroup financial guarantee contracts issued at nil consideration in the scope of Section 21 *Provisions and Contingencies*;
- b. to keep other issued financial guarantee contracts in the scope of Part II of Section 11 *Financial Instruments* of the third edition of the Standard and to require an SME to measure such contracts at fair value through profit or loss; and
- c. to add to Section 21 requirements for an SME to disclose:
  - i. the nature and business purpose of an issued intragroup financial guarantee contract;
  - ii. the maximum amount the SME would have to pay if that contract is called on; and
  - iii. an indication of the uncertainties relating to the amount or timing of any outflow of resources under the contract.

### *Sweep and other issues*

The IASB tentatively decided:

- a. to require that, on initial recognition, an SME measure basic financial instruments that are trade receivables at an amount determined by applying the proposed revised Section 23 *Revenue from Contracts with Customers* if:
  - i. the contract does not constitute a financing transaction; or
  - ii. the SME applies the exemption proposed in paragraph 23.59 of the Exposure Draft;
- b. to add a definition of 'transaction price' (for a contract with a customer) that matches the description of the term proposed in paragraph 23.41 of the Exposure Draft;
- c. to require that an SME use its expectation of the products that will be returned to account for sales with a right of return; and
- d. not to include guidance from the Q&As developed by the SME Implementation Group in the *IFRS for SMEs Accounting Standard*.

### *Due process*

The IASB tentatively decided to set an effective date of 1 January 2027 for the third edition of the Standard.

Subject to finalising its proposals and completing the due process steps for the Exposure Draft *Addendum to the Exposure Draft* Third edition of the *IFRS for SMEs Accounting Standard*, the IASB decided to begin the balloting process for the prospective amendments to the *IFRS for SMEs Accounting Standard* without re-exposing the IASB's tentative revisions to these prospective amendments.

### **Next steps**

The IASB will discuss feedback on the Exposure Draft *Addendum to the Exposure Draft* Third edition of the *IFRS for SMEs Accounting Standard* in September 2024. The IASB plans to include the final amendments resulting from those discussions in the third edition of the Standard.

The IASB expects to issue the third edition of the Standard in the first half of 2025.



## **B. Maintenance and consistent application**

### **1. Consistent application activities**

The IASB met:

- to consider an agenda decision discussed at the June 2024 meeting of the IFRS Interpretations Committee (Committee); and
- to receive an update on other matters discussed at that meeting.

### **2. Disclosure of Revenues and Expenses for Reportable Segments (IFRS 8)**

The IASB was asked whether it objected to the Agenda Decision *Disclosure of Revenues and Expenses for Reportable Segments (IFRS 8 Operating Segments)*.

#### ***Next step***

The Agenda Decision will be published in July 2024 in an addendum

***For further information: <http://www.ifrs.org>  
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