Financial Reporting Council

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

The topics discussed at the IASB's October 2024 meetings were on the following:

A. Research and standard-setting

1. Dynamic Risk Management
2. Second Comprehensive Review of the IFRS for SMEs Accounting Standard

B. Maintenance and consistent application

1. Power Purchase Agreements

A. Research and standard-setting

1. Dynamic Risk Management

The IASB met to discuss:

- the transition requirements and consequential amendments to IFRS Accounting Standards to be proposed in the Dynamic Risk Management (DRM) exposure draft; and
- the due process steps—including permission to begin the balloting process—for the DRM exposure draft.

Transition requirements and consequential amendments to IFRS Accounting Standards

The IASB tentatively decided to propose that:

a. an entity be required to apply the DRM model prospectively and be permitted to apply it early together with the required disclosure.
b. an entity making the transition from hedging relationships in accordance with IFRS 9 *Financial Instruments* be permitted to discontinue its existing hedging relationships on the date of initial application, which is the beginning of the annual reporting period in which the entity first applies the proposed requirements. The entity would then be required to designate the underlying financial assets and financial liabilities in a DRM model at that date.
c. an entity making the transition from hedging relationships in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* be required to apply paragraphs 6.5.10 and 6.5.12 of IFRS 9 to the hedge adjustments related to those relationships.
d. an entity making the transition to the DRM model be permitted to prospectively revoke, at the date of initial application, the designation of financial assets or financial liabilities under the fair value option in IFRS 9. The entity would then be required to designate those financial assets and financial liabilities in a DRM relationship at that date.
e. an entity making the transition to the DRM model not be required to provide the disclosures described in paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*
f. an entity making the transition to the DRM model be required to provide specific transition disclosures in the financial statements about the effects of:
    i. making the transition to the DRM model; and
    ii. revoking financial assets or financial liabilities previously designated under the fair value option in IFRS 9.

The IASB also tentatively decided to propose:

a. adding the DRM requirements to a new chapter in IFRS 9;
b. requiring first-time adopters that opt to apply the DRM model to apply it prospectively; and
c. not including reduced disclosure requirements for the DRM model in IFRS 19 *Subsidiaries without Public Accountability* at this stage.

Due process and permission to begin the balloting process

The IASB discussed the due process steps and decided to set a comment period of 240 days for the DRM exposure draft.

Next step

The IASB will begin the process for balloting the DRM exposure draft.

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

The IASB met to discuss sweep issues relating to the proposals in the Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard.*

The IASB tentatively decided to amend paragraph 19.13 of the Exposure Draft to specify that an SME would be required to assess only at the date of acquisition whether measuring the fair value of the contingent consideration involves undue cost or effort. Therefore, no reassessment would be permitted.

The IASB tentatively decided to withdraw the proposal in the Exposure Draft to add a sentence to paragraph 5.11 of the *IFRS for SMEs* Standard about providing further information about expenses by nature or function.

Next step

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

B. Maintenance and consistent application

1. Power Purchase Agreements

The IASB met to discuss the proposals set out in Exposure Draft *Contracts for Renewable Electricity.* The IASB discussed:

- potential refinements to the hedge accounting proposals
- the proposed disclosure requirements for contracts within the scope of the proposed amendments
- the proposed transition requirements for the proposed amendments, and their effective date; and
- the due process steps to begin the process for balloting the narrow-scope amendments.

Hedge accounting amendments

The IASB tentatively decided to finalise the proposed hedge accounting requirements set out in the Exposure Draft, subject to minor changes:

a. to clarify to which particular requirements in Section 6.3 of IFRS 9 *Financial Instruments* the proposed amendments relate;
b. to clarify that an entity would be permitted to align the amount of forecasted transactions designated as the hedged item with the variable amount of nature-dependent electricity expected to be delivered by the facility referenced in the hedging instrument;
c. to clarify that, if the cash flows of the hedging instrument are conditional on the occurrence of the hedged forecast transaction, the 'highly probable' assessment would not be relevant; and
d. to add qualitative examples to illustrate the application of the proposed amendments.

The IASB also tentatively decided not to add any additional guidance for the purpose of the 'highly probable' assessment.

Disclosures

The IASB tentatively decided to finalise the proposed disclosure requirements as they were set out in the Exposure Draft (including the proposals applicable to an entity applying IFRS 19 *Subsidiaries without Public Accountability: Disclosures*) but with minor changes:

a. to limit the scope of the disclosure requirements to contracts that would be accounted for in accordance with the proposed amendments—that is, contracts:
   i. entered into for the receipt of nature-dependent electricity that would be accounted for as executory contracts in accordance with the proposed own-use amendments; and
   ii. designated in a hedging relationship as hedging instruments in accordance with the hedge accounting amendments.
b. to clarify that, for contracts described in (a)(i), an entity would be required to disclose information about their terms and conditions that expose the entity to:
   i. the variability of the contracted amount of nature-dependent electricity; and
   ii. the risk of oversupply of electricity in any delivery interval.
c. to clarify that, for contracts described in (a)(ii), an entity would satisfy the proposed requirement to disclose information about the contracts' terms and conditions by

disaggregating the information required to be disclosed by paragraph 23A of IFRS 7 *Financial Instruments: Disclosures.*

d. to require, for unrecognised contractual commitments from contracts described in (a)(i), an entity to disclose:
   i. the aggregated expected cash flows from buying electricity under these contracts. An entity would be required to use its judgement to determine the appropriate time bands within which to aggregate the future expected cash flows.
   ii. qualitative information about how it assesses whether a contract might become onerous, including the methods and assumptions it used to make this assessment.
e. to require, for contracts described in (a)(i), an entity to disclose qualitative and quantitative information about how it determines whether it remains a net-purchaser for the reporting period. The entity is required to disclose information about the cash flows for the reporting period arising from:
   i. purchases of electricity under the contracts, disaggregating information about the purchases of any unused electricity;
   ii. sales of unused electricity; and
   iii. purchases of electricity that offset sales of unused electricity.
f. to amend paragraph 5 of IFRS 7 to ensure that the contracts described in (a)(i) would be subject to the disclosure requirements proposed for inclusion in that Standard.
g. to require an entity to cross-refer between notes to the financial statements if it disclosed information about contracts within the scope of the proposed amendments in more than one note.

Feedback on the transition proposals and the effective date

The IASB tentatively decided to set an effective date of 1 January 2026, with early application permitted from the date of initial application.

For the proposed own-use amendments, the IASB tentatively decided:

a. to continue to require retrospective application without requiring an entity to restate comparative information (as proposed in the Exposure Draft);
b. to require an entity's assessment under the proposed own-use amendments to be made based on its facts and circumstances at the date of initial application; and
c. to permit the entity to designate, at the date of initial application, contracts at fair value through profit or loss in accordance with paragraph 2.5 of IFRS 9.

For the hedge accounting amendments, the IASB tentatively decided:

a. to continue to require an entity to apply hedge accounting requirements prospectively; and
b. to permit an entity to discontinue an existing hedging relationship on the date of initial application of the amendments, and to designate a new hedging relationship applying the amendments.

Due process steps

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

All 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 narrow-scope amendments to IFRS 9 and IFRS 7.

Next step

The IASB plans to issue the finalised amendments before the end of 2024.

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