IFRS Accounting

Update from the IASB

IFRS Symposium
Stockholm
September 2023

Bertrand Perrin, IASB member

Speaker

Bertrand Perrin
IASB Member

Agenda

Introduction

IFRS Accounting

Driving forward - What’s keeping us busy?

- Research projects
- Standard Setting projects
- Maintenance and Consistent Application
- Post-Implementation Reviews

Current projects are in different stages

Research

Early stage of research phase

Later stage of research phase

- Extractive activities

Decide project direction

- Business Combinations under Common Control

Standard-setting

Publish Exposure Draft

- Financial Instruments with Characteristics of Equity
- Business Combinations—Disclosures, Goodwill and Impairment
- Dynamic Risk Management
- Equity Method

Decide project direction

- Management Commentary

- Rate-regulated Activities
- Third edition of the *IFRS for SMEs* Accounting Standard

Issue IFRS Standard

- Primary Financial Statements
- Subsidiaries without Public Accountability: Disclosures

Overview: maintenance projects

Publish Exposure Draft

Discuss feedback on Exposure Draft

Decide project direction

Issue amendment

Power Purchase Agreements - NEW!

Provisions—Targeted Improvements

Climate-related Risks in the Financial Statements

Annual Improvements to IFRS Accounting Standards

Amendments to IFRS 9: Classification and Measurement

International Tax Reform—Pillar Two Model Rules (*IFRS for SMEs*)

Lack of Exchangeability

Highlights from July 2023

- IASB **completed technical work** on two new IFRS Accounting Standards;
- Gained permission to **ballot**;
- Expected date to issue - **first half of 2024;**
- Effective date - for annual reporting periods beginning on or after **1 January 2027.**

Primary Financial Statements
[will replace IAS 1]

Subsidiaries without Public Accountability: Disclosures

- **New maintenance project** at the IASB work plan;
- Objective – to explore potential for narrow-scope amendments to **better reflect PPAs** in IFRS FS.

Power Purchase Agreements

Power Purchase Agreements (PPAs)

Objective

- Explore whether narrow-scope amendments could be made to better reflect PPAs in financial statements

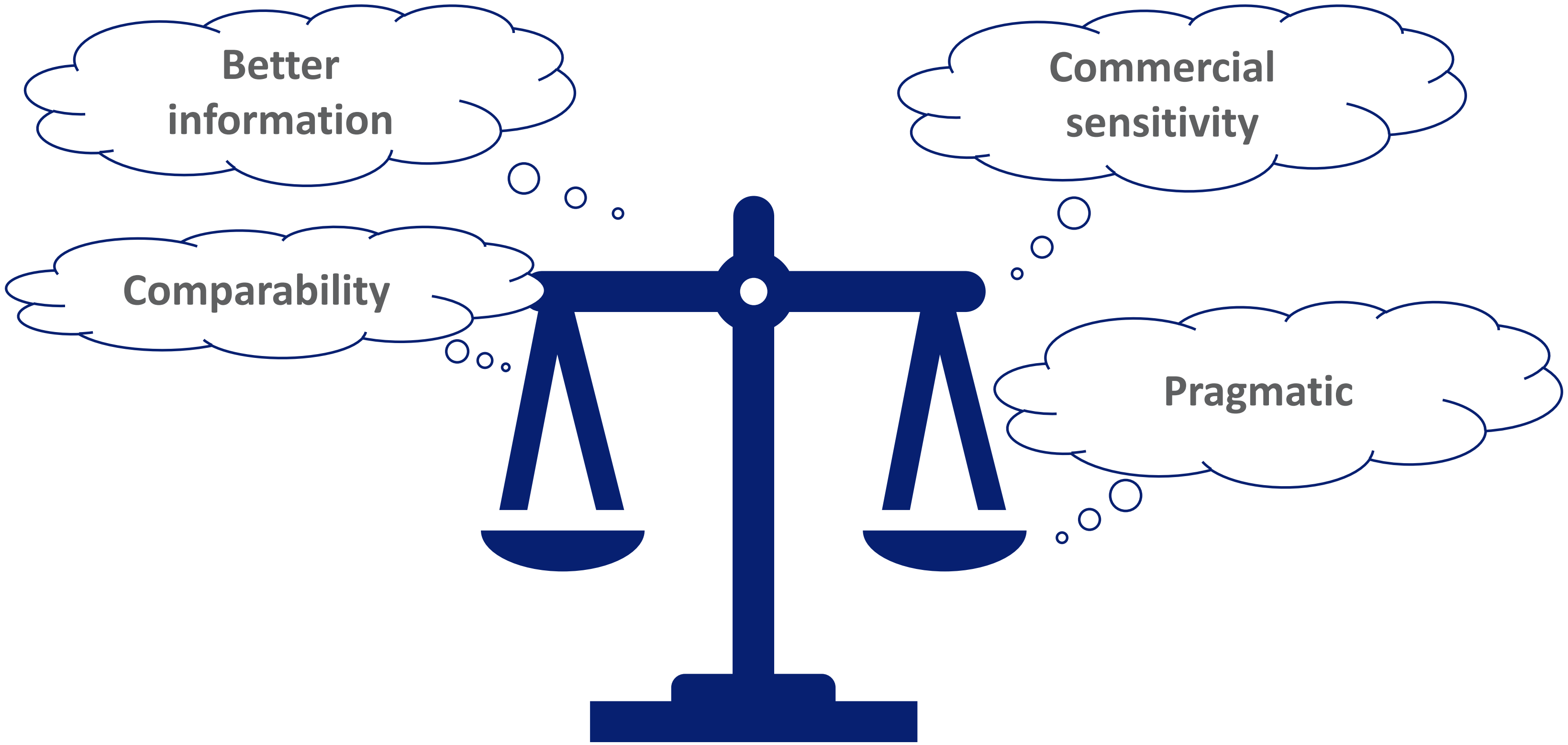
Project scope

- Own-use requirements for physical PPAs
- Hedge accounting requirements for Virtual PPAs

Next steps

- IASB will decide on project direction in H1 2024

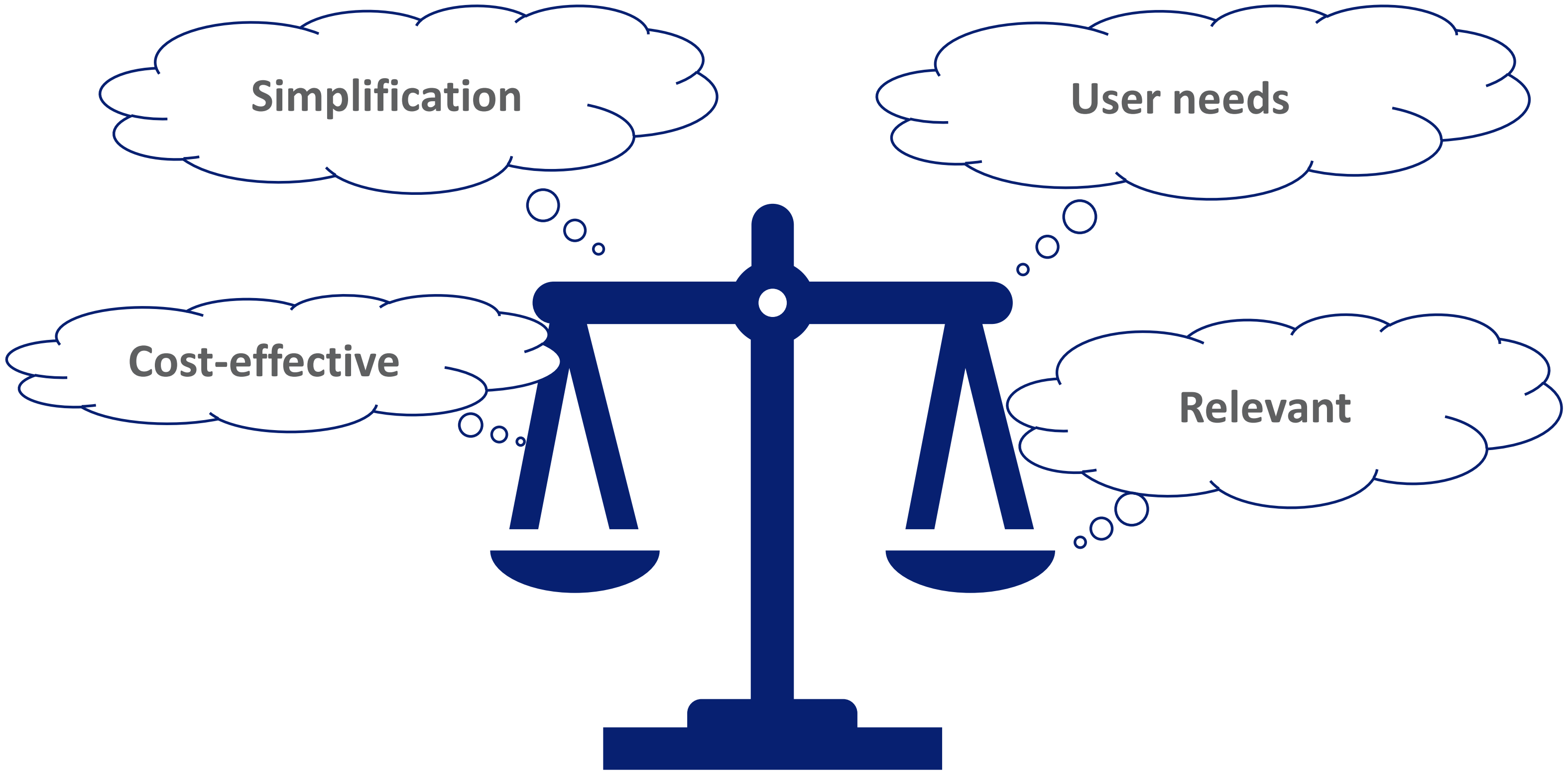
Balancing our stakeholders' needs



Business Combinations—Disclosures, Goodwill and Impairment

Primary Financial Statements

Balancing our stakeholders' needs



Review of the IFRS for SMEs Accounting Standard

Subsidiaries without Public Accountability: Disclosures

What will keep you busy?

What is out for comment in 2H-23?

July → August → September → October → November → December

Request for information on PIR of IFRS 9 — *Impairment*

Comments due by **27 September**

Request for information on PIR of IFRS 15 —*Revenue from Contracts with Customers*

Comments due by **27 October**

Exposure draft on Financial Instruments with Characteristics of Equity

Publishing in Q4

What will keep us busy?

What is coming in 1H-24?

January	February	March	April	May	June

IFRS Accounting Standard
Primary Financial Statements

IFRS Accounting Standard
Subsidiaries without Public Accountability: Disclosures

Exposure draft
Business Combinations – Disclosures, Goodwill and Impairment

Publishing in 1H-2024

IFRS Accounting

Primary Financial Statements

Project overview

The Primary Financial Statements Project will improve the quality of financial reporting, including digital reporting, through

Presentation of **defined subtotals** in statement of profit or loss to improve **comparability**

Disclosures about **management-defined performance measures** (MPMs) to provide **transparency**

Enhanced requirements for **aggregation and disaggregation** to provide **useful information**

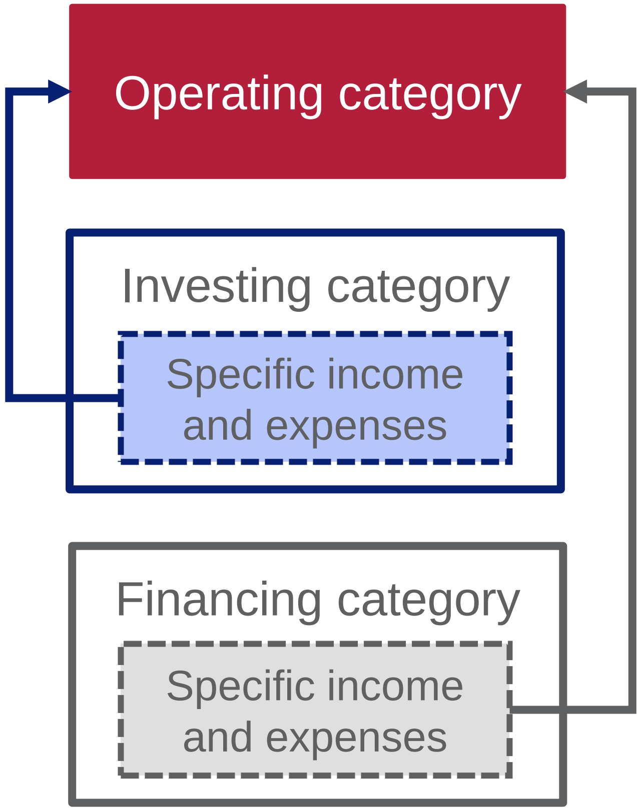
Defining the categories

Operating	Investing	Financing
Includes, but is not limited to, income and expenses from an entity's main business activities Income and expenses not classified in other categories Includes volatile and unusual income and expenses arising from an entity's operations	Income and expenses from: • associates and joint ventures accounted for using the equity method • assets that generate a return individually and largely independently of other resources held by an entity, including cash and cash equivalents	All income and expenses from liabilities that involve only the raising of finance Interest expense and the effects of changes in interest rates from other liabilities

Entities with specified main business activities

Operating profit is intended to include, but is not limited to, income and expenses from an entity's main business activities

Some entities, such as banks, classify income and expenses in the operating category that would otherwise be classified in the investing or financing categories



Statement of profit or loss – general corporate – example of OPEX presented by nature

Revenue	Operating
Other income	
Changes in inventories of finished goods and work in progress	
Raw materials used	
Employee benefits	
Depreciation	
Amortisation	
Operating profit	
Income and expenses from equity method associates and joint ventures	Investing
Operating profit and income and expenses from equity method investments	
Income and expenses from investments	
Income and expenses from cash and cash equivalents	
Profit before financing and income tax	
Income and expenses from liabilities that involve only the raising of finance	Financing
Unwinding of discount on provisions	
Profit before tax	
Income tax	
Profit for the year	

Line items illustrate what is included in each category and do not necessarily denote specified line items. An entity would present line items that provide a useful structured summary of its income and expenses.

Statement of profit or loss – general corporate – example of OPEX presented by function

Revenue	Operating
Cost of goods sold	
Gross profit	
Other operating income	
Selling expense	
Research and development expenses	
General and administrative expenses	
Goodwill impairment loss	
Other operating expenses	
Operating profit	
Share of the profit from associates and joint ventures	Investing
Gains on disposals of associates and joint ventures	
Profit before financing and income tax	
Interest expense on borrowings and lease liabilities	Financing
Interest expense on pension liabilities	
Profit before tax	
Income tax expense	
Profit for the year	

Line items illustrate what is classified in each category and do not necessarily denote line items that a company would present. An entity would present line items that provide a useful structured summary of its income and expenses.

Statement of profit or loss - financing and investing as main business activities

Interest revenue calculated using the effective interest method	Operating
Interest expense	
Net interest income	
Fee and commission income	
Fee and commission expense	
Net fee and commission income	
Net trading income	
Net investment income	
Credit impairment losses	
Employee benefits expense	
Depreciation and amortisation expenses	
Operating profit	
Income and expenses from equity method associates and joint ventures	Non-main Investing and financing
Operating profit and income and expenses from equity method investments	
Specified income and expense on other liabilities (incl. interest on lease liabilities)	
Profit before tax	
Income tax	
Profit for the year	

Line items illustrate what is included in each category and do not necessarily denote specified line items. An entity would present line items that provide a useful structured summary of its income and expenses.

Statement of profit of loss - insurance as a main business activity

Insurance revenue	Operating
Insurance service expenses	
Insurance service results	
Interest revenue calculated using the effective interest rate method	
Dividends and fair value changes on financial assets	
Other impairment losses	
Insurance finance expenses	
Net financial result	
Other expenses	
Operating profit	
Income and expenses from equity method associates and joint ventures*	Investing
Profit before financing and income tax	
Specified income and expense on other liabilities (incl. interest on lease liabilities)	Financing
Profit before tax	
Income tax	
Profit for the year	

Line items illustrate what is included in each category and do not necessarily denote specified line items. An entity would present line items that provide a useful structured summary of its income and expenses.
** An entity may present or disclose a specified subtotal of ‘operating profit and income and expenses from investments accounted for using the equity method’.*

What are management-defined performance measures?

Performance measures

Financial performance measures

Subtotals of income & expenses

MPMs

- Adjusted profit or loss
- Adjusted operating profit
- Adjusted EBITDA

IFRS-Specified

- Operating profit
- Operating profit before depreciation amortisation and specified impairments

Other measures that are not subtotals of income and expenses

- Free cash flow
- Return on equity
- Net debt

Non-financial performance measures

- Number of subscribers
- Customer satisfaction score
- Store surface

Definition of management-defined performance measures

Subtotals of income and expenses not specified by IFRS Accounting Standards

Used in public communications outside financial statements

Communicate management's view of an aspect of an entity's financial performance

Presumed that a subtotal used in public communications represents management's view of an aspect of an entity's financial performance.

The presumption can be rebutted with reasonable and supportable information.

Disclosures for management-defined performance measures

Disclosed in a single note

Reconciliation to the most directly comparable specified subtotal/total	Explanation of MPM calculation and how it provides useful information
Statement that MPM provides management's view and not comparable to MPM of other entities	Explanation of and reasons for changes to MPMs

Aggregation and disaggregation requirements

General requirements	Roles of the primary financial statements and the notes	Principles for aggregation and disaggregation
	Requirements for line items, including goodwill in the statement of financial position	Aggregating items and using meaningful labels
Specific requirements	Disclosure of specified expenses by nature	Present operating expenses by nature or by function (mixed presentation permitted)

Disclosure of specified expenses by nature

Disclose the amounts included in each line item in the statement of profit or loss for

Depreciation	Amortisation	Employee benefits	Specified impairments	Write-down of inventories

Amount disclosed are not required to be expense amounts
— qualitative explanation required if part of the amount disclosed has been included in the carrying amount of assets

Example of the disclosure requirement

Table 14: Operating expenses by nature		
(in currency units)	20X2	20X1
Depreciation	**175**	**...**
Cost of goods sold	100	...
General and administrative expenses	25	...
Research and development expenses	50	...
Amortisation	**100**	**...**
Research and development expenses	100	...
Employee benefits	**375**	**...**
Cost of goods sold	150	...
Selling expenses	100	...
General and administrative expenses	50	...
Research and development expenses	75	...
Impairments	**80**	**...**
Research and development expenses	80	...
Write-downs of inventory	**50**	**...**
Cost of goods sold	30	...
Other operating expenses	20	...

Table 14 shows an allocation of total depreciation, amortisation, employee benefits, impairments and write-downs of inventory to function line items. The amounts disclosed for depreciation, amortisation and employee benefits include amounts that have been included in the carrying amount of assets (such as inventory or property, plant and equipment).

Reconciliation tables (typically disclosed in respective notes)

Reconciliation	
(in currency units)	**Property, plant & equipment**
Carrying amount 1.1.20X2	**1,000**
Additions	300
Depreciation	-175
...	...
Impairment losses	-60
Carrying amount 31.12.20X2	**1,065**

Reconciliation	
(in currency units)	**Intangible assets**
Carrying amount 1.1.20X2	**900**
Additions	150
Amortisation	-100
...	...
Impairment losses	-20
Carrying amount 31.12.20X2	**930**

Changes to the statement of cash flows

Operating profit or loss subtotal to be the starting point for the indirect method of reporting cash flows from operating activities

Cash flows	Entities **without** specified main business activities	Entities **with** specified main business activities
Interest received	Investing activities	Single category (either operating, investing or financing activities)
Interest paid	Financing activities	
Dividends received	Investing activities	
Dividends paid	Financing activities	Financing activities

Transition and effective date

H1/2024 — **New IFRS Accounting Standard issued**

Transition Period

1/1/2027 — **Effective date**

Prepare financial statements

Financial statements issued

- ✓ **All** requirements applied at the **same time** by all entities from the effective date, unless an entity elects to apply the requirements **earlier**
- ✓ Comparative periods in interim and annual financial statements restated
- ✓ Reconciliation of the statement of profit or loss required for the immediately preceding comparative period
- ✓ An entity eligible to apply paragraph 18 of IAS 28 *Investments in Associates and Joint Ventures* is permitted to change its selection for measuring an investment in an associate or joint venture from the equity method to fair value through profit or loss

IFRS
Accounting

Subsidiaries without Public Accountability: Disclosures

Subsidiaries without Public Accountability: Disclosures

Objective

- Permit eligible subsidiaries to apply IFRS Accounting Standards with reduced disclosure requirements this will simplify the preparation of subsidiary's financial statements

Current focus

- Start the balloting process for the new IFRS Accounting Standard

Next milestone

- Issue IFRS Accounting Standard in 2024

Background

Background

In July 2021, the IASB published the **Exposure Draft *Subsidiaries without Public Accountability: Disclosures***

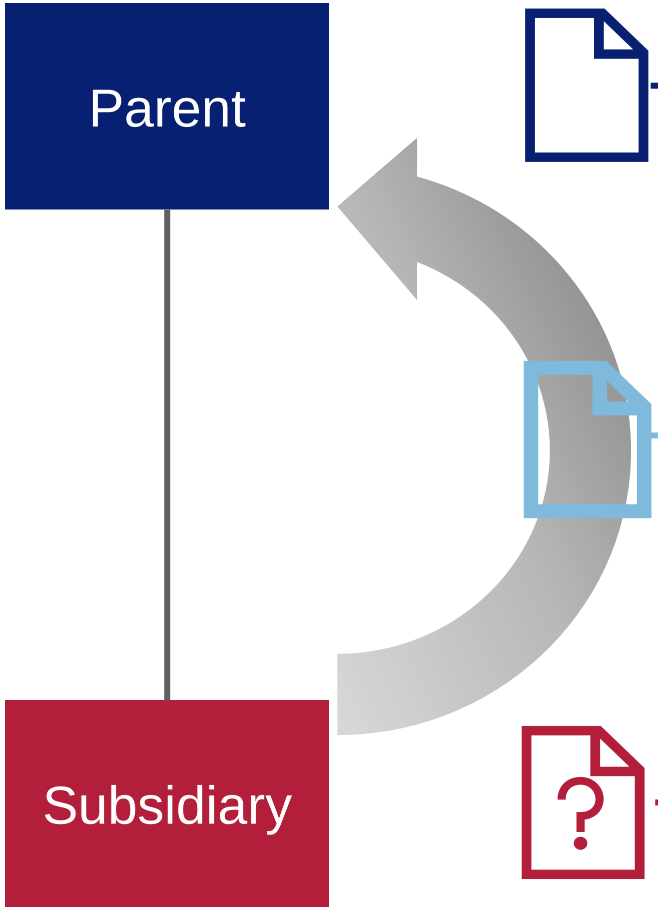
The Exposure Draft sets out the IASB's proposal for a new IFRS Accounting Standard that would permit eligible subsidiaries to apply IFRS Accounting Standards with a reduced set of disclosure requirements

Scope

Voluntary application in consolidated or individual financial statements available to subsidiaries at the end of the reporting period:

a) that do **not have public accountability**; and
b) whose parent prepares consolidated financial statements available for public use that comply with IFRS Accounting Standards

The problem



Parent prepares consolidated financial statements
applying IFRS Accounting Standards

Subsidiary submits **consolidation pack**
applying IFRS Accounting Standards

Subsidiary's Financial Statements

If they apply **IFRS Accounting Standards**, some disclosures are designed for publicly accountable entities	If they apply **local GAAP** or the ***IFRS for SMEs*** Accounting Standard, they would need to maintain additional accounting records

Proposed solution

Parent

Subsidiary

Parent prepares consolidated financial statements
applying IFRS Accounting Standards

Subsidiary submits **consolidation pack**
applying IFRS Accounting Standards

Subsidiary's Financial Statements

Apply **IFRS Accounting Standards with reduced disclosure requirements** -
IFRS recognition, measurement and presentation principles but with reduced disclosures

Comparative information

Applied the Standard in current period but not preceding period

20X1
20X2

Applied IFRS Accounting Standards but *not* the Standard

Applies the Standard

Less disclosures in the current period

In 20X2 financial statements, provide 20X1 comparative information *only* for information reported in 20X2

Applied the Standard in preceding period but not current period

20X1
20X2

Applied the Standard

Applies IFRS Accounting Standards but *not* the Standard

More disclosures in the current period

In 20X2 financial statements, provide 20X1 comparative information for information reported in 20X2

Unless another IFRS Accounting Standard requires or permits otherwise

How the Standard will be kept up-to-date

The Standard will be updated as new and amended IFRS Accounting Standards are issued

Exposure draft of a new or amended IFRS Accounting Standard

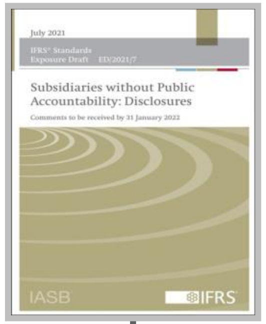
↓

Apply the Principles for reducing the disclosure requirements and assess cost–benefit for eligible subsidiaries

↓

Obtain feedback and issue the new or amended IFRS Accounting Standard, accompanied by the amendments to this Standard

‘Catch-up’ Exposure Draft



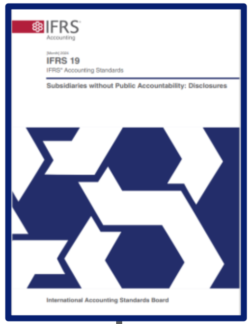
February 2021

IFRS Accounting Standards up to this date are addressed in the Standard

Disclosure requirements amended or proposed after February 2021

- *Non-current Liabilities with Covenants*
- *Supplier Finance Arrangements*
- *Lack of Exchangeability*
- *Primary Financial Statements*
- *Rate Regulated Activities*

The disclosure requirements will remain applicable until the Standard is amended following ‘catch-up’ Exposure Draft



2024

2024

Business Combinations – Disclosures, Goodwill & Impairment

Business Combinations—Disclosures, Goodwill and Impairment

Objective

- Improve information companies provide about their acquisitions at a reasonable cost

Current focus

- A package of disclosure requirements about business combinations
- Changes to the impairment test of cash-generating units containing goodwill in IAS 36 *Impairment of Assets*

Next milestone

- Publish Exposure Draft — expected in H1 2024

Background

Objective

To improve the information entities provide to users of financial statements (users), at a reasonable cost, about the business combinations those entities make.

Path forward

The IASB redeliberated its preliminary views in the Discussion Paper, taking into account stakeholders' feedback on those preliminary views. The IASB will publish an exposure draft with revised proposals.

Project History

2013–2015	March 2020	March 2021—Present	H1 2024
PIR of IFRS 3	Discussion Paper	Project redeliberation	Exposure draft

The IASB’s tentative decisions

	IASB’s tentative decisions
Disclosures about business combinations	• Disclose subsequent performance information of **strategically important business combinations** • **Exempt an entity from disclosing some information in specific circumstances** • Identify information using an entity’s **key management personnel (KMP)** • Other improvements to existing disclosures, including disclosing quantitative information about expected synergies
Accounting for goodwill	• Retain the impairment-only model (no amortisation) • Simplify calculation of value in use • Retain requirement to perform impairment test annually • Clarifications on how an entity allocates goodwill to cash-generating units

A balanced package of proposals

Overall package	
	• Balance between providing useful information while keeping costs at a reasonable level • Help users more effectively assess management's decision to acquire a business

	Considerations	
Proposals	Improve information at a reasonable cost	Reduce cost and complexity without reducing information
Disclose performance of business combinations	✓	
Improve existing disclosures (expected synergies, pro forma etc)	✓	
Improve impairment test effectiveness	✓	
Simplify value in use		✓

Disclosures: IASB’s response

Feedback	IASB’s response
• Information belongs in management commentary	• Reconfirmed its preliminary view that the information can be required in financial statements
• Information could be commercially sensitive or forward-looking	• Exempt an entity from disclosing some information in specific circumstances
• Entities might be required to disclose too much information	• Require disclosure of information for only strategically important business combinations
• Concerns regarding the use of CODM to identify information to be disclosed	• Require disclosure of information monitored by KMP
• Expected synergies can be hard to quantify and not comparable if not defined	• Clarify preliminary views about expected synergies

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Location of information

Feedback	IASB's observations and decisions
• The information does not conceptually belong in financial statements	• The information can be required in financial statements because it relates to the items recognised in the financial statements
• The information could be forward-looking • Disclosing such information could expose an entity to litigation risks	• Some consider the information not to be forward-looking because it is information about assumptions underpinning a past transaction, not possible future events or transactions • Even if the information is forward-looking, some say it meets the conditions in paragraph 3.6 of the *Conceptual Framework for Financial Reporting* for inclusion in financial statements

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Summary of key disclosure decisions

	All material business combinations	Only 'strategically important' business combinations
Proposed exemption applies	In year of acquisition, quantitative information about expected synergies	In year of acquisition, information about management's objectives and targets Subsequently, a qualitative statement of whether actual performance met the entity's objective and target
No proposed exemption	In year of acquisition, strategic rationale for undertaking the business combination	Actual performance in subsequent periods

Expected synergies

Preliminary view
Require an entity to disclose quantitative information about synergies expected from a business combination

IASB's proposal	Rationale
• Require an entity disclose quantitative information about expected synergies	• Academic evidence and feedback suggest that the information is useful and many entities are already providing the information • Concerns from preparers about commercial sensitivity are dealt with by proposing an exemption in specific circumstances (see slide 13)
• Information to be required in year of acquisition only	• Feedback from stakeholder suggests it might be difficult for an entity to follow up on the achievement of synergies
• Not to define expected synergies	• Review of information suggests there is a common understanding of 'synergies'
• Allow an entity to disclose a range rather than precise amount	• Entities often do not calculate the precise amount of expected synergies

Other frequently asked questions

Question	Response
What if the acquired business is integrated with the existing business?	If integration is planned, the entity's objectives, targets and metrics might be about the combined business rather than the acquired business in isolation An entity would not be required to directly attribute the performance of a combined business to pre-existing and acquired businesses
Would the information required by the IASB's proposals be auditable?	Most auditors said the information would be auditable at additional cost. The IASB expects an auditor would be able to verify : • whether the information disclosed is information management receives to monitor the business combination; and • whether there is adequate explanation of how the information has been prepared
Why is the IASB requiring this information only for business combinations and not other types of transactions?	The project began in response to PIR of IFRS 3, where we heard users rely on information from impairment test to understand the success of a business combination Feedback suggests business combinations can be a riskier form of investment

Accounting for Goodwill: Areas of focus

Area of focus	IASB proposals
• Whether amortisation of goodwill should be reintroduced	• In November 2022 the IASB decided not to explore amortisation of goodwill further
• Whether the cost and complexity of the impairment test of cash-generating units (CGUs) containing goodwill can be reduced	• In March 2023 the IASB tentatively decided to propose changes to how value in use is estimated • In May 2023 the IASB tentatively decided to retain the requirement to perform the quantitative impairment test annually

• Whether the impairment test can be made more effective at recognising impairment losses on goodwill on a timelier basis	• In July 2023 the IASB tentatively decided to:
	    • Clarify the requirements for how an entity allocates goodwill to CGUs; and
	    • Require an entity to disclose the reportable segments in which CGUs containing goodwill are included

Feedback and decision on amortisation

Preliminary view

- Retain the impairment-only approach (small majority)

Feedback

- Respondents' views remain mixed and **entrenched**
- The arguments to support either approach are **often diametrically opposed** and **unlikely to be reconciled**. Many of the arguments provided had been made during the development of IFRS 3 or during the course of this project
- Important to maintain convergence with US GAAP

Tentative decision

- In November 2022, the IASB tentatively decided to retain the impairment-only approach
- The IASB concluded that extensive evidence collected did not demonstrate a compelling case for change

Tentative decisions on cost and complexity

Preliminary view	• Remove requirement to perform the quantitative impairment test annually

Tentative decision	• In May 2023 the IASB decided to retain the requirement to perform the quantitative impairment test annually in IAS 36
	• The IASB was persuaded by feedback on:
	  • The potential loss of information disclosed to users;
	  • The extent of any cost reduction that would result from the preliminary view; and
	  • The effect on the effectiveness of the impairment test

Tentative decisions on cost and complexity

Preliminary views

- Allow an entity to discount post-tax cash flows with post-tax discount rates
- Remove restriction from including cash flows from future restructuring

Tentative decision

- In March 2023, the IASB tentatively decided to confirm preliminary views
- Propose to require use of internally consistent assumptions for cash flows and discount rates
- The IASB discussed a number of safeguards in IAS 36 *Impairment of Assets* that help in auditing and enforcing inclusion of cash flows from future restructuring (for example that the asset tested must be in its current condition)

Discussions on impairment test effectiveness

Preliminary view

- Not feasible to design a different and more effective impairment test for CGUs containing goodwill than the test in IAS 36

Tentative decision

- In May 2023 the IASB tentatively decided that it is not feasible to design a different impairment test
- However, the IASB investigated respondents' suggestions for improvements to the effectiveness of the impairment test in IAS 36 that would:
  - mitigate either management over-optimism or shielding; and
  - be able to be implemented at a reasonable cost

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Post-implementation Review of IFRS 15

PIR of IFRS 15—*Revenue from Contracts with Customers*

Objective

- Assess whether the effects of applying IFRS 15 on users of financial statements, preparers, auditors and regulators are as intended when the Standard was issued

Request for information

Will examine:

- identifying the performance obligations
- determining the transaction price
- determining the timing of revenue recognition
- principal versus agent considerations
- licensing
- disclosure requirements
- transition requirements
- interaction with other IFRS Accounting Standards
- convergence with US GAAP Topic 606

Next milestone

- Comment period for Request for Information closes 27 October 2023

PIR—objective and process

Assess whether the **effects** of applying the new requirements on users of financial statements, preparers, auditors and regulators are those the IASB **intended** when it developed the requirements

Phase 1
Identify matters to be examined

Phase 2
Consider feedback

Start when sufficient information is available

Publish request for information

Published
29 June 2023

Comments due
27 October 2023

Report identified matters and next steps

PIR—how does the IASB respond to identified matters?

1 Consider whether to take action, based on the extent to which:

- the **objective** of the new requirements is not being met
- **benefits** to users are significantly lower than expected
- **costs** of application are significantly greater than expected

2 Determine prioritisation based on whether:

- matter has **substantial consequences**
- matter is **pervasive**
- matter **can be addressed** by the IASB or the IFRS Interpretations Committee (IC)
- the benefits of any action would be expected to **outweigh** the costs

3 Determine the timing of any action

High priority	address as soon as possible
Medium priority	add to the IASB or the IC research pipeline
Low priority	consider in the next agenda consultation
No action	no further action

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Request for Information—what topics are being examined?

Standard as a whole

Overall assessment of IFRS 15

Convergence with Topic 606

Application questions

1 Identifying performance obligations

2 Determining the transaction price

3 Determining when to recognise revenue

4 Principal versus agent

5 Licensing

6 Disclosure requirements

7 Transition requirements

8 Applying IFRS 15 with other Standards

9 Other matters

IFRS Accounting

Update on the IASB work plan following the third Agenda Consultation (issued August 2022)

Research project pipeline	Intangible Assets—this project will aim to review IAS 38 *Intangible Assets* comprehensively.
	Statement of Cash Flows and Related Matters—as part of the research phase on such a project, the IASB will consider whether the project should aim to review IAS 7 *Statement of Cash Flows* comprehensively or make more targeted improvements
Maintenance project pipeline	Climate-related Risks in the Financial Statements—this project will consider whether and, if so, what narrow-scope actions might be needed in relation to accounting for climate-related risks in the financial statements.
Reserve list (if additional capacity becomes available)	Operating Segments
	Pollutant Pricing Mechanisms

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