IFASS Meeting Report

International Forum of Accounting Standard Setters

26 -27 September 2023

London, UK

__(Final)__ REPORT ON THE INTERNATIONAL FORUM OF ACCOUNTING STANDARD SETTERS (IFASS)

26-27 September 2023

Physical Meeting in London, UK with remote participation

IFASS is an informal network of national accounting standard setters (NSS) from around the world, plus other organisations that have close involvement in financial reporting issues. It is a forum at which interested stakeholders can discuss matters of common interest. The group is chaired by Chiara Del Prete from EFRAG for the March 2022-2025 period.

OVERVIEW

This report relates to the IFASS meeting held on 26-27 September 2023 at the Hilton London Canary Wharf, UK (United Kingdom) with both in-person and remote participation.

The meeting attendees included representatives (110+ in-person and 40+ virtual) of standard setters from 37 jurisdictions (i.e., Argentina, Australia, Austria, Belarus, Belgium, Brazil, Cambodia, Canada, China, Denmark, France, Georgia, Germany, Hong Kong, India, Indonesia, Italy, Japan, Kenya, Korea, Lebanon, Malaysia, Mexico, Nepal, Netherlands, New Zealand, Nigeria, Norway, Sierra Lione, Singapore, Spain, Sudan, Taiwan, Uganda, United Kingdom, USA, and Uzbekistan).

The attendees also included representatives of five multi-country jurisdictions (i.e., the Asian-Oceanian Standard-Setters Group (AOSSG), the Group of Latin American Accounting Standard Setters (GLASS), the Institute of Chartered Accountants of the Caribbean (ICAC), The International Arab Society of Certified Accountants (IASCA) and the Pan African Federation of Accountants (PAFA)).

In addition, there were representatives of the Chartered Institute of Public Finance and Accountancy (CIPFA), the International Accounting Standards Board (IASB), the International Sustainability Standards Board (ISSB), The International Federation of Accountants (IFAC), the International Public Sector Accounting Standards Board (IPSASB) and the Organisation for Economic Co-operation and Development (OECD).

As outlined in the Table of Contents, the rest of the report is structured as follows:

- Meeting running order;
- Action List; and
- Appendix: List of IFASS participants.

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MEETING RUNNING ORDER

Day 1: 26 September 2023

Item 1. Welcome and opening remarks

Chiara Del Prete welcomed the attendees and highlighted the impressive levels of in-person and virtual attendance along with the diverse jurisdictional representation (see overview and Appendix). She thanked the IFRS Foundation for hosting the meeting and the IFASS participants who contributed to setting the meeting agenda including through providing feedback to the May 2023 survey. She also welcomed new IFASS participants including the new EFRAG Financial Reporting Technical Expert Group Chair, Sebastien Harushimana. She noted the mix of topics to be addressed across financial and sustainability reporting during the meeting and she summarised the day's particular agenda.

Item 2. Climate-related and other uncertainties in the financial statements

The session consisted of two scene-setting presentations by Keith Kendall of the Australian Accounting Standards Board (AASB) and Seema Jamil-O'Neill of the UK Endorsement Board (UKEB) and an update on the International Accounting Standards Board (IASB) project on climate-related and other uncertainties in the financial statements by Karen Robson of the IASB. This was followed by break-out group discussions on the IASB decisions made in September 2023 on the project direction, and a report back was done thereafter.

AASB and UKEB presentations on jurisdictional (Australia and the UK) reporting trends

Keith Kendall presented the findings from an AASB review of the Top 75 ASX (Australian Stock Exchange) companies' reporting of climate-related risks in their financial statements over the 2018 to 2022 period published in the Australian Accounting Review[1]. In addition, Seema Jamil-O'Neill presented highlights from various strands[2] of UKEB's recent research on climate-related risks in financial statements (i.e., based on the review of 24 related articles and publications, and a recently conducted detailed review of the 2022 annual reports of nine FTSE 350 companies). Both presenters highlighted an improving trend in incorporating climate risk into financial statements though there remains scope for improvement in various aspects as detailed below.

Keith Kendall indicated that the AASB research found that the items in the notes that had the most frequent climate-related disclosures were the impairment of assets, depreciation and useful life of assets, critical accounting judgements, the risk management framework, and provisions for rehabilitation or restoration works. Of the 31 companies that had climate-related disclosures only 14 had specific disclosures (i.e., explaining why and what had impacts on the accounts). He

[1] Li, A., and Lee, C.T., August 2023, *Commentary: Climate-Related Risks Disclosures in the Notes to Financial Statements: Descriptive Evidence from Australia*; Australian Accounting Review

[2] Two publications are a) UKEB, July 2023, Climate-Related Matters: Summary of Connectivity Research. This publication summarises the review of 24 related multi-stakeholder publications from February 2020 to April 2023 and b) UKEB, September 2023, A Study in Connectivity: Analysis of 2022 UK Company Annual Reports. This publication is based on the review of the 2022 annual reports of nine companies.

observed that larger entities were making more detailed disclosures, the extractive and utilities sectors were the most likely to have specific disclosures, and some disclosures were included for mitigating potential litigation risks.

Keith Kendall also shared the perspectives of Australian users on current disclosures with a concern expressed about mixed practices that undermine comparability as well as the lack of transparency, lack of consistency in disclosing issues, failure to quantify impacts, and lack of disclosures of assumptions and effects. Users considered that the effects of long-term risks should already be reflected in the financial statements based on existing standards. Furthermore, it would be useful to understand the effects of changes in the assumptions driven by climate change on the useful life of assets, such as the impact of the shift towards renewables on coal-generated power assets. Disclosures could also help users understand the effects of carbon prices on asset valuation and help them identify opportunities when adapting to climate change imperatives.

Echoing the AASB findings, Seema Jamil-O'Neill noted the UKEB review of other publications found that a lack of connectivity was a common problem (i.e., mentioned by 80% of publications) with estimates and judgements often being a critical area of poor connectivity (i.e., mentioned by 50% of publications). Inter alia, this was due to a failure to disclose whether climate-related risks had been considered, and a lack of clarity on whether commitments made were aligned with estimates, judgements and assumptions made. Relatedly, UKEB's detailed review of the 2022 reports of nine companies, directly impacted by climate-related risks, identified three common areas of potential disconnect. These were in the reporting of property, plant & equipment (PP&E) and intangible assets; commitments, contingencies, and other provisions; and emissions reduction targets. *Seema Jamil-O'Neill expanded on these three aspects in session 11 - UKEB presentation on connectivity.*

The initial findings were tested with stakeholder groups (i.e., UKEB advisory and working groups). These stakeholders noted an expectation gap (i.e., a mismatch in user demand versus preparer ability and willingness to disclose climate-related information). The stakeholder groups' feedback indicated that preparers and auditors interpreted the IAS 1 *Presentation of Financial Statements* requirements as a reason for excluding information to avoid unnecessary disclosures and some stakeholders had suggested that application guidance could be developed to provide clarification.

UKEB also engaged investors to get their feedback on the challenges and information expectations on climate-related reporting in the financial statements. Investors expected the next phase of reporting (i.e., adoption of International Sustainability Standards Board (ISSB) disclosures) to better connect material sustainability disclosures to the financial statements. They were of the view that the definition of materiality was not being consistently applied to climate-related risks and pointed to challenges in assessing how material risks were reflected. Their information expectations included a statement of immateriality, information about long-term risks, principle-based requirements (i.e., not limited to climate), and information that helps them understand the amount of Capital Expenditure (CapEx) required to fund the net zero commitments and/or mitigate physical climate risk.

<u>IASB project update</u>

Karen Robson provided an update on the background, outreach and decisions made by the IASB on the climate-related risks in the financial statements project. She noted the project did not seek to broaden the objective of financial statements or change the definition of assets and liabilities.

The IASB feedback confirmed that existing IFRS Accounting Standards were generally sufficient to provide users of financial statements with useful information about climate-related risks.

However, there may be opportunities to improve their application possibly through educational material, illustrative examples, or targeted amendments. In September 2023, the IASB decided to a) explore the possibility of targeted amendments to improve disclosures about estimates in the financial statements; b) generalise the scope of the project to encompass other uncertainties; c) explore the development of practical examples; d) discuss with the IFRS Interpretations Committee (IFRIC) issues on the recognition of liabilities when applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to climate-related commitments, and on the application of IAS 36 *Impairment of Assets* to measure value-in-use when an asset was subject to highly variable future cashflows over an extended period.

Finally, Karen Robson noted the IASB would continue to monitor developments and its work on other ongoing projects (i.e., Primary Financial Statements, Power Purchase Agreements and ESG-linked financial assets) is also expected to help with the application of IFRS Accounting Standards to climate-related and other uncertainties.

Breakout discussion on the IASB project decisions

Five breakout groups were led by Alfred Wagenhofer (Austrian Financial Reporting Advisory Committee – AFRAC), Jeffrey Mechanick (Financial Accounting Standards Board – FASB), Cecilia Kwei (Hong Kong Institute of Certified Public Accountants - HKICPA), Bee Leng Tan (Malaysian Accounting Standards Board – MASB) and Carolyn Cordery (New Zealand External Reporting Board - NZ XRB). As noted earlier, these groups focused on discussing the IASB decisions on project direction made in September 2023. Thereafter, the breakout leaders shared the feedback from the group discussions and Nili Shah from the IASB acted as the moderator of the report back. Below are the main takeaways.

Discussion Question: Are there any actions missing from those decided by the IASB in September?

Several participants expressed support for targeted amendments and broadening the scope of the project to include other uncertainties. Some participants suggested that before identifying missing actions, a more general approach should be applied. However, an overall observation of a lack of ambition was also expressed about the IASB decision to limit the targeted amendments to estimation uncertainty (i.e., the decision to explore clarifying or enhancing only IAS 1.125 and not address IAS 1.31 related to materiality). There was a call for the IASB to be brave in its decisions. Suggestions made included a need for overarching connection requirements within IFRS Accounting Standards (i.e., requirements that can serve as a bridge to information outside the financial statements including management commentary). The need to address the application of materiality was also raised. In addition, the point was made that even though opportunities should not be disclosed in the financial statements, their appropriate placement should be considered and clarified.

The quality of the IASB educational material (i.e., Nick Anderson's article and the related educational material published thereafter) was commended. However, it was noted that this educational material led to no significant changes in reporting practices. Moreover, the limitations of examples (e.g., they differ from and often fail to portray real-world situations) were noted. This strengthens the case for amendments to IFRS Accounting Standards rather than relying on educational material.

In response to the feedback on missing actions, Nili Shah noted that the IASB has initially decided to explore potential standard-setting on estimates and has committed to continue monitoring the broader area of connectivity. Hence, further actions have not been excluded yet.

Discussion Questions: Are there any actions the IASB should not pursue, for example, because the cost is expected to outweigh the benefit? What does the IASB need to consider in developing solutions?

IFASS participants made the following suggestions for the IASB to consider.

Cater for all time horizons: The IASB should find the right balance between the reflection of longer-term risks relating to climate change and shorter-term risks, as many assets on entities' balance sheets are typically of a shorter-term nature.

IASB-ISSB interaction: There should be ongoing coordination and collaboration between the ISSB and the IASB to avoid the duplication of work. That said, similar to the way ISSB Standards are GAAP-agnostic, the IASB was advised not to directly address the ISSB Standards within the material to be published as the latter may not be mandated within some jurisdictions that apply IFRS Accounting Standards (e.g., the EU). It was also suggested the IASB and ISSB ensure their respective communication does not create confusion about their respective remits and that the IASB should not stray into the ISSB's remit.

Outreach suggestions: The IASB should conduct extensive outreach in emerging economies where climate-related legislation may be less mature thereby making transition risks less visible. In addition, the IASB should target highly impacted entities and engage in dialogue with experienced preparers and investors about the practical application of connectivity.

Content of educational material: Several suggestions for the content of educational material were made including a) material clarifying the scope, boundaries, and objectives of financial statements to manage issuers' expectations; b) educational material on when to disclose provisions and contingent liabilities; and c) publishing comprehensive examples of current and anticipated financial effects and how they could be reflected in financial statements. However, on the latter point of anticipated financial effects, as noted in the suggested IASB-ISSB interaction, some IFASS participants have also cautioned the IASB against straying into the remit of the ISSB.

Practice statement to enhance access to related IASB material: Some IFASS participants also pointed to the difficulty that preparers and other stakeholders face in tracking and accessing separately issued educational material. Hence, to facilitate access to the array of climate-related IASB publications, they suggested a single-booklet practice statement that collates educational material, illustrative examples, and agenda decisions related to the IASB project. In response, Nili Shah stated that there were examples of this type of collation on the IASB website.

Other standard-setting considerations: The unintended consequences of any amendments to IAS 1.125 including a risk of disclosure overload should be considered. In addition, the inconsistent use of similar terms in financial and sustainability reporting in a manner that can be confusing (e.g., scenario analysis versus sensitivity analysis) should be avoided.

Discussion Question: What can be done in jurisdictions to improve compliance with IFRS Accounting Standards to reflect material climate-related risks and other uncertainties?

Proposals made included the designation of national standard setters as country champions for monitoring and reviewing jurisdictional developments; the use of sectoral case studies to illustrate good practices; the cooperation of the IASB with regulators to highlight the overarching principle of IAS 1; and awareness enhancing measures related to the IASB educational material (e.g., discussion groups, workshops, seminars, and the publication of articles).

Item 3. Cash flow reporting

The session consisted of two presentations on Cash Flow reporting by Katharine Christopoulos Accounting Standards Board (AcSB) and Kathrin Schöne (EFRAG) with both presenters conveying the initial findings of their ongoing research meant to influence the IASB forthcoming[3] project on the Statement of cash flows.

AcSB Presentation

Katharine Christopoulos noted that the AcSB initiated a research project on cash flow reporting and the findings will be presented in 2024, which will coincide with the issuance of the IASB's new standard on primary financial statements.

Learnings from outreach done so far: Katharine Christopoulos highlighted that the AcSB had collected preliminary views from investors and academics to identify the areas to explore in improving cash flow reporting. One aspect raised by investors that may be addressed by the Primary Financial Statements project is that of reducing optionality in cash flow classification, e.g., for interest and dividends. The AcSB has also liaised with users on whether there should be a single method of reporting (e.g., direct vs indirect method) – Canada and most countries, except for Australia and New Zealand, use the indirect method with the direct method being used in very limited circumstances. The users indicated that they would like direct method information, e.g., cash receipts from customers and payments made to suppliers.

In addition, users indicated that a split between an entity's maintenance versus incremental capital expenditure in the cash flow statement investing section would be helpful. Also, an area to focus on is improving the reporting of non-cash transactions. Katharine Christopoulos noted the latter aspect had been addressed by the IASB supplier finance arrangements project but there was a need to check if some aspects had not been captured by that project.

Ongoing research objective: The purpose of the AcSB research is to respond to the various concerns on cash flow reporting. The AcSB would focus on information needed by users that is currently missing within the financial statements. That is, it will assess whether users have information to evaluate the ability of an entity to generate cash flows, assess the entity's need for cash flows to satisfy obligations; and predict the timing of cash flows including whether or not there may be improvements to help the predictive nature of cash flows. The findings would help inform the IASB whether to undertake targeted improvements to IAS 7 *Statement of Cash Flows* or whether a comprehensive review is needed.

[3] Following the 2021 IASB agenda consultation, Statement of cash flows along with intangibles was added to the pipeline of the IASB research workplan.

Methodology: Inputs would be collected from investors, credit rating agencies and academic research on what has been done so far on the predictive value of cash flows. In addition, the AcSB would investigate whether liquidity and solvency issues are communicated, by studying real-life examples of companies that had undergone creditor protection. This would be broader than the cash flow statement and include, e.g., Non-GAAP metrics and analyst presentation information.

EFRAG Presentation

Kathrin Schöne noted that, based on feedback from constituents on potential research projects, cash flow reporting was deemed a high priority for European users, and this is why EFRAG has added a project to its research agenda. Similar to the AcSB project, the EFRAG project intends to support the forthcoming IASB project and will address the wider issue of working capital and liquidity management. The EFRAG project also aims to identify the objectives and uses of the cash flow statement, issues arising with how it is currently prepared under the requirements of IAS 7, and discuss how these issues could be addressed by either targeted improvements or a comprehensive revision of IAS 7 after considering the perspectives of users of financial statements.

Kathrin Schöne observed that IAS 7 is an old standard and there may be transactions that are not fully reflected by applying its requirements, e.g., supplier finance arrangements or some types of crypto assets. She indicated that EFRAG was in the process of organising roundtables with preparers and users and would also conduct a literature review. EFRAG expects to publish a discussion paper in 2024 and to have outreaches and a consultation on the discussion paper thereafter.

Kathrin Schöne presented the initial feedback gathered by EFRAG, which covered the following:

- *Objective of the statement of cash flows:* Cash flow statement information is used: to assess the ability to generate future cash flows; to explain why cash has not changed when there is a net profit; to assess liquidity risk; and to depict the ‘rhythm’ of the operating, investing and financing cash flows.
- *Uses of the cash flow statement*: Users indicated that they use the cash flow statement to assess management’s stewardship (e.g., to assess Capital Expenditure (CapEx) policies and free cash flow generated compared to invested capital). They also use it to reconcile net debt and cash movements; assess liquidity; understand working capital dynamics; and compare capex with depreciation.
- *Issues with cash flow statements:* She highlighted several issues:
    - Comparability is an issue for users even for items that are under the same classification. For example, operating cash flow is prepared differently among different entities.
    - The issue of non-separation of dividends between non-controlling interests and controlling interests.
    - It would be more useful to reconcile net debt and assessing liquidity was not easily possible and could be improved.
    - Users indicated insufficient disclosure of restrictions on cash and cash equivalents and they would like to better understand investments, e.g., leases as the notes in the financial statements were insufficient.

    - The indirect method was considered to be useful, however, the direct method was deemed to be more appropriate, especially in situations where there is a business combination.
    - The statement of cash flows is not used much by banks as they like to focus on items that generate returns and items in the statement of cash flows could mask such items.
- *Perspectives on suitability for banking financial institutions and insurance companies:* Kathrin Schöne shared findings from the discussions with EFRAG's Financial Instruments Working Group ('FIWG') and Insurance Accounting Working Group. These working groups confirmed that cash flow information is usually not useful for banks, and to some extent, it is also not useful for insurance companies albeit the issues for banks differ from those for insurers. The EFRAG FIWG indicated that the information required by regulators was very useful. Thus, the disclosure of such information could be an alternative requirement to the statement of cash flows. Kathrin Schöne noted that as insurance companies could be solvent yet illiquid, they had similarities to banks in their emphasis on the importance of information on liquidity.

Q&A and comments on cash flow reporting

An IFASS participant asked whether the AcSB research would include a separate analysis of the statement of cash flows for the financial services industry. Katharine Christopoulos affirmed this would be the case since it is used differently by insurers and banks.

Another IFASS participant mentioned that, in light of new types of transactions, the definition of 'cash and cash equivalents' needed to be reconsidered in order to faithfully represent the innovative transactions, and this was an important matter for Chinese stakeholders. He also suggested that recent IFRS Accounting Standards (i.e., IFRS 15 *Revenue from Contracts with Customers*, IFRS 9 *Financial Instruments* and IFRS 16 *Leases*) may have affected items included in the cash flow classification categories. Hence, the post-implementation reviews of these Standards were important. Finally, he mentioned that relevant research would be conducted in China, and he would be pleased to share the findings. Similarly, another IFASS participant highlighted the importance of cash flow reporting for UK stakeholders and expressed interest in the findings of the presented research.

Item 4. INPAG update

In her update on the progress in developing International Non-Profit Accounting Guidance (INPAG), Karen Sanderson shared the highlights of ED 2 *Accounting,* which was published in September 2023, and she particularly focused on the revenue-related proposals. ED 2 is the second of three EDs that will deliver a complete set of guidance for non-profit organisations (NPOs). ED 1 *Framing* (published in November 2022), ED 2, and ED 3 *Presentation* (expected to be published in Q1 2024) collectively comprise the ED roadmap[4] for developing the Final INPAG expected to be issued in mid-2025. INPAG will be based on the draft third edition of IFRS for SMEs with modifications made where needed.

Karen Sanderson recapped[5] the four main topics included in ED 2, and she also pointed to seven[6] additional topics included in ED 2 where modifications to IFRS for SMEs had been made. These seven additional topics had not been prioritised for an in-depth review. Hence, the four main topics in ED 2 are:

- *Expenses on grants and donations*: This refers to the resources that the NPO gives to another entity or individual.
- *Revenue*: This is divided into two parts (i.e., new material on grants and donations; and existing material on revenue from contracts with customers).
- *Inventories*: This addresses specific issues for NPOs (i.e., permitted exceptions, measurement issues and some disclosure requirements).
- *Foreign currency translation*: This focuses on presentation and disclosure issues.

Focusing on revenue, which as noted above is one of ED 2's main topics, Karen Sanderson noted that it is a topic that has consistently challenged NPOs in respect of the following:

- *Matching income and expenses:* Those funding NPOs in the form of grants or donations would like to see how it had been spent within the same reporting period.
- *Perceptions of surplus and deficits*: Surpluses and deficits were both negatively perceived. The surplus can give a false signal that the NPO no longer needs any donations while a deficit would send a false signal that the NPO does not manage its resources efficiently.
- *Donations-in-kind*: There are challenges related to the recognition and measurement of donations-in-kind, which are a significant source of resources for NPOs. Their recognition could have implications for taxation or audit thresholds in some jurisdictions.

She also pointed out that ED 2 only covers the recognition, measurement and disclosures associated with revenue from grants and donations but it does not cover the related presentation. The latter is covered by ED 1 and ED 3[7]. Karen Sanderson elaborated on the following aspects of the revenue proposals:

- *Types of grant arrangements*: An important feature of the proposals on revenue and expenses from grants and donations was that grant arrangements could be classified as either an 'enforceable grant arrangement' (EGA) or an 'other funding arrangement' (OFA). In an EGA, both the grantor and the grantee have rights and obligations in the agreement

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[4] Each ED has a consultation period of between four and six months. And the feedback from the three EDs will inform the Final INPAG

[5] At the April 2023 IFASS meeting, Karen Sanderson gave an update on the feedback to ED 1 *Framing* and the scope of ED 2 *Accounting* (See April 2023 IFASS report – pages 15 and 16)

[6] The seven additional topics included in ED 2 are: Financial instruments, Provisions and contingencies, Borrowing costs, Employee benefits, Income tax, Hyperinflation, and Events after the end of the reporting period. Guidance on Share-Based Payments will not be included in INPAG because equity is not significant for NPOs.

[7] ED 1 covered the statement of income and expenses generically, setting out the principle that transactions should be split between those with and without restrictions. ED 3 will create new text on fund accounting, looking at presentation issues and where transactions should appear.

and there has to be at least one enforceable grant obligation. If it does not fit this criterion, then the grant arrangement is an OFA arrangement.

- *Accounting for grants and donations*: For OFAs, revenue received was recognised when the NPO controlled the resources. For EGAs, resources were recognised when an enforceable grant obligation had been satisfied. The approach to recognition of revenue was similar to IFRS 15, IPSAS 47 *Revenue* and the draft third edition of the IFRS for SMEs accounting standard which included a five-step model to recognise revenue.
- *Disclosures*: There are disclosures for OFAs relating to what is cash and what are donations-in-kind in terms of what is recognised in revenue. Knowing that difficulties might arise from the recognition of the donations in-kind, there were some exceptions set out in the guidance and disclosures were required where such exceptions had been utilised. For EGAs, the disclosures required were similar to those in other international standards on how the obligations were satisfied, significant payment terms, methods to recognise revenue over time, related assets and liabilities, and impairment.

Q&A on the INPAG Update on ED 2

An IFASS participant asked for an example of when an NPO has an agreement on grants and donations but the grant provider and grant recipient do not have rights and obligations. Karen Sanderson replied that many grant arrangements in the non-profit sector resulted from a power imbalance between grantees and grant providers. Grant providers might impose restrictions, but the nature of the arrangement might not afford the grantee any rights. The grant provider could be able to withdraw from an arrangement and not pay. The proposals in ED 2 should lead to improvements to grant arrangements that would better document rights and obligations for both parties.

Item 5. IPSASB update

Ian Carruthers gave an update on the International Public Sector Accounting Standard Board (IPSASB) financial reporting and sustainability reporting activities. He summed up recent achievements noting that by the end of 2023, IPSASB would have published five new international public sector accounting standards and made updates to three chapters of its conceptual framework. Furthermore, guidance on sustainability issues has been added to existing non-mandatory guidance.

Commenting on the finalised projects, Ian Carruthers observed that along with the new measurement standard (IPSAS 46, *Measurement*), they updated the conceptual framework chapter on measurement (i.e., Chapter 7), and consolidated all the measurement guidance in one place. The new measurement standard included a current value measurement basis (i.e., current operational value-COV) and clarified when it is appropriate to either apply COV or fair value measurement. Furthermore, IPSASB provided guidance on retirement benefit plans for the first time (i.e., IPSAS 49, *Retirement Benefit Plans*), which is based on IAS 26 *Accounting and Reporting by Retirement Benefit Plans*. Ian Carruthers observed a lot of schemes for parent, former employees, and multi-employer pension plans have implications for fiscal sustainability, and these plans are covered by the new guidance.

Financial reporting current projects: Ian Carruthers gave an overview of current financial reporting projects including:

- *Natural resources*: IPSASB reviewed tangible natural resources through three case studies: soil, water and living resources. Key areas of focus included the definition of tangible natural resources, how they should be recognised and measured, where put the guidance and what disclosures should be required. The approval of an exposure draft was expected in H1 2024.
- *Presentation of Financial Statements*: Ian Carruthers remarked that the environment had changed significantly since the adoption of IPSAS 1 *Presentation of Financial Statements* and there was a need for an update of this Standard. Touching on the project objectives, he emphasised that it was important for governments reporting on an accrual basis to explain their activities to constituents. In particular, budget reporting against budget outturn is an important accountability tool in terms of the usage of public money. Plus, there were questions on whether the accrual information that governments produce for government finance statistics should be used, and what should be done with gains and losses in light of there being no Other Comprehensive Income (OCI) equivalent under IPSAS 1 requirements. He expected the new IFRS 18 *Presentation and Disclosure in Financial Statements* would provide a platform for answering these questions whilst IPSASB updates the presentation guidance. He also noted the project brief has been approved.
- *Differential Reporting*: Ian Carruthers remarked that it was important to have guidance that catered for entities of varied sizes and complexities. He noted that originally stakeholders had suggested a public-sector equivalent of IFRS for SMEs. However, it was not possible that any bodies funded by public money were not public and IPSASB decided to help stakeholders understand which parts of existing IPSAS were applicable to them.
- *Other Lease-Type Arrangements project*: Ian Carruthers noted the variety of assets used by different types of public entities. He noted this project is tricky as it entails addressing a nexus of evolving requirements related to leasing, revenue measurement, and potentially impairment.
- *Measurement-Application of COV*: Ian Carruthers also noted IPSASB is going through the rest of the suite of Standards in terms of the application of the COV measurement basis with a focus on IPSAS 45, Property, Plant and Equipment albeit that this measurement basis is potentially relevant across many other standards.

Sustainability reporting activities: Ian Carruthers reiterated the important role of the public sector in delivering net zero goals. He also conveyed that, at its 2022 roundtables and through the written feedback to the May 2022 consultation paper, *Advancing Public Sector Sustainability Reporting* (hereafter referred to as the 2022 consultation paper), IPSASB had received unanimous support to develop a set of public-sector sustainability reporting standards, building on both ISSB and Global Reporting Initiative (GRI) Standards. In H1 2023, IPSASB outlined three areas to target in the scoping and research phase (i.e., general requirements for the disclosure of sustainability-related financial information; climate-related disclosures; and natural resources).

In June 2023, IPSASB decided that it would proceed with developing a climate-related disclosure standard. The proposals for the standard will draw on feedback received from the 2022 consultation paper, and on the requirements of IFRS S2 *Climate-related Disclosures* and GRI Standards. Ian Carruthers underscored the need for a broader lens on what to disclose due to citizens being the primary users of public-sector reporting information.

Finally, Ian Carruthers highlighted the significant uptake of IPSASB standards (i.e., 50% of governments worldwide are projected to be using accrual accounting by 2025 and this will rise to above 70% by 2030) along with the raft of implementation support measures (e.g., ability to do post-implementation reviews, instilling query resolution capabilities) that would need to be in place for IPSASB to fulfil the expectation and strong support for it to be the public-sector sustainability reporting standard setter.

Q&A on the IPSASB update

An IFASS participant asked why the IPSASB exposure draft on concessionary leases seemed to expect all leases to be entered into just for financing reasons rather than also considering the aspect of operational capacity. Ian Carruthers replied that it was common in the public sector for one body to make an arrangement that allowed another body to use a given asset in exchange for a low payment. For example, a government which rents a building to the United Nations (UN) at a very low price. In such situations, it is challenging to address the difference in value between a leasing arrangement and this other form of arrangement. He noted that a coherent answer was needed on how impairment should work in practice in cases where the agreement is not really a lease agreement. For all these reasons, alongside the leasing project, there will be a separate project to address these noted challenges.

An IFASS participant asked about the challenges associated with providing high-quality climate disclosures and obtaining related expertise. In response, Ian Carruthers stated that embedding the Task Force on Climate-related Financial Disclosures (TCFD) model within organisations would help to address these challenges. He considered preparing high-quality climate disclosure to be a strategic choice and not a mere reporting issue. He noted that the ISSB and GRI education material should be transferable to IPSASB's guidance and that doing so would help to counteract one of the big challenges of the public sector, namely, that of meeting uncosted commitments to targets set by politicians.

Item 6. Accounting for carbon offsets and credits

This session consisted of two presentations by Katharine Christopoulos on the AcSB research and Eduardo Flores from the Group of Latin American Accounting Standard Setters (GLASS) on the upcoming Brazilian Accounting Standard on Carbon Offsets.

AcSB Presentation

Katharine Christopoulos highlighted that the AcSB research project on accounting for carbon offsets and credits was linked to several IASB projects (e.g., intangibles, climate-related and other uncertainties in the financial statements, and pollutant pricing mechanisms). She provided an overview of the Canadian market environment whereby an increasing number of companies made net zero commitments that would not be attainable without the use of carbon credits. The accounting issues are becoming more prevalent and material in Canada as it has a large oil and gas industry that needs to use these carbon credits and there are also multiple pollutant pricing schemes in place.

Katharine Christopoulos mentioned the related accounting issues, specifically:

- Whether carbon credits meet the definition of an asset, and, if so, what ought to be their recognition and measurement requirements?

- What should be the recognition and measurement requirements for liabilities stemming from obligations that arise from the carbon credits? Katharine Christopoulos indicated that the IASB's work on provisions would be useful to help identify when the past event that triggers recognition has occurred.
- What is the unit of account?
- How does a company's business model impact the accounting for carbon offsets (i.e., what is their function in the carbon credit market)?
- A lack of linkage between assets and liabilities arising from carbon credits. Users have expressed that they would like to have such a linkage as without it they did not have a holistic view of carbon emissions that was necessary for company valuation.

What asset recognition and measurement standards are applied for carbon credits? Katharine Christopoulos addressed the applicable IFRS Accounting Standards for carbon credits as follows:

- Applicability of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*: IAS 20 with measurement at either fair value or nominal value could be applied for carbon credits arising from the compliance market. However, some preparers have expressed concerns that measurement at fair value can make carbon credits appear as income from the government. At the same time, the measurement of carbon credits at nominal value is not representative of their economics as it depicts them as having minimal value.
- Applicability of IAS 2 *Inventories* or IAS 38 *Intangible Assets*: Katharine Christopoulos drew a parallel between the accounting challenges faced with carbon offsets and those faced with cryptocurrencies, and she pointed to the applicability of IAS 2 and IAS 38. In case the carbon credits were held for a company's ordinary course of business and it meets the definition of a broker/trader, then IAS 2 would apply with measurement at either fair value less costs to sell or net realisable value. If not classified under IAS 2, then IAS 38 would apply. She pointed to some of the application questions for both standards. For IAS 2, there is the challenge of determining which is the by-product[8] (e.g., whether ethanol or the carbon credit is the by-product). When IAS 38 is applied, there is the question of what cost should be assigned to internally generated assets.
- Applicability of IFRS 9: Katharine Christopoulos stated that, in Canada, there is limited application of IFRS 9 for carbon credits.

Expanding on the accounting issues, Katharine Christopoulos provided an overview of two issues that were discussed at the AcSB IFRS Accounting Standards Discussion Group. These were: a) accounting for the development of carbon credits that will ultimately be sold; and b) accounting for the development of carbon credits by a renewable energy generator. In accounting for the developments of carbon credits that will ultimately be sold, there was a need to find out the information which is relevant for users. She noted that by slightly altering the fact pattern, stakeholders proposed different accounting treatments. They also had questions on what the fair value is. She also pointed to the challenge of determining when verified carbon units should be separately presented on the balance sheet and of determining the timing of recognition of the carbon credit.

[8] IAS 2.14 states that "…Most by-products, by their nature, are immaterial. When this is the case, they are often measured at net realisable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost."

Finally, Katharine Christopoulos affirmed that the AcSB would conduct research to analyse the prevalent accounting issues and better understand the information users are seeking. Part of this research would be included in AcSB's broader research work on intangibles (i.e., intangibles held for capital appreciation).

GLASS Presentation

Eduardo Flores presented the accounting guidance for carbon offsets being developed in Brazil (i.e., an Exposure Draft was issued in April 2023 and is still open for comments) that confirms the applicable IFRS Accounting requirements for Brazilian IFRS reporting entities[9]. This guidance is needed due to the transition of Brazil from a voluntary to a regulated market for carbon credits. He noted that as accounting for carbon offsets could impact dividend policies and income taxation, the purpose of the project was to improve comparability among companies. The group responsible for the project consisted of representatives from the Brazilian Securities Commission, the Brazilian Central Bank, and representatives of auditors, preparers, and academics.

Eduardo Flores highlighted the main features of the guidance including its scope, types of carbon credits, and economic agents involved. He noted that the guidance for holder entities is related to their business model. He outlined three different types of holders of carbon credits, namely (a) the originator, which is an entity that controls economic resources that generate carbon offset and the intention to sell it; (b) the intermediary (broker and trader) that purchases carbon credits for purposes of selling (i.e., for trading purposes); and (c) the final user, which is an entity that acquires the carbon credits to offset its GHG emissions by retiring such instruments. The guidance also focuses on disclosures, particularly in relation to the CapEx being invested to reduce emissions and OpEx for the purchase of carbon credits to offset own emissions.

Eduardo Flores outlined the accounting approaches proposed in the guidance.

- *Asset classification holders of carbon credits*: According to the guidance, if the carbon credits are held for sale (e.g., by originators and intermediaries), the reporting entity should classify these carbon credits as inventory (i.e., be under the scope of IAS 2). If held for retirement; the carbon credits should be classified as inventory, i.e., by intermediaries, and by originators and final users where the carbon credit is considered an input to the production process. If not classified as inventory, carbon credits should be classified as intangibles (under IAS 38). Eduardo Flores observed that according to the requirements of IAS 32 *Financial Instruments: Presentation*, carbon credits do not qualify to be classified as financial assets.
- *Measurement basis- inventory*: The appropriate measurement of carbon credits classified as inventory by originators due to either being held for sale or retirement is the lower of cost and net realisable value. For intermediaries, it is fair value less costs to sell if held for trading purposes, and the lower of cost and net realisable value if held for retirement. For final users, it is the lower of cost and net realisable value.
- *Measurement basis- intangibles*: If carbon credits are not classified as inventory (i.e., when not considered an input to the production process by either originators or final users), they are classified as intangible assets and measured at a) cost less amortisation or

[9] Brazil adopted IFRS for consolidated and individual financial statements in 2007.

reduction to the recoverable value by originators; and b) cost less impairment losses by final users.

- *Liability recognition:* Eduardo Flores referred to the April 2023 IASB Staff Paper[10] with initial suggestions for revising IAS 37 by providing an example[11] where a company commits to offsetting future greenhouse gas emissions and if it takes actions that will require a transfer of economic resources (i.e., carbon emissions), a constructive obligation is created. A similar example was used in Brazil, demonstrating that a liability is recognised once there is a legal or self-committed obligation. There is a section in the guidance on the assessment of whether there is a liability at a point in time.
- *Liability measurement*: This would be the same as what was currently being done for other provisions, i.e., measurement is done using the best estimate assumptions.

Q&A on the accounting for carbon offsets and credits

An IFASS participant noted that the Asian-Oceanian Standard Setters Group (AOSSG) had a working group that conducted research on the topic of carbon credits and emission trading schemes which may be shared. He highlighted that there could be different mechanisms in different jurisdictions and government requirements may also be different. He referred to China in particular, where a national market for carbon credits had been launched in 2021, stressing that accounting is considered important to support the country's goal to achieve net zero carbon emissions by 2060. The participant offered to share the AOSSG findings. The importance of the topic was affirmed by another IFASS participant. Similarly, another IFASS participant indicated that in Malaysia, questions have been raised on the appropriate accounting treatment of carbon credits. Correspondingly, MASB had written an article providing pointers for companies to consider on what are the appropriate IFRS Accounting standards, i.e., IAS 2, IAS 38, and IFRS 9. The latter Standard is noted as being less prevalent in application for carbon credits.

An IFASS participant asked whether the IASB had received the matters raised for its consideration. Rachel Knubley from the IASB replied that the issue had been identified as a priority for many entities during the third agenda consultation. However, the IASB's capacity for taking on new projects is currently limited. Pollutant pricing mechanisms is on the reserve list of research pipeline projects. The IASB was continuing to monitor this area and was interested in hearing feedback from investors. Nili Shah from the IASB added that for the IASB to determine the importance of this project, it would be useful to understand the types of programmes being used, their prevalence, and also the effect on investors of current accounting. Also, it was important to understand whether diversity in practice was hindering investor decision-making or whether it was at a level that could be tolerated by the market. She noted the IASB learnings on the extractive activities project, where the IASB outreach found that investors could live with the diversity in practice in the related reporting.

Eduardo Flores confirmed that users indicated that the absence of an accounting treatment created problems in terms of structuring some operations about the carbon credit market. He stressed that some investors in Brazil were waiting to better understand how carbon credits were linked to the entirety of a company's financial statements before making any investment decisions.

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[10] April 2023 IASB meeting, Agenda Paper 22, "Liability definition and 'present obligation' recognition criterion"
[11] April 2023 IASB meeting, Agenda Paper 22, Appendix B "Initial Staff Suggestions for amendments to Illustrative Examples accompanying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*", page 16.

Day 2: 27 September 2023

Item 7. Introduction

In opening the day's session, Chiara Del Prete commended the enjoyable UKEB dinner event and she thanked UKEB and Pauline Wallace for generously hosting IFASS members. She then summarised the day's particular agenda.

Item 8. Post-Implementation Review (PIR) of IFRS 15

A panel discussion sharing jurisdictional perspectives on the IASB Request for Information: Post-implementation Review of IFRS 15 (also referred to as the Standard) was moderated by Robert Uhl of the IASB. The panellists, who represented the perspectives from five different jurisdictions were Nishan Fernando from the AOSSG; Jose Luiz Carvalho (GLASS); Tommaso Fabi from the Italian Standard Setter (OIC); Raymond Chamboko from the Pan African Federation of Accountants (PAFA); and Charis Halliday (NZ XRB).

To set the scene, Robert Uhl recapped the objectives of the PIR and described the implementation support that was in place since the issuance of the Standard. He then led the panel discussion which touched on several themes as outlined below.

Is IFRS 15 working as intended and has the Standard achieved its intended objectives? Any views on convergence with US GAAP?

All five panellists noted that IFRS 15 was generally working well and the Standard had achieved its intended objectives. They noted the five-step model had helped ensure a consistent and adequate basis for revenue reporting, and it improved the comparability and understandability of financial statement information. Charis Halliday noted that users had indicated that the disclosures struck the right balance while Tomasso Fabi mentioned that Italy had developed a revenue standard for its local GAAP that was aligned to IFRS 15 and this was indicative of how well the Standard worked.

Jose Luis Carvalho and Raymond Chamboko observed that existing application challenges that have led to diversity in practice were due to the significant judgment required by the Standard. For instance, with respect to principal versus agent consideration, the determination of whether a licence grants the customer either a right to use or right to access the intellectual property, the estimation of variable consideration, and the determination of standalone selling prices. Raymond Chamboko mentioned that these application challenges were pronounced in some industries like the telecommunication and utility industries.

On cost-benefit considerations, Tomasso Fabi flagged that, in his jurisdiction, stakeholders had little appetite for major changes to the Standard as they had expected the significant implementation costs that were incurred to initially implement the Standard would be a one-off cost.

A range of views were expressed on convergence with US GAAP (United States Generally Accepted Accounting Principles). Nishan Fernando indicated that most AOSSG jurisdictions welcomed convergence and it should be retained. Raymond Chamboko noted that even if divergence were to occur it would not be a big concern. Charis Halliday noted that convergence was important for NZ entities that were the subsidiaries of a US parent.

The results of the polling question confirmed the view expressed by the panellists that IFRS 15 is generally working well but there is room for improvement (see link to results)

Top application challenges

Principal versus agent (PA) considerations: Charis Halliday, Raymond Chamboko, and Tomasso Fabi raised PA considerations as a top application challenge. They pointed to challenges related to a) the transfer of control indicators; and b) identifying the customer.

PA considerations - challenges with the transfer of control indicators: Charis Halliday noted that when determining if they are acting as either a principal or an agent, many entities applied the IFRS 15.37 indicators[12] without applying the assessment of control. The challenge arose due to the disconnection between the application of the indicators and determining who controlled the good or service before transfer to the customer. She noted the indicators were suited for contracts involving the transfer of goods. Thus, it was especially challenging to apply the PA guidance for service contracts, intangibles, licensing arrangements and digital services. As a solution, Charis Halliday, Raymond Chamboko and Tomasso Fabi collectively proposed giving greater prominence to the assessment of the transfer of control by elevating BC385H to the main body of the Standard, having up-to-date illustrative examples, flowcharts that help in applying the standard, application guidance, and explaining or revising the indicators to clearly link each indicator to the concept of control.

On the latter point, Charis Halliday suggested that the understanding of the business purpose and rationale for the contractual terms between the vendor and the entity should form a prominent part of the assessment and could help to identify arrangement-specific indicators such as an entity's discretion on whether or how to consume the goods or services or return to vendor arrangements.

PA considerations - challenges with identifying the customer: Raymond Chamboko and Charis Halliday also considered that the identification of the customer was another PA challenge. Raymond Chamboko provided several examples including tripartite arrangements, platform entities, manufacturer and wholesaler arrangements, and credit card companies where the identification of the customer was challenging. Charis Halliday also pointed out to challenges faced by the NZ Agricultural sector in identifying the customer. This sector involves agricultural producers and manufacturers with various overseas distribution networks, and she noted that, in some cases, there are complex contracts and difficult fact patterns where it is challenging to determine the customer.

Identifying performance obligations: Jose Luiz Carvalho and Raymond Chamboko also pointed to the identification of performance obligations as an application challenge that could benefit from additional illustrative examples related to emerging business models. The identification of performance obligations is also a challenge for public utility entities that enter into multiple obligation service concession arrangements that are under the scope of IFRIC 12 *Service Concession Arrangements*. The challenge of identifying performance obligations was also raised in the context of licensing arrangements in the pharmaceutical industry.

Determining transaction price: Jose Luiz Carvalho, Nishan Fernando and Tomasso Fabi highlighted application challenges around the determination of variable consideration. Tomasso Fabi noted that some entities are not applying the 'highly probable' threshold for the estimation

[12] The indicators are having primary responsibility for order fulfillment, bearing inventory risk, and having pricing discretion.

constraint on recognising variable consideration as intended. He observed that some entities face situations where their variable consideration (e.g., potential penalty for a construction company) does not meet the 'highly probable' threshold at initial recognition. However, during subsequent recognition, these entities sometimes fail to reassess whether to recognise the variable consideration and they only recognise it when the invoicing occurs. Nishan Fernando also flagged that many AOSSG jurisdictions had questioned whether the estimation method applied for variable consideration should be the 'most likely amount' or the 'expected value' method. He noted that for the latter method, it was difficult to judge whether the estimated results met the requirements of constraining estimates of variable consideration.

Nishan Fernando also pointed to the challenge of determining whether incentives involving payments on behalf of customers should be either marketing expenses or a reduction of revenue. He also pointed to the concerns with the accounting treatment of the 'negative' revenue.

When to recognise revenue: Nishan Fernando noted that the recognition of revenue over time was a critical issue, particularly concerning paragraphs 35 and 36 of IFRS 15. There were challenges associated with applying paragraph 35 (b) and determining whether the created asset has an alternative use. It can also be challenging to determine whether the customer can control the output generated from activities related to the property-development sector which are carried out in the entity's own sites. He observed that due to differences in the legal requirements across jurisdictions, there was diversity in practice when determining if an entity has a right to payment for performance completed to date. Jose Luiz Carvalho mentioned that, in the construction industry in his jurisdiction (Brazil), IFRS 15 was not providing relevant information to users of financial statements. Illustratively, he pointed to cases where IFRS 15 requires the recognition of revenue only upon the completion of a building. He observed that, for these situations, analysts and investors in his jurisdiction tend to adjust revenue to reflect a percentage of completion (POC) method pattern of revenue recognition, which they deem to better reflect the economics of these transactions.

Estimating transaction price: Nishan Fernando pointed out that the software industry had encountered significant difficulty in determining the standalone selling prices, due to different types of contracts.

The results of the polling question confirmed the application challenges highlighted by the panellists (see link to results).

Affected industries, disclosure requirements and other points of note

Affected industries: The panellists considered that real-estate development, telecommunication, software, utilities, and manufacturing were among the most affected industries.

Disclosures: Nishan Fernando remarked that most AOSSG jurisdictions were generally satisfied with the disclosure requirements and considered that they struck the right balance between costs and benefits. However, there were questions on the usefulness versus cost of disclosures of remaining performance obligations. Tomasso Fabi observed that the topic of disclosures was always difficult. He noted that EFRAG's draft comment letter highlighted the contrasting views between users and preparers on disclosures. Many disclosure requirements including the disaggregation of revenue had been deemed to be useful. He noted that users considered the disclosures on changes in contract assets and contract liabilities to be useful especially for business models with long-term contracts and for entities that are growing via acquisitions. However, other stakeholders had raised concerns about the cost versus benefits of some of the disclosures such as the changes in contract assets and contract liabilities.

Jose Luiz Carvalho raised the need for enhanced disclosures around the judgment used to determine performance obligations. He noted that companies used the standard as a checklist and did not provide more qualitative information. Therefore, there was a need for additional guidance that could help entities provide qualitative disclosures about the nature of the contracts and how revenue is generated.

Implications of new business models/transactions: Tomasso Fabi highlighted that the digital economy was raising new types of transactions. Similarly, Jose Luiz Carvalho acknowledged that there were new areas that needed to be addressed. Tomasso Fabi suggested that the IASB conduct an analysis of these new transactions. And there was a need for balanced and appropriate examples to explain the Standard. Robert Uhl hoped the Standard and its examples would stand the test of time.

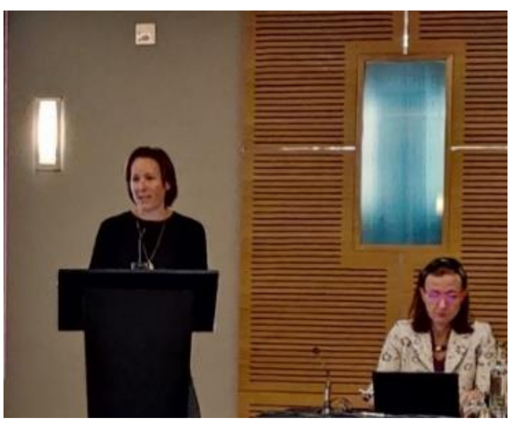
Q&A on PIR IFRS 15

An IFASS participant noted the diversity in practice in the accounting treatment of the gambling industry's fixed odds wagering contracts. He noted the IFRIC interpretation that these contracts were derivatives, and thereby any related income should be treated as finance income. He observed that there were differences between the IFRS and US GAAP requirements for these contracts and indicated that the industry supported the US GAAP approach as it allowed entities to recognise income as revenue rather than finance income as required under IFRS. In response, Robert Uhl acknowledged the divergence between US GAAP and IFRS and he awaited to see if the topic would be highlighted during the IFRS 15 PIR consultation.

An IFASS participant stated that, while she supported additional guidance and an appropriate level of examples, she was concerned that an example would never be adequate and would present a risk of prescriptiveness. There needed to be a balance in the guidance not to endanger the principle-based nature of the Standard.

An IFASS participant indicated that the PA guidance did not work well for determining whether the excise taxes should be included in the transaction price and that there had been much diversity in practice on this matter.

Item 9. NZ XRB research - Meeting users' needs, recognition and disclosure of intangibles



Charis Halliday presented the findings of research[13] on intangibles funded by the NZ XRB, which was initiated in 2022. The research focused on the reporting of capitalised intangibles, intangible expenses, and disclosure of unrecognised intangibles and was done through the review of data from 226 listed NZX companies over the 2016-2021 period (i.e., review of expense categories and disclosures that might indicate the presence of intangibles, and companies that had won an award). Using a case study from the fishing industry, she also outlined arguments for allowing the revaluation of intangible assets irrespective of whether there is an active market as defined under IFRS requirements.

The key findings of the commissioned research are presented below.

- *Capitalised Intangibles:* The review assessed the frequency of different types of capitalised intangibles. The most frequently capitalised types of intangibles were software (63% of sample companies) and goodwill (59%). However, the research was unable to establish what goodwill represented. The research found there to be diversity in the

[13] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4587362

terminology used for similar types of intangible assets, a standardisation of terminology would be beneficial for users.

- *"Intangible expenses":* The research reviewed certain types of "intangible expenses", for example, donations, sponsorship or community expenses which could arguably relate to brands or customer contracts and relationships. A key finding was the need to mandate specified expense categories, in case the expense disclosure approach would be adopted.
- *"Unrecognised intangibles":* The research reviewed the disclosures of unrecognised intangibles suggested by EFRAG[14] (2021) and AASB[15] (2022), using a pilot sample of 20 entities, for example, what the asset is why it was not recognised under IAS 38, etc. No such disclosures were identified in the sample. Subsequently, disclosures related to the categories of human capital (employees), structural capital (research and development, intellectual rights, etc) and relational capital (customers and brands) were analysed. The findings portrayed that half of the entities in the sample had provided disclosures on these categories which may relate to unrecognised intangibles. However, these disclosures were quite general and did not link to specific unrecognised intangible assets. The key finding was that more indicators in non-financial reporting that relate to future value creation could help meet the information needs about unrecognised intangibles.
- *Measurement of intangible assets:* The vast majority of capitalised intangibles were recorded at cost (since there is no active market to enable fair value measurement), which causes a large mismatch between recognised and economic values. She provided an example whereby a fishing company had sold part of their lobster quota for NZ$52.7 million, recording a gain of NZ$43.7 million. This suggests that it was recognised at less than a fifth of its economic value. The research suggested applying the fair value measurement requirements of IFRS 13 *Fair Value Measurement*, as a relatively low-cost solution, in order to reduce the gap between the market capitalisation and book value of the assets.

Fishing quota case study: Charis Halliday presented the case study that was submitted by a New Zealand fishing quota owner/operator (hereafter referred to as "the entity"). The entity's fishing quota is treated as an indefinite life intangible asset and accounted for at cost less accumulated impairment. The case study walks through why the entity is of the view that the revaluation of the fishing quota would result in more relevant and useful information for its stakeholders. After providing an overview of how the quota system works, Charis Halliday provided the following analyses:

- Challenges with determining whether there is an active market: Charis Halliday described the challenges faced (highlighted by the case study) in determining whether there is an active market. For example, despite evidence of frequent recent transactions, the case study concludes that there is no active market[16] for the fishing quota in NZ, which as noted below is an impediment to applying the IAS 38 revaluation model and measuring these assets at fair value.
- Benefits and disadvantages of revaluation: Charis Halliday noted the entity already evaluates the fair value of its fishing quota annually and the benefits of revaluing would include reflecting the economic substance of the fishing quota taking into account its

[14] EFRAG, July 2021, *Better Information on Intangibles: Which is the Best Way to Go?*
[15] AASB, March 2022, Intangible Assets: Reducing the Financial Statements Information Gap Through Improved Disclosures
[16] The bid-ask spread is not available for quota trades as they occur through private asset sales, so only the buyer and seller have knowledge of the price. In addition, there is insufficient information available to make an assessment on whether prices vary substantially as the trades are conducted privately and may not be publicly disclosed.

revenue generation potential in future cash flows; enhancing comparability with other business units; and creating alignment between statutory and management reporting. She also pointed to the disadvantages of revaluation including cost, complexity, volatility, uncertainty, and potential loss of comparability in the industry. However, she noted that these challenges also apply to other assets that have the option to revalue at subsequent recognition and should not be a reason to prohibit revaluation.

- Inconsistency with other standards: Charis Halliday noted the case study exemplifies the inconsistency between the IAS 38 requirements and the IFRS requirements of other asset categories with similar characteristics (e.g., PP&E or investment property). IAS 38 requires an active market for applying the revaluation model, whereas there is an option to apply the revaluation model for PP&E or investment property. Furthermore, the IAS 38 revaluation model only allows fair value measurement if there is an active market corresponding to a Level 1 determined fair as per IFRS 13. However, for the fishing quota, both levels 2 and 3 determined fair values, as per IFRS 13, may be more appropriate.
- *Possible solutions*: Charis Halliday noted the growing use of over-the-counter markets for trading rights (partial markets) and suggested a potential solution would be allowing revaluation as an accounting policy choice and this would be done by applying the IFRS 13 requirements. She also suggested the IAS 38 revaluation model requirements could be revised to refer to 'commonly traded' instead of 'active market'.

Q&A on the NZ research on intangibles

An IFASS participant favoured the introduction of an accounting policy choice as that would be consistent with IAS 16 *Property, Plant and Equipment*. She however noted there was a concern that accounting policy choices would hinder comparability. She asked if alternative approaches had been considered where there was a mandatory choice to revalue in certain situations. Charis Halliday replied that she favoured an accounting policy choice as it is consistent with other accounting standards and allows entities to make the best decision based on the needs of their stakeholders.

IASB Chair, Andreas Barckow asked about whether the revaluation effects should be presented in either OCI or P&L. Charis Halliday favoured OCI but stated further analysis would be required to ascertain the best presentation option.

Item 10. Hyperinflation

Hernán Casinelli (Federación Argentina de Consejos Profesionales de Ciencias Económicas (FACPCE) and GLASS) provided an overview and shared user and preparer perspectives on the challenges arising from applying IAS 29 *Financial Reporting in Hyperinflationary Economies* in Argentina. He noted that, since 2018, the Argentine peso had been considered a hyperinflationary currency for accounting purposes. This has led to IFRS companies, whose functional currency is the Argentine peso, having to restate their financial statements after applying IAS 29.

Operational challenges of applying IAS 29: Hernán Casinelli added that the implementation of IAS 29 had presented significant challenges for affected companies. One challenge, at the time of implementation, was identifying a relevant price index for restating financial statements. Another challenge is how IAS 29 interacts with other IFRS Accounting Standards since IAS 29 was issued well before the most current accounting standards. For example, applying IAS 29 with IFRS 16 poses operational challenges due to the regular updating of contract prices in hyperinflationary economies, particularly for those that have numerous lease contracts.

Preparers' perspective: Hernán Casinelli indicated that preparing financial statements in compliance with IAS 29 did not necessarily improve companies' interaction with investors, lenders and creditors. Accounting and finance staff struggle to explain figures to board members, who in turn face difficulties in convincing investors to consider restated financial statements when making economic decisions.

Hyperinflationary environment, behaviour and accounting effects: Hernán Casinelli highlighted that high inflation could significantly impact a company's operations on the following:

- Pricing policies - There are often frequent adjustments to maintain purchasing power, leading to revenue and gross margin volatility.
- Production and operation costs – These may rise due to the increasing input pricing, pressure on profit margins and profitability.
- Cashflow management – This has become challenging due to high inflation. Common issues are delays in receivable collections and difficulties in accessing foreign currencies for imports. Many companies had developed financial mechanisms using financial instruments or relying on foreign-related companies for imports, effectively creating a new form of local finance.

Users' perspective: Hernán Casinelli observed that, in Argentina, primary users prefer analysing information, prepared using a stable currency such as the US dollar rather than analysing restated financial statements prepared applying IAS 29. He noted a company's performance using a stable currency may appear to be profitable yet the restated financial statements would reflect a loss. In addition, users had expressed that inflation-adjusted financial statements did not solve the underlying problem, i.e., the local currency does not perform all the expected functions of a currency[17]. Hence their preference for information prepared by applying a more stable currency as a unit of account.

Also, there may be emerging issues with restated information presented which include a lack of meaningful key performance indicators of the company, no improvement in the quality of accounting information and financial figures that contradict other information.

Q&A on hyperinflation presentation

An IFASS participant asked Hernán Casinelli what he would like to see change in IAS 29. Hernán Casinelli's preference was to adopt the approach in US GAAP rather than applying IAS 29 as local companies in Argentina had encountered issues in implementing IAS 29.

Another IFASS participant observed that there were also application questions emanating as a result of the moderate inflation environment in European economies, e.g., on distinguishing what proportion of changes in financial statement line items relates to business growth caused by the business model from what is attributable to general pricing adjustments. There were similar questions to those faced in hyperinflationary economies on how to retain the predictive value of financial statements. In reply, Hernán Casinelli opined that investors preferred to have disclosures in the notes to the financial statements rather than changing the figures in the primary financial statements.

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[17] The three functions of a currency are: (a)serving as a means of exchange; (b)serving as a unit of account for pricing of goods and services and; (c) acting as a store of value. As per IAS 29.3, when an economy becomes hyperinflationary, the local currency no longer fulfils at least the last two functions.

Item 11. UKEB Connectivity-related research

Seema Jamil-O'Neill (UKEB) presented the main findings of UKEB's recently published report [18] related to climate-related reporting and connectivity that was based on the review of the 2022 annual reports of nine companies (details of methodology and research context can be accessed directly in the research report- see links in footnote). Seema Jamil-O'Neill's presentation expanded on the UKEB scene-setting presentation for *item 2 - climate-related and other uncertainties in the financial statements* and she gave more details of the UKEB research findings. Given that UK-listed companies have been reporting their climate-related risk disclosures in line with TCFD for a few years, UK companies have some understanding of how these matters are reported in the annual reports. The UKEB research focused on nine listed companies with significant exposure to climate-related risks to test what information was being provided to the market on those risks as well as the connected information on the impacts on those companies' financial statements.

Key Findings- As mentioned in the presentation for item 2, UKEB identified the following three main areas where climate-related risks were expected to be reflected in financial statements and where potential disconnects arise. Seema Jamil-O'Neill conveyed the findings from the detailed review of annual reports and the user/connectivity perspective on these three areas:

- *Recognition and measurement of non-financial assets (PP&E and intangibles)*:
    - Depreciation and amortisation: Based on information related to PP&E that is in sustainability disclosures, users expect to understand; a) whether the estimates of remaining useful lives and residual values of assets in the financial statements were impacted; and b) if applicable, why no financial statements' adjustments were necessary.
    - Impairment: Users sought information on a) whether climate-related matters were considered in relation to impairment indicators; and b) whether these matters affected fair value or recoverable amount estimates (i.e., discount rates and cash flow estimates).
    - Research and development costs: Citing an example from the pharmaceutical industry (i.e., where the development of new inhalers with a low global warming potential due to upcoming regulation was conveyed in the sustainability disclosure), Seema Jamil-O'Neill noted that users expect visibility of any material expenses and newly capitalised assets corresponding to material investments highlighted in the sustainability disclosures.
- *Commitments and other provisions*: In light of commitments disclosed in sustainability disclosures, users expect disclosures on the effects on asset retirement obligations (e.g., changes to the useful life of current asset retirement obligations and the corresponding impact on the asset and liability, and assumptions of the useful life and repurposing of the asset for new asset retirement obligations).

[18] UKEB, September 2023, A Study in Connectivity: Analysis of 2022 UK Company Annual Reports. This publication is based on the review of the 2022 annual reports of nine companies.

- *Emissions reduction targets*: Users expect that information on targets in sustainability disclosures should be incorporated into the financial statements. However, for several companies reviewed, it was hard to gauge whether meeting emission targets had been considered in the financial statements' assumptions and estimates.

In addition, Seema Jamil-O'Neill touched on other areas where the visibility of climate-related effects was expected in the financial statements. These include accounting for offsetting and carbon costs, deferred tax assets, investments and insurance, and joint ventures and associates accounted for under the equity method.

Initial stakeholder feedback- As highlighted in item 2, the feedback from UKEB advisory and working groups suggested an expectations gap (i.e., mismatch in user demand versus preparer ability and willingness to disclose climate-related information). The potential reasons for non-disclosure were a) inconsistent application of IAS 1; b) materiality guidance and misaligned expectations between preparers and users on the application of qualitative materiality and c) issues related to organisational design and timing of reporting between financial and sustainability reporting.

UKEB also sought to ascertain stakeholders' expectations on the potential impact of the ISSB's IFRS Sustainability Disclosure Standards and whether they would bridge some of the gaps identified. The findings were that preparers expect increased disclosure and that the application of the same definition of materiality is expected to reduce the boilerplate disclosures and potential greenwashing. However, some preparers are concerned that they might not be able to apply the materiality definition in the same way to sustainability information. In respect of organisational design, increased obfuscation risk and litigation risk as a result of the ISSB requirements were highlighted. In response to the noted challenges, stakeholders suggested a range of possible solutions including the development of application guidance for IAS 1 materiality requirements (i.e., IAS 1.29-31) and a joint IASB/ISSB implementation approach.

<u>Q&A on UKEB connectivity presentation</u>

An IFASS participant enquired about how the disclosures in ISSB standards would result in increased litigation risk. Seema Jamil-O'Neill responded that users were concerned about the lack of visibility on the financial impact of climate-related matters included in sustainability disclosures and that there was potential greenwashing occurring. Concurrently, she also noted preparers' concerns that too much disclosure could expose commercially sensitive information and increase their litigation risk.

An IFASS participant suggested stakeholders may be confused by the ISSB requirements for the disclosure of current financial effects and asked about the intent of the ISSB Standards regarding the placement of this information. In response, Seema Jamil-O'Neill noted that the development of the UKEB report occurred whilst stakeholders were still digesting the implications of the ISSB Standards that were published at the end of June 2023.

Reacting to the presentation, Nili Shah from the IASB referred to an example in the IASB materiality practice statement, which indicated that the fact that an item did not have a quantitatively large impact could still be qualitatively material information for investors. She noted that the IASB considered tailoring this example for the reporting of climate-related risks. Besides that, she expressed surprise at the expectation of increased litigation risk due to insufficient disclosures. She had expected the converse (i.e., companies would be worried that too much disclosure would expose them to litigation from subsequent changes in assumptions and estimates and disclosure of sensitive information). Furthermore, she found it contradictory that IAS 1 was voiced by some stakeholders as the reason material information was being excluded whereas IAS 1 has a catch-all requirement to provide disclosures to help users understand the financial statements if material, even when not specifically required by other standards. In reply, Seema Jamil-O'Neill observed that litigation risk arises from both underreporting and obfuscation of material information. As an example, she cited the situation of entities' underreporting targets in Australia.

Sue Lloyd from the ISSB commented that the IASB materiality practice statement intended to clarify that disclosures expected to be material by investors should be closely examined by preparers. Seema Jamil-O'Neill explained that the UK had not adopted the practice statement so financial reporting teams in companies were not using it.

Item 12. ISSB consultation on Agenda Priorities and perspectives on interoperability

A panel discussion on item 12 was moderated by Yasunobu Kawanishi -Sustainability Standards Board of Japan (SSBJ) and the panellists were: Patrick De Cambourg (EFRAG); Sarah-Jayne Dominic (UK Financial Reporting Council-FRC); Georg Lanfermann (Deutsches Rechnungslegungs Standards Committee- DSRC); Sam Prestidge (ISSB); and Han Yi (Korean Accounting Institute (KAI).

Yasunobu Kawanishi introduced the panel members and then led the discussion with a focus on the thematic areas outlined below. Responses to polling questions posed during this session can be found here.

Building the global baseline, priorities for the next two years as learned from the ISSB Agenda consultation

To help set the scene, Sam Prestidge recapped that the ISSB Agenda consultation sought feedback on four potential research projects: biodiversity, ecosystems and ecosystem services, human capital, human rights and integration in reporting. The ISSB received 400+ responses through comment letters and survey responses and was in the process of considering the feedback. The ISSB redeliberation starts in Q4 2023 with finalisation expected in H1 2024.

BEES (biodiversity, ecosystems and ecosystems services), human rights, human capital, connectivity, integration in reporting: what comes next?

Sarah-Jayne Dominic noted the UK FRC made three key recommendations in its response to the ISSB Agenda Consultation:

a) Integration in reporting: the UK FRC recommended that integration in reporting should be undertaken jointly be undertaken by the IASB and ISSB and it was imperative the IASB brings its experience with Management Commentary.

b) Conceptual framework: while a separate conceptual framework would be useful she noted there are already elements of that in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* including those adapted from the IASB conceptual framework. The UK FRC recommended that the existing IASB conceptual framework be reviewed.

c) Architecture of Standards: The UK FRC was of the view that the architecture of standards should be looked at and clarified to make clear how any future standards will fit in with the already published IFRS S1 and IFRS S2. It should also be clarified how the standards on biodiversity, human rights, and human capital would look like and how would they incorporate the industry-based requirements.

Finally, she noted that time and support were needed when companies are implementing the current standards and simultaneously when new standards would be developed.

Han Yi agreed with the points made by Sarah-Jayne Dominic. He stated there is a need for a clear architecture and consistent framework building. A lot of effort should be put into the Transition Implementation Group (TIG) and PIR. Refinements of IFRS S1 and IFRS S2 should come first. From a regional standpoint, the KASB focus is on human capital. They find human capital elements such as workforce composition, DEI (diversity, equity and inclusion) and employment engagement have crucial financial impacts across sectors and regions. For example: the US effort to provide detailed expense information to aid analysts in their earnings forecasts. Human capital information is invaluable in this context. Given the resource constraints of the ISSB, they propose to prioritise this project.

Most manufacturing firms in South Korea show little interest in human rights and biodiversity issues. However, if asked, South Korean companies would likely prioritise human rights because existing global initiatives support human rights such as supply chain diligence and global regulatory framework. On the other hand, the global regulatory framework for biodiversity remains underdeveloped and ambiguous.

Han Yi noted that before adopting biodiversity guidance, Korean firms would rather wait for international or national guidelines for a clear direction. He observed that while European interest in this topic is clear and the nature-related financial disclosures are being finalised, Korean firms do not have the same state of preparation as their European counterparts.

Han Yi asked the ISSB to clarify the ultimate objective of integration in reporting which was seen as a comprehensive approach to corporate value creation. Yet, the vision seemed at odds with the emphasis on alignment with IFRS S1's requirements.

Patrick De Cambourg presented the points that were important to EFRAG. Three key suggestions were made in EFRAG's response to the ISSB agenda consultation, namely: i) to have a clear indication of the direction of travel, i.e., the target architecture – beyond the next workplan - and the universe of sustainability-related topics that should ultimately be covered. EFRAG advocated for a conceptual framework addressing the issues specific to sustainability reporting. ii) priority should be given to interoperability in structure and content with other reporting standards. The development of a global baseline should be done on the basis of what exists already. Also, it was important to integrate the investor interest in information from an impact materiality lens. iii) EFRAG considered connectivity as a priority. Integration of reporting was an interesting framework and represented a desirable approach to corporate reporting. However, the priority was to ensure that sustainability reporting and financial reporting created information was coherent and consistent.

EFRAG had not expressed a view on prioritisation of topics as it wanted visibility of the overall architecture of ISSB standards before doing so. EFRAG also called for caution in adopting an all-encompassing biodiversity approach. Patrick De Cambourg noted that interest in social topics was welcomed. However, EFRAG highlighted the intrinsic linkages between human capital and human rights, as it was not possible to address one without addressing the other. EFRAG also recommended enhancing the international relevance of ISSB standards and implementing an interpretation mechanism and capacity-building support.

Georg Lanfermann stated that from his jurisdiction's perspective, pragmatism in the approach to standard setting was also important in the short term. Effective implementation is important, and seeking to apply the low-hanging fruit first and ensuring interoperability plays a big role in this regard.

Role of interoperability in international standard setting

Status on the path to adoption of the global baseline

On interoperability, Yasunobu Kawanishi remarked that the SSBJ is developing Japanese standards consistent with ISSB Standards. For translation reasons and clarity for local constituents, the SSBJ will need to change the structure and some of the language within the standards. He emphasised the SSBJ endorses the concept of a global baseline.

Sarah-Jayne Dominic described the roles and responsibilities of different state and regulatory authorities towards mandating and endorsing sustainability standards in the UK. She noted that UK-endorsed standards will only divert from the ISSB standards if absolutely needed for specific UK needs. By using the ISSB standards as a baseline, the aim is for the information disclosed by UK companies to be globally comparable and useful for investors.

The UK set out a framework to assess the suitability of IFRS S1 and IFRS S2 for endorsement in the UK and she outlined the work being done by two committees in that regard: the UK Sustainability Disclosure Technical Advisory Committee (TAC) and the UK Sustainability Disclosure Policy and Implementation Committee (PIC).

Georg Lanfermann noted that in Germany there was no need to set up new structures. There is however a need for companies to have more clarity on how to apply IFRS S1 and IFRS S2. In Germany, the first wave of reporters comes in 2024 (550 entities) and subsequently in 2025 (14,500 entities). The first wave will have a full suite of 12 ESRS (European Sustainability Reporting Standards) to be implemented. Preparation is at an early stage. There are questions about whether the standards are sufficiently clear. Also, issues about data availability and quality have arisen and necessitated a big effort from companies.

Sam Prestidge described the ISSB efforts to ensure the interoperability between the ISSB Standards and ESRS and the US SEC (Securities Exchange Commission) proposed climate disclosure rule. The ISSB has engaged on interoperability issues in the EU mainly because of the alignment in the timing of the adoption of ESRS and IFRS S1 and IFRS S2. He also noted that when the ISSB was established, the SEC was developing its requirements simultaneously, and there has since been significant engagement with the SEC in ascertaining the interoperability between the ISSB Standards and the SEC climate disclosure rule. He pointed out that the US and EU (European Union) situations are different from the establishment of the global baseline through the adoption of the ISSB Standards following IOSCO's (International Organization of Securities Commissions) endorsement whereby, ideally, the ISSB standards are consistently adopted globally.

Beyond the US and EU, the momentum for the adoption of the global baseline is noteworthy as the IOSCO endorsement signals that the ISSB Standards are fit for purpose and companies with a global presence can take comfort from that. Despite initial implementation challenges, companies have understood the importance of the ISSB Standards towards helping to attract and unlock capital.

Key challenges for interoperability in order to address the risk of double reporting

Patrick De Cambourg noted the EU is the first jurisdiction to have embedded a global baseline into its legal framework and interoperability is at the heart of what the EU wants to achieve. When confronted with many reporting initiatives companies may put the emphasis on the mandatory requirements and drop the application of other guidance. To avoid the latter situation, the goal is to make interoperability as simple as possible and user-friendly. Ideally, it means a single report is needed to deal with all the frameworks. The interoperability of ESRS with the ISSB Standards has been sought. Patrick De Cambourg referred to a draft[19] mapping of ESRS requirements to IFRS S1 and IFRS S2 that was published by the EFRAG Secretariat. He also noted that the interoperability with GRI was being considered.

Another challenge was to have the reports readable at a digital level as machine-readable information enhances the accessibility of information including through AI (Artificial Intelligence) tools. Furthermore, reported information is normally and increasingly accessed through databases and less so through the reading of PDF-format (Portable Document Format) documents.

Patrick De Cambourg touched on two other challenges being faced. First, he noted that the development of implementation guidance, support and educational material is key. In this context, two draft documents on materiality assessment and value chain are already available on the EFRAG website. EFRAG is also launching an access point for preparers and other stakeholders to ask implementation questions. Second, sustainability reporting has to address sustainability matters of the economy as a whole, including SMEs.

Yasunobu Kawanishi noted the SSBJ decided not to start from a clean sheet of paper but from the ISSB Standards. Any deviation from the ISSB Standards would lead to complexity. He emphasised that a common understanding of the ISSB standards across jurisdictions was essential.

Han Yi identified several areas of concern including the interoperability among international standards. There is a strong sentiment that complying with ISSB Standards should be equivalent to applying ESRS or US requirements. With a global trend leaning towards the adoption of the ISSB Standards, there is a question of how local adjustments will be viewed by the ISSB. Also, would there be guidance elaborating on the overlaps between ESRS and ISSB Standards? Will there be a reconciliation akin to the 20F template for IFRS filers in the US capital market?

Sam Prestidge noted it was important to differentiate between the reduction and duplication of double reporting. It is important to companies that much of the data and processes to construct the disclosures are aligned irrespective of the underlying applied Standards. As a result, there have been detailed bilateral discussions between EFRAG, EC and the ISSB. That said, a company reporting on ESRS cannot simply assert to comply with the ISSB Standards as there are a few unique IFRS S2 requirements that cannot be found under ESRS E1 (e.g., IFRS S2 required disclosure of financed emissions) and vice versa. Furthermore, the ISSB requires making information reported under the global baseline visible without obfuscating it with additional information. He referred to the interoperability document published by EFRAG and noted the importance of the further development of material that is being developed jointly by the ISSB and EFRAG.

[19] As noted, joint EFRAG and ISSB material is under development.

Item 13. OECD presentation on sustainability reporting matters

After Chiara Del Prete's introductory remarks emphasising the role of the Organisation for Economic Co-operation and Development (OECD) in influencing policy reforms, Carmine Di Noia presented the OECD work on sustainability reporting being done in collaboration with national accounting standard-setters and EFRAG. He stressed the importance of ESG (environmental, social, governance) factors—particularly climate-related risks, human rights, and anti-corruption—in corporate governance. He highlighted that these matters have become 'material' and 'relevant' in the eyes of investors and raised the expectations from various stakeholders for companies to identify and report on ESG risks and opportunities. He identified the lack of comparability in disclosed sustainability data due to the growth of ESG ratings and sustainability reporting frameworks and underlined ongoing efforts to drive convergence in sustainability disclosure frameworks, such as the Corporate Sustainability Reporting Directive (CSRD) and ISSB. He also emphasised the significant role authoritative government-backed standards play in ensuring interoperability and coherence across sustainability disclosure standards.

G20/OECD Principles of Corporate Governance: Carmine Di Noia pointed out that the principles are the main international standard for corporate governance, and they were updated recently to include a new chapter on "Sustainability and resilience".

In 2023, the Multinational Enterprises (MNE) Guidelines on Responsible Business Conduct (RBC) underwent an extensive revision to address pressing environmental, social, and technological challenges. A central tenet was the enhanced emphasis on sustainability reporting, which was redesigned to stay attuned to the principles of corporate governance. The guidelines emerged as the first internationally recognised standards on climate mitigation, backed by the government. This set the directive for enterprises to align their greenhouse gas emissions with globally agreed temperature goals.

These two cornerstone OECD documents emphasise the pivotal role of internationally recognised sustainability disclosure standards. According to OECD standards, information assumes material significance if it influences an investor's decision-making regarding a company's value. However, what is deemed material is subject to evolution based on regional contexts, enterprise-specific situations, and jurisdictional obligations. The MNE Guidelines stress the role of due diligence in guaranteeing the relevance and authenticity of sustainability data, no matter its materiality. Both the Principles and the MNE Guidelines prioritise sustainability risk management:

Finally, Carmine Di Noia noted that both the MNE Guidelines and the Principles aspire to cultivate an inclusive, resilient, and sustainable global economy. The OECD's role in shaping the future direction of sustainability reporting entails:

(a) Encouraging synergy between different frameworks, advocating convergence.

(b) Fostering alignment through cooperative dialogues and policy initiatives.

(c) Evaluating and implementing existing regulatory frameworks and market practices.

(d) Deriving insights from data, supplemented by novel tools, such as the climate risk due diligence guide for investors.

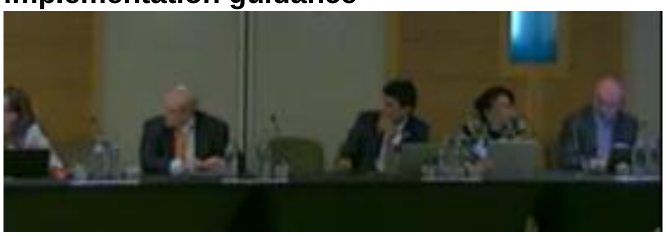
Responses to polling questions posed during this session can be found here.

Q & A on OECD Presentation

An IFASS participant questioned how aggressive tax practice translates into an ESG risk and whether the OECD or EU had a blacklisting regime for non-compliance in tax practices. In response, Carmine Di Noia noted there's no blacklisting, but there is a check of compliance with required standards. Various authorities, including the World Bank and IMF(International Monetary Fund), also play roles in compliance checks. The OECD's approach to ESG risk is through linking corporate governance and disclosure. Their guidelines provide an investor approach and promote an integrated method for identifying and disclosing ESG risks.

An IFASS participant stated that the cost of regulation was affecting many companies. If a similar burden were to be added for SMEs as compared to large companies, it would be difficult for SMEs to continue to consider listing. In response, Carmine Di Noia stated that a proportionality approach is essential for SMEs. Efforts should be made to support SMEs, like better financing, given their critical role in market diversification.

Item 14. Sustainability reporting implementation issues, capacity building, and implementation guidance



A panel discussion on item 14 was moderated by Keith Kendall (AASB) and the panellists were Abhay Chhajed (The Institute of Chartered Accountants of India-ICAI), Andrew Death (UK Department for Business and Trade), Chiara Del Prete (EFRAG), Lebogang Senne (PAFA), and Amelia Sharman (NZ XRB). After introducing the panel, Keith Kendall led the discussion addressing the thematic areas noted below. Responses to polling questions posed during this session can be found here.

Remaining standard setting challenges

Andrew Death stated that the UK government has put in place a framework for the endorsement and adoption of ISSB Standards, and he pointed to a climate-first approach being applied. Despite the standards being in place, the UK still needed to consider the scope of the companies that were required or permitted to report, using the standards. It would then need to consider assurance over the standards, the right point to introduce assurance of the standards, and the architecture for providing the assurance. He expressed interest in exploring the interoperability and equivalence of different standards.

Amelia Sharman stated the key challenge NZ XRB faced (as mandatory climate reporting requirements were in place from 2023) was to support entities' understanding of the disclosure requirements and their underlying intent, and to encourage entities to think beyond compliance and see the usefulness of the disclosures for primary users and to support improved strategic decision-making. She noted the consideration of integrating other sustainability topics, e.g., encompassing biodiversity into the umbrella of the climate requirements. She stressed the importance of interoperability, and that NZ XRB are monitoring GRI and ESRS developments and it has been working on a comparison between NZ XRB standards and relevant parts of IFRS S1 and S2.

Lebogang Senne noted that only four African countries have stated their willingness to adopt ISSB Standards while other countries still need to be convinced and a business case for their adoption needs to be made. Nonetheless, she observed that most African countries do not have standard-setting capabilities and if they were to join the sustainability reporting journey, they would have to consider ISSB Standards adoption. She expressed a need for dialogue on how to bridge the gap between the UN SDGs (United Nations Sustainable Development Goals) and the ISSB Standards and stressed that while climate change is important, the critical concerns within the continent are predominantly socioeconomic issues.

Abhay Chhajed stated that the Indian Sustainability Reporting Standard Board (SRSB) has been working on implementation challenges and noted jurisdictional differences in readiness, capacity, awareness, and availability of professional expertise (including on climate and other environmental matters). He highlighted that SMEs dominate the Indian market. He added that the board focuses on the capacity-building challenge and bringing together practitioners and stakeholders. He noted that global consistency in jurisdictional interpretation, enforcement and application should be addressed with international coordination and collaboration.

Chiara Del Prete stated that the ESRS have been incorporated into EU law and will be effective in 2024 (i.e., reporting year of 2025) and 50,000 companies will be affected. This raises concerns regarding the readiness of professionals and the lack of resources. In this respect, she noted an optional phase-in has been added to some standards, and she highlighted EFRAG's readiness to support implementation on all ESRS topics. She noted the deadline for a standard on listed SMEs, including non-complex banks and captive insurers. Moreover, a voluntary standard for non-listed SMEs, including micro companies, is also being developed. These standards will be effective from 2026 and their consultation will be launched in early 2024.

<u>Challenges encountered in the development of sustainability reporting standards</u>

Amelia Sharman noted that it was key to find people with sufficient practical experience to get the right technical input. She pointed to the challenge of specific controversial topics that either rely on uncertain data or require entities to undertake processes that are new or outside their comfort zones. This required balancing high ambitions with the need for deeper engagement with reporting entities to understand their concerns and determine possibilities and realistic timeframes.

Andrew Death expressed concern about how to simplify the provisional supply chain information. This is essential to facilitate the ability of the significant number of SMEs and micro-entities in the UK market to meet the demands and report on data for their supply chain.

Abhay Chhajed noted that India's SRSB has been organising regular workshops and programs and initiated a certificate on business responsibility for professionals. He mentioned that the Security Exchange Board of India has mandated 150 companies to report on sustainability based on market capitalisation and a roadmap for this to cover up to 1000 companies by 2026 and 2027.

Chiara Del Prete agreed with the challenges raised related to SMEs and micro-entities. She described EFRAG's modular approach where the most complex module of information is only produced where there is demand from clients or banks, the basic module can be used as a starting point, and other modules can be used when needed. She pointed out that the CSRD determined detailed topics and subtopics that the ESRS had to cover and this guided EFRAG's technical work and its design of the disclosures. She indicated the CSRD had a clear guiding principle to build on existing international initiatives. She also pointed to the challenges of involved stakeholders that were relatively new to reporting standard setting (e.g., NGOs and human rights defenders). These stakeholders were not used to standard setting and working on a consensus basis with them was sometimes challenging. She also echoed the concern arising from the scarcity of human resources.

Role of national standard setters in implementation support, interpretation and capacity building

Lebogang Senne opined the IFRS accounting interpretation committee model works well to ensure consistency and such a model is the best mechanism for delivering interpretations. In terms of capacity building and implementation, she stated that national standard setters have a role to play due to the specific jurisdictional context. She stated that standard setters who should be educating others are still in a learning phase themselves. She stressed that as the regional representative body, PAFA hopes to support their African partner organisations.

Abhay Chhajed noted that the SRSB plays a crucial role in ensuring interpretation in the Indian context. He stressed the importance of engaging other professional bodies, businesses, and organisations to ensure the ISSB Standards' implementation and to collaborate with other standard setters to align educational content with current ISSB Standards and to support ongoing research and innovation. In this regard, he mentioned that efforts have been made to integrate sustainability reporting into the academic curricula and assurance certification courses. He also referred to various capacity-building measures including the development of educational material and guidance and conducting training programs, workshops and seminars.

Amelia Sharman noted that the challenge of new reporting requires a new way of thinking and notable efforts had to be made to train stakeholders on new concepts. NZ XRB has issued application guidance on the disclosure requirements and key topics underlying the disclosure requirements, such as scenario analysis and transition plans. She added that reporting entities have been encouraged to come together to perform sector-level analyses to support the development of climate-related disclosures and the NZ XRB has been an observer of these collaborative efforts.

Chiara Del Prete noted EFRAG is working on implementation support on materiality assessment and value chain as well as developing a Question & Answer platform. She added that the next areas for implementation guidance will be topical level support and suggested that standard setters work together on the topic they are all focused on (i.e., climate change reporting). She noted that EFRAG does not have spare capacity for an extensive education effort, so it is not presently the top priority, but it is a likely future development.

Andrew Death emphasised the need to fully embrace the educational aspect to demonstrate the value of sustainability reporting to reporting entities, even though buy-in by these entities is yet to be attained. He stated that UK SMEs have responded positively to the introduction of ISSB Standards since these requirements support the mainstreaming of information and lessen multiple requests for information in multiple formats. The UK authorities will look to audit firms and small business representative bodies to assist and support SMEs.

Abhay Chhajed stated that ICAI has issued two standards effective since 2021 and created the Sustainability Reporting Maturity Model (SRMM) framework, which is used to assess where entities are on the sustainability reporting journey. He added that a sustainability reporting standard board had been formed in 2020 which was ensuring capacity building for professionals and stakeholders. However, there were implementation issues and challenges in the form of capacity building, the transition period and a lack of awareness represented another challenge. There was also a dominance of SMEs within India.

Current state of XBRL (eXtensible Business Reporting Language) Taxonomy as an enabler of digital consumption of sustainability reporting information

Abhay Chhajed noted that the development of an XBRL taxonomy aligned with ISSB Standards along with related educational initiatives for reporting entities and professionals is expected. Hence, the XBRL adoption and integration with regular reporting is expected. He noted that ICAI works closely with regulatory authorities for seamless integration and transition and to establish a system for monitoring this adoption and its effectiveness. He stressed a need for collaboration among standard setters to promote and develop XBRL taxonomies. Abhay Chhajed added that in India, the human-readable report is being tagged in line with XBRL and not using a template-based approach. He said that it was already enabled five years ago and is mandatory for some companies.

Amelia Sharman mentioned that there is no requirement for digital reporting in New Zealand at present but that the NZ XRB fully supports the relevance of digital reporting. They recently submitted the key points needed to enhance the interoperability of sustainability reporting standards and related taxonomies to the ISSB consultation. She said that NZ XRB has pushed for the continuing advancement of digital reporting in a technology-neutral manner to support uptake in different countries at different stages of technological development. She noted the importance of ISSB being at the forefront in terms of understanding changing technology and the implications for reporting standards. The NZ XRB are interested in developments in other jurisdictions and while their remit does not cover digital reporting they are in dialogue with government ministries about the future of the topic.

Lebogang Senne said that most African countries have not yet introduced digital reporting, but South Africa introduced XBRL tagging in 2018. However, there are ongoing discussions between countries at this moment on how to proceed with digital reporting.

Andrew Death remarked that digital consumption of information is promoted as well as the use of XBRL. One thing that has come up in discussions with investors has been a surprising view that AI advancements may quickly supersede the usefulness of XBRL tagging. He also stressed that UK authorities want to promote human readability in addition to tagging since the narrative descriptions of company stories are often used by investors.

Chiara Del Prete noted that XBRL/digital reporting is a required deliverable under the CSRD. She commented that, in contrast to the expressed concern that AI may supplant the XBRL tagging, from an EU standpoint, these technologies are deemed complementary as AI-driven analysis of information can be even more meaningful if applied to XBRL tagged data. She underscored the usefulness of narrative reporting information being digitalised from the outset and with each subparagraph being separable. Finally, she noted there was an ongoing challenge of educating preparers to think digitally when preparing their reports.

Responses to polling questions posed during this session can be found here.

Item 15. Closing remarks

Chiara Del Prete announced her intention to extend her term as the IFASS Chair by one year as she was entitled to do (i.e., until the spring of 2025). This was consistent with the precedent set by several past Chairs, who similarly exercised their rights to extend their term by a year in accordance with the 2015 Dubai agreement. While explaining her decision, Chiara Del Prete referred to a related agenda paper articulating her motivation and the basis for the extension that was circulated pre-meeting. She invited IFASS participants to contact her if they had any questions or concerns about the process.

Chiara Del Prete also presented the May 2023 survey results and highlighted the expressed topics of interest for the concluded September 2023 and forthcoming April 2024 meetings as well as what went well and what could have been better for both the January 2023 virtual meeting and April 2023 IFASS meeting hosted by the US FASB. She commented on the possible options to address the noted challenge of too much being squeezed into single days.

Finally, in wrapping up, Chiara Del Prete thanked all the panellists and participants for their attendance and contribution and the IFASS Secretariat for their support. She also asked for volunteers to host the IFASS meeting in the spring of 2025. She reminded the IFASS participants that the next IFASS meeting would take place from 17 to 19 April 2024 in Seoul (South Korea). She then closed the meeting.

ACTION LIST

IFASS Chair/Secretariat
• To organise an in-person meeting with remote participation for 17-19 April 2024 which will take place in Seoul, South Korea including sending the registration survey
All IFASS participants
• To advise the IFASS Secretariat of potential agenda items for the physical meeting in April 2024 (The IFASS Secretariat will use the May 2023 survey as a basis for preparing the April 2024 draft agenda) • Registration for the April 2024 IFASS meeting (the deadline for in-person registration is 15 March 2024) is open. IFASS participants who intend to travel should register as soon as convenient. • IFASS Secretariat is seeking volunteers to participate in the IFASS informal advisory group

APPENDIX: LIST OF IFASS PARTICIPANTS

IFASS participants that attended in person:

	Name	Organisation
1	Keith Kendall	AASB – Australia
2	Helena Simkova	AASB – Australia
3	Phat Chen	ACAR - Cambodia
4	Yap Kim Bong	ACRA - Singapore
5	Yat Hwa Guan	ACRA - Singapore
6	Kangli Lau	ACRA - Singapore
7	Gowri Palaniappan	ACRA - Singapore
8	See Tiat Quek	ACRA - Singapore
9	Armand Capisciolto	AcSB – Canada
10	Katharine Christopoulos	AcSB – Canada
11	Katherine Knowlton	AcSB – Canada
12	Gerhard Prachner	AFRAC – Austria
13	Alfred Wagenhofer	AFRAC – Austria
14	Vincent Louis	ANC - France
15	Chi-Chun Liu	ARDF - Taiwan
16	Arun Raut	ASB - Nepal
17	Manish Raj Uprety	ASB - Nepal
18	Atsushi Ochi	ASBJ – Japan
19	Zein El Abdin El Borai Ahmed	ASCA - Sudan
20	Georg Lanfermann	ASCG - Germany
21	Sven Morich	ASCG - Germany
22	Ameena Anver	Asian-Oceanian Standard-Setters Group (AOSSG)
23	Nishan Fernando	Asian-Oceanian Standard-Setters Group (AOSSG)
24	Manil Jayesinghe	Asian-Oceanian Standard-Setters Group (AOSSG)
25	Sadi Podevijn	BASB – Belgium
26	Huaxin Xu	CASC - China
27	Xingyue Yang	CASC - China
28	Ana Tercia Lopes Rodrigues	CFC - Brazil
29	Silvio Takahashi	CFC - Brazil
30	Karen Sanderson	Chartered Institute of Public Finance and Accountancy (CIPFA)
31	William Biese	CINIF – Mexico
32	Lisa French	CSSB - Canada

	Name	Organisation
33	Charles-Antoine St-Jean	CSSB - Canada
34	Gerard van Santen	DASB - Netherlands
35	Christine Barckow	Deloitte
36	Otabek Barakaev	Department of Accounting and Audit Methodology - Uzbekistan
37	Sarvarbek Kurbanbaev	Department of Accounting and Audit Methodology - Uzbekistan
38	Didier Andries	EFRAG
39	Jens Berger	EFRAG
40	Patrick De Cambourg	EFRAG
41	Chiara Del Prete	EFRAG
42	Sebastien Harushimana	EFRAG
43	Sapna Heeralall	EFRAG
44	Vincent Papa	EFRAG
45	Kathrin Schoene	EFRAG
46	Ovidiu Spirescu	EFRAG
47	Hernan Casinelli	FACPCE - Argentina
48	Marsha Hunt	FASB - USA
49	Joyce Joseph	FASB - USA
50	Jeffrey Mechanick	FASB - USA
51	Vincent Okhiria	FRC - Nigeria
52	Titus Osane	FRC - Nigeria
53	Jenny Carter	FRC – UK
54	Sarah-Jayne Dominic	FRC – UK
55	Stephen Maloney	FRC – UK
56	Elisa Noble	FRC - UK
57	Jan Peter Larsen	FSR - Danish Auditors
58	Cecilia Kwei	HKICPA - Hong Kong
59	Severinus Indra Wijaya	IAI - Indonesia
60	Carlos Moreno Saiz	ICAC – Spain
61	Maria Dolores Urrea Sandoval	ICAC – Spain
62	Andrea St Rose	ICAC Caribbean
63	Ranjeet Kumar Agarwal	ICAI – India
64	Abhay Kumar Chhajed	ICAI – India
65	Catherine Asemeit	ICPAK - Kenya

	Name	Organisation
66	Benjamin Mbolonzi	ICPAK - Kenya
67	Charles Lutimba	ICPAU - Uganda
68	Rashida Abdryashitova	IFRS Foundation
69	Nick Anderson	IFRS Foundation
70	Andreas Barckow	IFRS Foundation
71	Easton Bilsborough	IFRS Foundation
72	David Bolderston	IFRS Foundation
73	Jonathan Bravo	IFRS Foundation
74	Yulia Feygina	IFRS Foundation
75	Rachel Knubley	IFRS Foundation
76	Elena Kostina	IFRS Foundation
77	Sue Lloyd	IFRS Foundation
78	Jianqiao Lu	IFRS Foundation
79	Linda Mezon-Hutter	IFRS Foundation
80	Fred Nieto	IFRS Foundation
81	Samuel Prestidge	IFRS Foundation
82	Karen Robson	IFRS Foundation
83	Nili Shah	IFRS Foundation
84	Robert Uhl	IFRS Foundation
85	Jelena Volio	IFRS Foundation
86	Ian Carruthers	International Public Sector Accounting Standards Board (IPSASB)
87	Soon-ja Jeon	KASB – Korea
88	Soo-Jung Lee	KASB – Korea
89	Il-Hong Park	KASB – Korea
90	Jeong-Hyeok Park	KASB – Korea
91	Jae-Ho Kim	KASB – Korea
92	Han Yi	KASB – Korea
93	Eddy Sakr	LACPA - Lebanon
94	Nadiah Ismail	MASB - Malaysia
95	Bee Leng Tan	MASB - Malaysia
96	Karina Hestas	NASB – Norway
97	Bjørn Einar Strandberg	NASB – Norway
98	Tommaso Fabi	OIC – Italy
99	Raymond Chamboko	Pan African Federation of Accountants (PAFA)

	Name	Organisation
100	Lebogang Senne	Pan African Federation of Accountants (PAFA)
101	David Skiladae	SARAS - Georgia
102	Abubakr Hummeida	SCCA – Sudan
103	Yasunobu Kawanishi	SSBJ - Japan
104	Kohei Yoshimura	SSBJ - Japan
105	Moussa Rizk	The International Arab Society of Certified Accountants (IASCA)
106	Oussama Tabbara	The International Arab Society of Certified Accountants (IASCA)
107	David Madon	IFAC
108	Carmine Di Noia	The Organisation for Economic Co-operation and Development (OECD)
109	Allen Jorgensen	The Organisation for Economic Co-operation and Development (OECD)
110	Debbie Crawshawe	UK Department for Business and Trade
111	Andrew Death	UK Department for Business and Trade
112	Seema Jamil-O'Neill	UKEB
113	Justin Ryan	UKEB
114	Pauline Wallace	UKEB
115	Carolyn Cordery	XRB - New Zealand
116	Charis Halliday	XRB - New Zealand

The following IFASS participants registered to join the meeting remotely:

	Name	Organisation
1	Lina Liaw	ARDF - Taiwan
2	Linda Yu	ARDF - Taiwan
3	Sushil Poudel	ASB - Nepal
4	Masashi Hayano	ASBJ – Japan
5	Masaya Hiramoto	ASBJ – Japan
6	Tsuyoshi Ito	ASBJ – Japan
7	Hiroshi Matsushita	ASBJ – Japan
8	Yasuyuki Natsume	ASBJ – Japan
9	Oscar Avila	CINIF – Mexico
10	María Pineda	CINIF – Mexico
11	Jamal Boualla	EFRAG
12	Kajsa Hallberg	EFRAG

	Name	Organisation
13	Abigail Levrau	EFRAG
14	Nichita Madan	EFRAG
15	Robert Stojek	EFRAG
16	Domingo Mario Marchese	FACPCE - Argentina
17	Jose Carvalho	Group of Latin American Accounting Standard Setters (GLASS)
18	Irwan Lau	IAI – Indonesia
19	Pera Yulianingsih	IAI – Indonesia
20	Tim Craig	IFRS Foundation
21	Florian Esterer	IFRS Foundation
22	Ana Simpson	IFRS Foundation
23	Rika Suzuki	IFRS Foundation
24	JiHong Bang	KASB – Korea
25	Eyeon Cha	KASB – Korea
26	Sumin Kim	KASB – Korea
27	Hyunseo Lim	KASB – Korea
28	So-min Park	KASB – Korea
29	Jae Won Whang	KASB – Korea
30	Cathrine Su	MASB - Malaysia
31	Tatsiana Rybak	Ministry of Finance of the Republic - Belarus
32	Signe Haakanes	NASB – Norway
33	Federica Girolami	OIC - Italy
34	Leonardo Piombino	OIC – Italy
35	Marco Venuti	OIC - Italy
36	Tamba Momoh	Sierra Leone
37	Emi Chujo	SSBJ - Japan
38	Waka Kirihara	SSBJ - Japan
39	Gabriela Martinez	UKEB
40	Amelia Sharman	XRB - New Zealand