IFASS

International Forum of Accounting Standard Setters

19-21 April 2023
FASB - Norwalk - USA

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

19-21 April 2023

Physical Meeting in Norwalk, USA 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 2022-2024 period.

OVERVIEW

This report relates to the IFASS meeting held on 19-21 April 2023 at the Financial Accounting Standards Board (FASB) office in Norwalk, USA with both in-person and remote participation.

The meeting attendees included representatives (70+ in-person and 90+ virtual) of standard setters from 35 jurisdictions (i.e., Argentina, Australia, Austria, Belarus, Belgium, Canada, China, Colombia, Denmark, France, Germany, Hong Kong, India, Indonesia, Italy, Japan, Malaysia, Mexico, Nepal, New Zealand, Norway, Romania, Singapore, South Africa, South Korea, Spain, Sri Lanka, Sudan, Sweden, Switzerland, Taiwan, the Netherlands, United Kingdom, USA, and Zimbabwe)

The attendees also included representatives of the Global Reporting Initiative (GRI), the International Accounting Standards Board (IASB), the International Sustainability Standards Board (ISSB), and the International Public Sector Accounting Standards Board (IPSASB).

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MEETING RUNNING ORDER

Day 1: 19 April 2023

Item 1. Welcome and Opening Remarks

Chiara Del Prete and FASB Board Member, Marsha Hunt welcomed the attendees. Chiara Del Prete thanked the US Financial Accounting Standards Board (FASB) for hosting the meeting. She also congratulated the FASB on its 50th Anniversary and welcomed the new Canadian Sustainability Standards Board (CSSB) Chair, Charles-Antoine St-Jean and the new Chair of the Korean Accounting Standards Board (KASB), Han Yi. She observed that IFASS had become a mixed forum with several participants covering both financial and sustainability reporting. She then summarised the day's planned agenda.

Item 2. IASB and ISSB presentation on Connectivity

Linda Mezon-Hutter and Sue Lloyd gave an overview of the IASB (International Accounting Standards Board) and ISSB (International Sustainability Standards Board) work on connectivity. Linda Mezon-Hutter stated that the IASB and ISSB had published a joint paper outlining their viewpoints on what connectivity means since it may imply several things based on the context and who is participating in the discussion. And that there had been discussions on connectivity with the Accounting Standards Advisory Forum (ASAF), the Advisory Council and the Sustainability Standards Advisory Forum (SSAF). The IASB and ISSB had begun by considering connectivity in both process and product.

Sue Lloyd emphasised that connectivity between financial reporting and sustainability reporting is important for two key reasons. First, there are many users of both IFRS and the sustainability standards, and for preparers, it would be helpful to use the same terminology and to use common concepts. She noted that the ISSB had borrowed terminology from IFRS, including paragraphs from IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Second, it would help to ensure the package of information investors receive was comprehensive and did not involve too many overlaps or conflicts.

Even though there had not yet been an opportunity for joint projects, there was a great deal of information sharing taking place between IASB and ISSB, which would be reflected in the upcoming standards, including for the IASB's project on climate-related risks in financial statements.

Q&A and discussion on the IASB-ISSB connectivity presentation

A range of themes were addressed in the Q&A and discussion session.

Need for a Conceptual Framework: An IFASS participant observed that connectivity is important because the border between the financial and sustainability reporting pillars had to be determined. He noted that gaps between the two pillars would be dangerous while overlaps were unnecessary especially if as sometimes stated "sustainability reporting starts where financial reporting has stopped". Hence, he suggested it was important to bring clarity to the use of the conceptual frameworks for these two domains. He noted there was an established financial reporting conceptual framework with clear demarcations for liabilities and assets but sustainability reporting

had moved beyond those concepts (e.g. through its greater incorporation of the forward-looking dimension, the required reporting of risks and opportunities across the value chain including on resources not under the reporting entity's control) and he suggested a need for a sustainability reporting conceptual framework. Support for a sustainability conceptual framework was also expressed by another IFASS participant as it could help resolve where there are inconsistencies between the two domains (e.g., in the reporting of certain liabilities).

Sue Lloyd agreed that there was work to be carried out on the conceptual front for sustainability reporting, and that it was a longer-term priority. She noted the need for a conceptual framework had also been considered by the erstwhile Technical Readiness Working Group (TRWG). The TRWG had identified the parts of the IASB's conceptual framework that would be relevant to both Boards, those that were not relevant to the ISSB, and where extra development would be needed. She opined that a large number of concepts from the financial reporting conceptual framework were useful to both boards. She also noted that the Sustainability Accounting Standard Board (SASB) conceptual framework could also be utilised in the interim. And that IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* would have some concepts that support a company's sustainability reporting (e.g., provides the boundaries needed around the meaning of 'sustainability' and the information relevant to investors), and these concepts were consistent with the financial reporting conceptual framework. She opined that it might be preferable to wait until there was greater familiarity with the concepts before carrying out more conceptual framework work.

Approaches to addressing connectivity: An IFASS participant remarked that it was sensible to start with the two Boards working together in terms of connectivity. She noted that, in the UK, the work on connectivity had started by identifying user needs for greater alignment between the information in the financial statements and sustainability disclosures. She observed that for users who were not close to the process, understanding why something was not reflected in the financial reports was as important as understanding what the connections were.

In response, Sue Lloyd noted that IFRS S1 referred to linkages and as far as is applicable with the relevant GAAP applied, there should be consistency in the assumptions entities apply across the financial statements and sustainability disclosures. She stated that in addition to seeking linkages in the information, an objective of the IFRS Sustainability Standards is to create nudge effects such that, if the people preparing sustainability and financial reporting were largely the same or were more connected, there would be more consideration of whether sustainability risks might have material effects that should be reflected in the financial statements.

Commenting on how connectivity is being addressed by different stakeholders, Linda Mezon-Hutter observed that it can start from both top-down (i.e., aligning requirements) and bottom-up (i.e. identifying user questions and needs of connected information first) perspectives. She also noted that there was ongoing work on an organisation design that would identify the aspects to be independently addressed by the two Boards and the aspects to be shared. Furthermore, the existence of the ISSB had raised the IASB's level of awareness of issues like climate-related risks. She noted that depending on how the intangibles project was scoped, there would be connections with sustainability-related items. And there were impairment considerations arising from sustainability risks, and users had raised questions about why provisions were not being booked in financial statements when, for example, companies made claims about when they would meet net-zero targets.

An IFASS participant asked whether there was a view about which parts of the connected stories were best addressed by preparers on the financial side and which were best addressed on the sustainability side. Sue Lloyd replied that there were no preconceptions in that regard but she

reemphasized the importance of dialogue and developing a shared language for both groups. Linda Mezon-Hutter added that relevant issues would unfold differently in different cultures and jurisdictions.

<u>Addressing application challenges</u>: An IFASS participant commented that it was not known what application would look like, and whether there would be integrated thinking. If there was coordination then there could be the intended nudge effects, but if not, then there would not be the desired consistency in reporting. He asked how the process would work going forward when application issues emerged, and whether there would have to be tweaks to IFRS S1 and IFRS S2 *Climate-related Disclosures*, to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, or both.

On the question of what application would look like, Sue Lloyd observed a shift from having a separate sustainability investor relations department to central financial reporting functions being more involved in sustainability reporting. She also noted that the IFRS Sustainability requirements ask for consistency in assumptions together with explanations for any differences in assumptions. Hence, there would be an opportunity for those preparing the information to be asked about any differences by their regulators and assurance providers. However, she noted there would still be circumstances where it would be relevant to provide information about certain outcomes under sustainability reporting due to its broader scope without the corresponding recognition of effects in the financial statements.

<u>An ongoing journey</u>: An IFASS participant noted that the reviews of corporate reports in the UK showed improvements in the consistency between Task Force on Climate-Related Financial Disclosures (TCFD) reporting and financial reporting without discussions on connectivity and everything (as far as alignment of requirements) does not need to be perfect from the outset. Concurring, Sue Lloyd remarked that having a set of information without a disconnect between sustainability risks and opportunities and the financial statements was an important part of the financial reporting journey moving forward.

Linda Mezon-Hutter noted that the two boards were at very different stages with sustainability reporting being in a start-up stage relative to the more mature financial reporting. She observed a great deal of changes had occurred over the past 50 years of financial reporting. Over time there would be a need to deal with the interconnections, but in the meantime, market participants should be prepared for further evolution.

<u>Sustainability information in general purpose reporting</u>: An IFASS participant asked why the IFRS Foundation characterised sustainability-related financial disclosures as part of general purpose financial reporting and he noted that this could be confusing as it is understood that sustainability reporting includes non-financial information. IASB Chair, Andreas Barckow replied that the definition of general-purpose financial reporting in the IFRS literature already referred to other sorts of reporting. He noted that when the IFRS Trustees held a public consultation about whether to establish sustainability reporting, the reasoning had been that as long as the audience was the same, the case could be made that sustainability reporting formed part of general purpose financial reporting. He also noted that general purpose financial reporting did not require all of the information to be within a financial report.

IASB Executive Technical Director, Nili Shah added that the term general purpose financial reporting as applied by the IFRS Foundation had a connotation of an orientation towards financial markets. She observed that historically 'financial' had been about money or that which is expressed in monetary units, but it had evolved to also mean 'aimed at financial or capital markets for investors'. Sustainability-related financial information concerned the component of

sustainability reporting that was directed to investors. The IFASS participant noted that this perspective needed to be explained to less informed stakeholders.

Materiality and reporting on impacts: An IFASS participant commented that there was a potentially generic debate about double materiality versus investor focus. In the medium term, it would be difficult to establish the border between impacts that had no financial impacts, which would not have interest from a general purpose financial reporting perspective, and impacts that would. Either it was a matter of perception or a more objective definition should be provided. For general purposes, an investor ought to have an interest in most impacts, as it would not be known when or how they would become financially material.

Item 3. IASB Update

The IASB Chair, Andreas Barckow, gave an overview of the IASB's completed and ongoing key activities with an update on the following.

Recent and Forthcoming Final Standards: Andreas Barckow indicated that the IASB had recently issued two amendments, namely *Lease Liability in a Sale and Leaseback* (Amendments to IFRS 16 *Leases*) and *Non-Current Liabilities with Covenants* (Amendments to IAS 1). The former was considered by the IASB to be a short-term fix and was done as an early action before an official post-implementation review (PIR). Three more amendments were expected: two in May 2023, namely, *Supplier Finance Arrangements*, Amendment to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments Disclosures* and *International Tax Reform- Pillar Two Model Rules* (Amendments to IAS 12 *Income Taxes*); and one in July 2023, *Lack of Exchangeability (*Amendment to IAS 21 *The Effects of Changes in Foreign Exchanges Rates)*.

Recent Consultations: Andreas Barckow noted that on the almost finalised consultation on the first phase of PIR of IFRS 9 *Classification and Measurement*, the majority of stakeholders have agreed that it is working as intended and the IASB believes that no amendments to that part are required.

Ongoing and forthcoming PIRs: There will be a request for information (RFI) on the PIR of IFRS 9 *Impairment* and an RFI on the PIR of IFRS 15 *Revenue from Contracts with Customers*. He stressed that the objective of the PIRs is to identify whether the standards are working as intended and thereafter to assign priorities for the matters identified relative to the IASB's current work programme.

Andreas Barckow highlighted two other upcoming PIRs. First, will be the PIR on IFRS 16 *Leases* that is envisioned to start in H2 2023 and might be conducted jointly with FASB as there is significant convergence between the respective standards of the two Boards, despite some material differences and it would be beneficial to compare stakeholder's response. The second will be the PIR on IFRS 9 *Hedge Accounting*, whose timeline is unclear as many financial institutions, except for most Chinese banks, still apply IAS 39 *Financial Instruments: Recognition and Measurement*. Whether to conduct a separate or holistic PIR for corporate institutions and financial institutions will be decided at a later stage.

Research and standard-setting projects: Andreas Barckow noted that there are three current projects in the research stage: equity method, extractive activities, and business combinations

under common control. A question of how to proceed with the latter is expected to be made by the IASB soon.

On the standard-setting workplan, the standard on primary financial statements is expected to be the next standard issued. He noted an important decision of the IASB not to further consider the re-introduction of the amortisation of the goodwill and to stick to the impairment model. Dynamic Risk Management and Financial Instruments with Characteristics of Equity (FICE) are further away from a final solution but there is confidence that there would be a standard-setting solution.

Maintenance projects: Andreas Barckow noted there were only a few current maintenance projects on the workplan including the international tax reform, supplier finance arrangement, and lack of exchangeability. These were to be completed between May and July 2023.

Touching on the feedback to the Exposure Draft on international tax reform, Andreas Barckow noted that stakeholders agreed that an exception was needed, but there was debate about whether the exception would be sufficient for users. He stressed the need to meet legitimate demands from users and to avoid asking preparers for impossible tasks given the uncertainty surrounding the topic. In response to provided comments, some of the disclosure objectives in the basis for conclusions were elevated to the main body of the standard.

On the climate-related risks in financial statements project, he indicated that the project title and scope may need to be changed to address general long-term risks in financial statements. The IFRS Accounting Standards are generally risk-agnostic. He opined that preparers should improve their reporting of all material non-linear, long-term risks and not only climate risks. Furthermore, stakeholders could benefit from a clarification of how IAS 1 requirements ought to guide the reporting of these risks. Issuing Illustrative examples using climate-related risks could be an option for the IASB.

Q&A on the IASB update

An IFASS participant raised questions on several projects. Noting the potential jointly-conducted PIRs on leases, he pointed out that a joint IASB and FASB process on their respective PIRs of IFRS 15 and Topic 606 would have also been beneficial so that similar guidance for revenue recognition would remain worldwide without the need for reconciliations. He also commented that non-financial corporates using IFRS 9 for hedge accounting could encounter problems with net positions for utilities or the application of the own-use exemption. The IFASS participant noted that there are situations where new kinds of taxes arise and there is a question of whether these fall under the scope of IAS 12 *Income Taxes* or IFRIC 21 *Levies* and IAS 37 and, therefore, there is room for revisiting IAS 12. He also asked about the possible inclusion of the separate financial statements project (which several IFASS members were working on) in the IASB agenda.

In response to these comments, Andreas Barckow explained that IAS 12 did not score high on the agenda consultation and therefore was not prioritised by the IASB. The same was the case with separate financial statements. He emphasised that concerns about hedge accounting should be addressed to the IFRS Interpretation Committee which already received a couple of submissions in regard to own-use exemption. On joint PIRs including the IFRS 15 PIR, he remarked that FASB and IASB follow different timelines as the FASB PIRs start soon after a Standard is implemented. FASB's Marsha Hunt noted that FASB PIRs initially only focus on implementation matters including costs whereas the IASB timelines allow a focus on both benefits and costs.

An IFASS participant suggested that the IASB may want to consider accounting treatment for carbon credits in the form of renewable energy certificates to offset scope 2 emissions as new rights and obligations. For this, an amendment of IFRS 9 is suggested for these new rights and obligations to be accounted as financial instruments under IFRS 9.

Another IFASS participant remarked that insurers are interested in discussing the challenges of the recent adoption of IFRS 17 *Insurance Contracts*. In response, Andreas Barckow stated that questions regarding IFRS 17 should be directed to the Interpretation Committee.

Two IFASS participants asked for spreading out of the forthcoming consultations to allow timely responses and to lessen the burden faced by constituents whenever they have to respond to different consultations at the same time.

Another IFASS participant asked for clarification on the suggested change to the climate-related risks project and whether it was because the work could be covered by other projects (e.g., targeted improvements to IAS 36 *Impairment of Assets* and IAS 37). Andreas Barckow responded that the change was driven by the consideration that an entity should have already considered risks that could impact the financial statements. IAS 1 requirements could perhaps be clearer on the treatment of non-linear, long-term risks.

Item 4. IFRS 9 Amendments to the Classification and Measurement of Financial Instruments

This session consisted of (1) a presentation by the IASB on the Exposure Draft (ED) *Amendments to the Classification and Measurement of Financial Instruments- Proposed Amendments to IFRS 9 and IFRS 7* (2) IFASS participant initial feedback discussed in five break-out groups, and (3) a report back provided in the plenary session.

<u>IASB presentation</u>

In giving an overview of the ED, Zach Gast stated that feedback from the IFRS 9 PIR on classification and measurement indicated that the IFRS 9 requirements were generally working well in practice. The IASB had decided to make some narrow-scope amendments to IFRS 9 and IFRS 7 to address some of the PIR findings, and the ED had been published in March 2023 and was open for comments until 19 July and it addressed the following aspects.

Derecognition of financial liabilities - The issue concerned when cash to be received as settlement of a receivable should be recognised. Many stakeholders had raised concerns about the practical application implications. There had been an acknowledgement of the diversity in practice with regard to financial liabilities, and a decision had been made to clarify that an entity was required to use settlement date accounting when recognising or de-recognising financial assets and financial liabilities, and to develop new requirements to permit an entity to de-recognise, before the settlement date, a financial liability that would be settled with cash using an electronic payment system, when specified criteria were met.

Classification of financial assets: Financial assets with ESG-linked features - The most common application challenge related to financial assets with ESG-linked features, for example, loans with an interest rate adjusted based on metrics like reductions in the entity's greenhouse gas emissions. Participants had indicated that the requirements were unclear as to whether such loans had Solely Payments of Principal and Interest (SPPI) cashflows and could therefore be measured at amortised cost. This had been identified as a high-priority matter. The amendment

confirmed that the general SPPI requirements applied equally to financial assets with ESG-linked features and did not propose an exemption.

Classification of financial assets: Basic lending arrangements - The amendments explained characteristics that were inconsistent with basic lending arrangements and results in cashflows that were not SPPI. The amendments also confirmed that the assessment of interest focused on what an entity was being compensated for rather than how much compensation the entity received.

Classification of financial assets: Contingent events that change contractual cash flows - It was clarified that such changes were consistent with the basic lending arrangement if the contractual cashflows were SPPI in all circumstances, irrespective of the probability of the contingent event occurring. An example was a loan where the interest rate was periodically adjusted by a specified number of basis points when the debtor achieved a contractually specified reduction in greenhouse gas emissions.

Classification of financial assets: Non-recourse features - It had been proposed that 'non-recourse' meant that the entity's contractual right to receive cashflows was limited to the cashflows from the specified assets over the life of the financial asset and in default.

Classification of financial assets: Contractually linked instruments - Participants had asked for clarification of the scope. The IASB had indicated that it could clarify the characteristics of contractually linked instruments through reference to the concentration of credit risk that resulted in the disproportionate allocation of losses between different tranches, and financial instruments in the underlying pool could include those not in the scope of IFRS 9, such as lease receivables.

Disclosures: The IASB had covered equity investments with gains and losses presented in other comprehensive income, and contractual terms that could change the timing or amount of contractual cashflows based on a contingent event. The PIR had observed no evidence that recycling would result in more or better information. Furthermore, the feedback had suggested that users needed to better understand the effects of contractual cashflows on the contractual terms that could change the timings or amounts.

Breakout session discussion and feedback

The five breakout groups were led by: Armand Capisciolto (Canadian Accounting Standards Board - AcSB), Tommaso Fabi (Italian Standard Setter - OIC), Seema Jamil-O'Neill (UK Endorsement Board - UKEB), Jae-Ho Kim (Korea Accounting Standards Board - KASB) and Lebogang Senne (Pan-African Federation of Accountants - PAFA) with Zach Gast as the moderator. During the plenary session, the breakout leaders shared the feedback from the group discussions, which consisted of the preliminary and personal views of the IFASS participants. Below are the main takeaways.

Question 1: Derecognition of a financial liability settled through electronic transfer

- There was general agreement with the IASB's proposals;
- There would be operational implementation issues as not all companies or jurisdictions had taken the approach that settlement date accounting is to be used for the derecognition of liabilities. Also, no expected operational issues for digital transactions but concerns about other types of transactions;
- On the option to treat electronic transfers as settled if certain criteria are met, there were questions/ remarks on the ability of the entity to cancel, e.g., contractually an entity may stop the payment, but practically it may be difficult to stop the payment; questions on

whether the use of 'ability to' also means 'practical ability to'. Not all parties would know what their contract with the electronic fund transfer actually stated;

- There were comments on the optionality of the requirements included that (a) it was seen to be helpful because entities that already accounted for electronic transfers at settlement could continue to do so; (b) the solution did not necessarily deal with the diversity in practice; and
- One question that was raised was what the IASB would do with the agenda decisions on the topic. Also, an explicit clarification on the asset side of the transactions had been asked for.

Question 2: Classification of financial assets—contractual terms that are consistent with a basic lending arrangement

- There was general support for the proposed amendments;
- Concerns were raised about the notion of non-genuine contractual terms, which could be controversial under IFRS 9, so clarification of the notion was sought;
- Some members held the view that ESG features were not related to basic lending risks. Others held the view that ESG features should be viewed as part of elements of interest, and could not be viewed as risk because under IFRS 9 *elements of interest included administration costs* and ESG features could be viewed in terms of administration costs;
- There were concerns about countries with hyper-inflationary environments, and had questioned how the inflation rate should be considered when analysing elements of interest;
- There could be other sustainability risks, therefore there were questions on how the requirements extend to these other sustainability risks;
- There is uncertainty built into the criteria, and how to get over the hurdle of there being a basic instrument. More clarity would assist to help in the application of the requirements. Suggestions were made to provide more examples of the different types of characteristics that may be in place and there were aspects in the Basis for Conclusions which could be moved into Appendix B;
- On internal consistency, the example is about the changes being specific to the debtor, but there is no clear link with the requirement itself;
- There was a question on whether the IASB should provide guidance on the derecognition of assets by means of digital transfers. There could be a comparison with the case where there were no recourse features for certain assets and there was reliance on the preparer to determine whether they were SPPI, as covered by B4.1.17 of the ED;
- The clarifications/examples were found to be helpful in establishing what clearly did and did not meet SPPI. Judgement would have to be applied for everything in between, so there could still be diversity in interpretation;
- There had been discussion about the possibility of having structuring opportunities. For example, one member provided the example of an entity that had structured interest rates based on the number of employees in a company. It appeared that the wording used in paragraph B4.1.13 differed from that in B1.10A in the ED. The link with performance which is explained in the Basis for Conclusions might need to be better explained in the standard; and

- Referring to Paragraph B4.1.8A of the ED, the magnitude could be difficult to demonstrate for ESG features as there is no quantitative evidence.

Question 3: Classification of financial assets—financial assets with non-recourse features

Feedback was that the ED was likely not to change current practice, and there was still a need for further analysis.

Question 4: Classification of financial assets—contractually linked instruments

- No issues were raised with the wording for paragraph B4.1.20 of the proposed amendments. However, the wording 'financial instruments' in paragraph B4.1.23 of the proposed amendments should be 'instruments' to cover lease receivables, for example;
- A specific fact pattern had been inserted into paragraph B4.1.20A of the proposed amendments, and there had been difficulty in understanding the structure. Any specific fact patterns brought into the standard should involve outreach;
- The Basis for Conclusions did not explain the difference between applying the guidance for contractually linked instruments and financial assets with non-recourse features and this should be clarified;
- Other types of underlying assets were being incorporated, which could potentially lead to more judgement, in particular, because it would be based on the application of another standard;
- The principle should be wide enough to capture any changes to the underlying assets, e.g., government changes to Greenhouse Gas (GHG) schemes.

Question 5: Disclosures—investments in equity instruments designated at fair value through other comprehensive income

Some IFASS participants indicated they would rather have recycling of equity remeasurements than the disclosure requirements. However, disclosure, even though not ideal, would still be helpful. While others had highlighted that many do not distinguish between realised and unrealised gains/losses. The situation in the insurance industry, that is impacted by the non-recycling of investments in equity instruments designated at fair value through other comprehensive income, was not known currently, as there had not yet been any reporting on this.

Question 6: Disclosures—contractual terms that could change the timing or amount of contractual cash flows

- The proposed disclosure was balanced between benefits for users and costs for preparers;
- Companies should already be disclosing the information, and if the requirement provided additional clarity in that regard then that was positive; and
- There could be a potential scoping issue, as there could be a wider selection of instruments, including vanilla instruments in the banking sector.

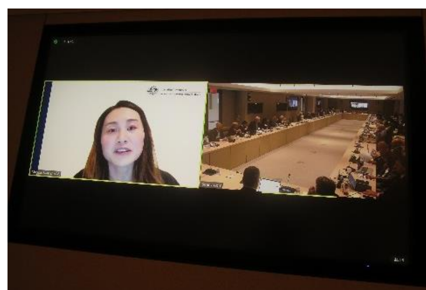
Question 7: Transition

There were no concerns aired with the transition proposals. The feedback conveyed that sufficient implementation time was needed because of the possible need to either change or create new controls.

Item 5. Public sector and not-for-profit updates

This session consisted of three presentations with public sector and not-for-profit updates respectively made by the Australian Accounting Standards Board - AASB (Maggie Man), Chartered Institute of Public Finance and Accountancy - CIPFA (Karen Sanderson), and the International Public Sector Accounting Standards Board - IPSASB (Ross Smith).

Australian Not for Profit (NFP) Financial Reporting Framework



Maggie Man gave an overview of the ongoing development of the Australian Not for Profit (NFP) Financial Reporting Framework. The AASB has a project that is developing proposals for simplified recognition and measurement requirements compared to existing[1] Tier 1 and Tier 2 and complementary disclosures (i.e., proposed Tier 3 Australian Accounting Standards). Tier 3 requirements will be applicable for smaller NFP private sector entities (e.g., charities). The project aims to develop a simple, proportionate, consistent, transparent, and cost-effective reporting framework for eligible NFP entities while improving their comparability and consistency. She noted that, due to the prevailing complex regulatory system with varied thresholds, the self-assessment of reporting entities could result in similar entities preparing different sets of financial statements, which undermined trust and transparency. The project aimed to remove special-purpose financial statements.

Maggie Man outlined the key steps in the due process related to this project including the ongoing outreach, earlier research conducted, and the issuance of the Consultation Document (Discussion Paper) for comments from September 2022 until March 2023. She highlighted the following proposals for the Tier 3 requirements and the respective feedback received.

- *Consolidation*: The proposed Tier 3 requirement is to provide eligible NFP entities with a choice to either present consolidated financial statements or separate financial statements with information about the parent entity's significant relationships. Most stakeholders agreed with this approach. some stakeholders disagreed as consolidated financial statements provide transparency to users.
- *Non-financial assets*: The proposed Tier 3 requirement is to provide entities with an accounting policy choice to initially measure these assets at either cost or at fair value. Most stakeholders agreed with this proposal because it provides flexibility and may allow for a cost-effective approach. Some stakeholders disagreed as they considered the recognition of donated assets at cost to be problematic.
- *Lease accounting*: The proposed Tier 3 requirement is for lease expenses to be recognised on a straight-line basis over the lease term. Eligible entities would not recognise the right-of-use asset on the balance sheet, but this would be supplemented by disclosure about the entity's outstanding lease commitments in the notes. Most stakeholders agreed with this proposal. A few stakeholders disagreed because not requiring a right-of-use asset on the balance sheet would not reflect the true value of running the organisation.

[1] The existing financial reporting framework consists of Tier 1 Australian Accounting Standards-Full IFRS applicable to entities with public accountability and Tier 2 Australian Accounting Standards- Simplified Disclosures applicable to for-profit entities without public accountability and NFP private and public sector entities.

- *Income recognition*: The proposed Tier 3 requirement is to allow income to be deferred where there was a common understanding between a resource provider and the entity itself on how the resources were expected to be used. Almost all stakeholders agreed. A few stakeholders disagreed because the proposal could lead to difficulties in assurance.
- *Employee benefits*: The proposed Tier 3 requirement is to not require any discounting for short and long-term employee benefits. Almost all stakeholders agreed. A few stakeholders disagreed because they believed all not-for-profit entities should comply with the same accounting requirements.
- *Financial instruments*: The proposal is that Tier 3 requirements should simplify the accounting for basic financial instruments (e.g., cash, accounts receivable) but there would not be different requirements for complex financial instruments and for these instruments, eligible entities would refer to the Tier 1 requirements. Almost all stakeholders agreed with the proposal. Some stakeholders disagreed indicating that, if a Tier 3 standard was to be comprehensive, entities should not have to refer to other accounting standards.

In conclusion, Maggie Man noted the next step for the AASB will be to develop an Exposure Draft.

Q&A on the Australian NFP Financial Reporting Framework Update

An IFASS participant asked about the role of the regulators in the AASB deliberations and consultations. Maggie Man replied that the AASB had been in constant contact with the regulators, as they would determine who should be providing financial statements. The AASB had determined that it was not for the standard setter to set thresholds, so there were ongoing discussions with regulators to help them determine how the AASB's project interacted with the regulations.

An IFASS participant asked about the reporting of financial and non-financial information. Maggie Mann replied that there was a separate project on service performance reporting information, though it is still in the early stages.

International Financial Reporting for Non-profit Organisations (IFR4NPO) Update

Karen Sanderson gave an update on the ongoing development of the 'International Non-Profit Accounting Guidance' (INPAG) by CIPFA. The starting point for developing this guidance was IFRS for Small, Medium-sized Entities- SMEs (36 sections) with consideration of IFRS, International Public Sector Accounting Standards (IPSAS), and National Standards.

She highlighted the roadmap for the finalisation of INPAG noting that an Exposure Draft, ED1 *Framing* was published in November 2022 with a four-month comment period. Two other Exposure Drafts, ED 2 *Accounting* and ED 3 *Presentation* were forthcoming in Q2 and Q3 2023. The final INPAG is expected by mid-2025.

ED 1 feedback: Karen Sanderson gave an overview of the feedback received on ED 1 (i.e., 61 comment letters and 300+ survey responses that were well spread across regions and organisations), which indicated strong support but more work is needed in some areas. She shared the early views CIPFA had received on specific proposals noting that,

- There was strong support for fund accounting but there is uncertainty regarding the presentation of information.

- There was support for the inclusion of narrative reporting but there are challenges in preparing this information and applying exemptions for commercially sensitive information.
- There was general acknowledgement that equity is needed but there was disagreement on the terminology and definition of 'equity'.
- There was support for the broad characteristics approach to defining non-profit organisations (NPOs) but concern was expressed on the use of 'public' in 'public benefit' as it can lead to confusion and defining NPOs in the negative.

ED 2 coverage and key issues: Karen Sanderson stated that revenue, grant expenses, and foreign currency translation were the primary content of ED 2. Whether a section on share-based payments is needed as part of the primary content is under consideration and some consequential changes to ED1 on the statement of net changes in assets will also be covered. She elaborated on key issues related to the primary content of ED 2

- *Revenue*: It was proposed that the section on contracts with customers in IFRS for SMEs would be largely unchanged, but a new section would be written for revenue from grants and donations. There was a question around when to recognise revenue. Many stakeholders sought a match between revenue and expenses, with the ability to defer revenue. There was consideration of following an IFRS 15 based model and use of International Public Sector Accounting Standards (IPSAS). For the revenue section, there was the consideration of practical exceptions for grants in-kind and services in-kind. There would also be consideration of what was meant by revenue with restrictions and how to present them.
- *Expenses*: There would be guidance for grant expenses. There was consideration of simplifying the terminology with respect to grants and donations.
- *Foreign currency translation*: The issue was more about presentation and disclosure. The key area concerned exchange gains and losses in relation to grant agreements, where a donor or grantor had provided resources and transferred the exchange rate risk to the non-profit entity.

In conclusion, Karen Sanderson stated that CIPFA is already thinking ahead and considering whether there is sufficient demand for further guidance beyond the INPAG once it is finalised.

Q&A on the IFR4NPO Update

An IFASS participant asked how IFRS for SMEs principles could be combined with fund accounting principles, and in particular, how would assets acquired for a particular project be reported. Karen Sanderson replied that there had been modifications to Section two on the concepts and pervasive principles, which enabled fund accounting to be developed in the other sections. She further noted that the ED 1 proposals had not proposed that assets be disaggregated to allow identification of assets donated for particular projects in the property, plant, and equipment (PP&E) line as the intention was to have the accumulated reserves split between those with restrictions versus those without. However, during the outreach, some stakeholders recommended that such a disaggregation should at least be in the notes to the financial statements.

An IFASS participant suggested that moving forward it was important to engage regulators. Karen Sanderson acknowledged that there was a need to do so, though it was sometimes a challenge to identify the relevant regulator.

IPSASB Update

Ross Smith gave an update on the IPSASB workplan, completed projects, ongoing and new projects, and sustainability reporting activities.

Approved, completed projects: Ross Smith highlighted that IPSASB had recently approved several long-running projects including:

- In March 2023, there were approvals on some sustainability updates to Recommended Practice Guidelines (RPG) 1 and RPG 3 arising from its recently completed reporting sustainability program information narrow scope project. The project briefs for the differential reporting and presentation of financial statements projects are planned to be finalised by September 2023.
- IPSAS 47 *Revenue*, which will be a single source for revenue guidance and whose requirements are aligned with IFRS 15, with changes to terminology and concepts tailored for the public sector. For example, not all public sector entities can contract in their own name, which had led to using the term 'binding arrangement'. In addition, because many revenue arrangements did not arise from contracts or binding arrangements with customers as required by IFRS 15, there had to be an accounting model covering such cases. This guidance was to be published in May 2023 and would be effective from January 2026.
- IPSAS 48 *Transfer Expenses,* which will provide new guidance for transfer expenses and fill the gaps in accounting literature. The model was built from the revenue model concepts so as to develop a consistent accounting model as far as possible. It will be effective from January 2026, and the guidance was finalised in March 2023 and was to be published in May 2023.
- IPSAS 46 *Measurement,* which includes a public-sector specific measurement basis. This guidance incorporates developments in IFRS, including the concepts and principles from IFRS 13 *Fair Value Measurement* and public-sector-specific measurement concepts including the 'current operational value' concept. The effective date of IPSAS 46 will be January 2025.

Ongoing and new projects: Ross Smith gave an update on one of IPSASB's ongoing projects and two new projects, specifically on;

- an ongoing project on natural resources, which addresses natural resource assets held and controlled by public sector entities (sub-soil resources, living resources, and water). There had been a Consultation Paper, *Natural Resources* on this project in May 2022 and the responses were still being worked through. The IPSASB had decided to continue working on whether such assets could be recognised in financial statements. IFRS 6 *Exploration for and Evaluation of Mineral Resources* requirements would be brought in to IPSAS. There is likely to be a sustainability link to the project.

- a new project, Presentation of Financial Statements, which would be looked at from the perspective of the IPSASB Conceptual Framework chapter on presentation and disclosure. The aim is to better communicate financial performance in the public sector. The current guidance for this project was drawn from IAS 1 but recent updates have not been considered by IPSAS 1 *Presentation of Financial Statements*. Discussions on the project would commence regarding this project in June 2023 and the brief should be finalised by the end of 2023.
- a new project, Differential Reporting, which concerned the lack of an equivalent to IFRS for SMEs. Ross Smith stated that there will be consideration of whether 'less complex' could be defined, in a principled way, for the public sector and of what the reporting guidance would look like.

Sustainability activities: In the responses to a May 2022 Consultation Paper, *Advancing Public Sector Sustainability Reporting*, IPSASB received strong supporting feedback for it to develop sustainability reporting requirements for the public sector, starting with climate change. Ross Smith highlighted that there are some challenges regarding public sector guidance and there was a wider stakeholder base for the public sector (e.g., how biodiversity and preservation of natural resources will affect future generations). He noted that, for the financial materiality perspective, the ISSB guidance could provide the global baseline. However, IPSASB had been encouraged to also consider the Global Reporting Initiative (GRI) guidance because of a need to consider a broader multi-stakeholder approach to cover wider user needs in the public sector.

Q&A on the IPSASB Update

An IFASS participant highlighted the use of the 'less-complex entities' phrase instead of 'SME' and asked whether there would be an interrelation with the International Auditing and Assurance Standard Board's (IAASB) definition. Ross Smith remarked that there had been various names for the project, and 'SME' had been considered but was challenging to use in a public sector context. IPSASB's view was that there could not be a principle-based standard through a link to anything other than user needs, which were around having less complexity. The name was not intended to reflect the IAASB principles, though its thinking had been considered.

An IFASS participant questioned whether there would be an elaboration on accounting for natural resources. Ross Smith replied that the consultation paper had looked at whether there could be accounting for sub-soil resources prior to them being extracted, or, for water in its natural state, or, for living resources as they existed in the environment. For example, some members from Africa had indicated that animals could cross country borders every day, so there was a question of how to demonstrate control. Answers to these aspects remain challenging and are still under consideration.

Item 6. Application of Malaysian Financial Reporting Standards to Islamic Social Finance Transactions

Mohd Amirul Mansor gave an overview of the latest Malaysian Accounting Standards Board (MASB) Issues Bulletin (IB) on the Application of Malaysian Financial Reporting Standards (MFRS) to Islamic Social Finance (ISF) Transactions. The IB, which was issued/published in December 2022, serves as a guidance for Islamic banks on the accounting treatment of ISF transactions and for preparing their financial statements in accordance with MFRS.

Mohd Amirul Mansor noted that as further described under the 'Background of ISF programmes and transactions' subheading below, Islamic banks are proactively offering the ISF to the targeted customer segments (i.e., underserved and unserved). However, there is limited clarity on how these banks apply relevant accounting standards to accord such transactions. There are also insufficient disclosures to facilitate financial statements users' understanding of how different forms of philanthropic capital had been used to support ISF programmes for the targeted customer segments. There is also a lack of disclosure of the administrative fees received from the capital providers by the Islamic banks for their roles as agents to manage the different forms of philanthropic capital.

Mohd Amirul Mansor also highlighted that the ISF programmes/transactions are mainly disclosed under the sustainability reporting (rather than the financial reporting) of Islamic banks because these transactions or programmes may be viewed to be supporting the sustainability agenda and as these could be relevant for stakeholders' better understanding on the Islamic banks' sustainability agenda as well as value-based intermediation initiative. He, however, noted there could also be related financial information that is significant for disclosure in the financial statements. He further explained some accounting considerations outlined under the IB to facilitate the Islamic banks. For instance:

- If the Islamic bank is the principal or agent, it applies MFRS 15 (Malaysian Financial Reporting Standard 15: *Revenue from Contracts with Customers*) to the contract between itself and the fund providers.
- Any financial instrument, like micro-financing or financing without interest under Islamic social finance, is accounted for in accordance with MFRS 9. (Malaysian Financial Reporting Standard 9: *Financial Instruments*).

<u>Background of ISF programmes/transactions</u>

To contextualise the arising accounting issues, Mohd Amirul Mansor gave an overview of the objective and mechanisms of ISF transactions conducted by Islamic banks in Malaysia. He shared that ISF aims to generate sustainable financial returns while delivering tangible social outcomes by mobilising different forms of philanthropic capital including: mandatory donation (Zakat) collected by the zakat authorities; voluntary donation (Sadaqah); and investment account placement and endowment (Waqaf). Mohd Amirul Mansor highlighted the following features of the ISF programmes:

- The different forms of philanthropic capital received from the third parties are managed by the Islamic banks, which then serve as agents to channel these funds to the eligible ISF participants (i.e., the low-income, unserved, and underserved).
- These programmes offer financial assistance and structured business training to eligible ISF participants.
- Upon graduation from the ISF programmes, the ISF participants receive direct financial assistance (e.g., sourced from Zakat -mandatory donation, Sadaqah-voluntary donation) for their business development and expansion. In addition, Islamic banks may offer micro-financing to the ISF participants at either an affordable rate or an interest-free rate.

Mohd Amirul Mansor noted that the unique feature of ISF lies in its "pay-it-forward" mechanism whereby successful ISF participants are expected to "pay" back to the community by creating employment opportunities or by paying Zakat or Sadaqah (i.e., mandatory or voluntary donation) which could then be used to support future ISF programmes.

<u>Q&A on the ISF presentation</u>

An IFASS participant asked whether the MASB had discussed the accounting considerations on ISF transactions with other jurisdictions that have ISF offerings by their Islamic banks and whether the accounting considerations can be adopted toward ISF in other jurisdictions. Mohd Amirul Mansor responded that it was not the case because the accounting considerations were developed based on specific ISF products offered in Malaysia. Thus, the application of accounting considerations to ISF in other countries would depend on how ISF is designed and works given that Malaysian's ISF products might be different from other jurisdictions.

An IFASS participant asked why ISF transactions are being disclosed as part of the sustainability reporting information instead of the financial reporting information. Mohd Amirul Mansor gave two reasons. First, ISF programmes' intended outcome is providing sustainable financing to targeted customer segments as propagated under the value-based intermediaries initiative and in support of the sustainability agenda. Second, the ISF transactions could be immaterial resulting in Islamic banks opting not to disclose these transactions in their financial statements.

An IFASS participant asked whether Islamic banks are also allowed to collect and distribute Zakat (mandatory donation) to eligible recipients under the ISF programmes. Mohd Amirul Mansor clarified that Islamic banks' role is restricted to acting as an agent to distribute the Zakat fund to eligible participants through ISF programmes on behalf of the Zakat authorities. The ultimate power to collect and distribute these funds remains with the Malaysian Zakat authorities.

Item 7. Primary Financial Statements: Disaggregation of expenses

The session consisted of presentations and a panel discussion on primary financial statements: *disaggregation of expenses*. This session was moderated by Marsha Hunt (FASB), and the panel presentations and participation involved: Linda Mezon-Hutter (IASB), Jens Berger (EFRAG), and Chris Bohdan (FASB).

<u>IASB Presentation</u>

Linda Mezon-Hutter shared a timeline and milestones of the IASB primary financial statements project including the issuance of the 2019 Exposure Draft (ED) *General Presentation and Disclosures*, a consultation period on the ED, and the ongoing redeliberation on the feedback to the ED. She noted the IASB had done targeted outreach on specific topics. She highlighted that the project received a lot of support from many stakeholders, including users and preparers. The main concerns of stakeholders were management performance measures and requirements for disaggregating information.

The proposed approach on subtotals and categories received good support, although she pointed out that there should be more guidance for classifying income and expenses in the financing category. Some stakeholders disagreed with classifying income and expenses from associates and joint ventures accounted for using the equity method in the investing category. Many supported the rebuttable presumption and the simplified tax calculation for reconciling items. Most agreed with the proposal to disclose the amounts of depreciation, amortisation, and employee benefits. And some supported the inclusion of impairments and write-downs on inventory.

Linda Mezon-Hutter presented a proforma statement of profit or loss, which reflected the possible disaggregation of expenses by entities with financing, investing and insurance as their core business activity. She noted these entities have not yet published results applying the IFRS 17 requirements. She stated that the IASB will maintain the same approach as before of relating Management Performance Measures (MPMs) to the statement of performance and not to the balance sheet. She noted the additional disclosures that will be required for MPMs.

She explained that IASB is introducing more principle-based guidance on aggregation and disaggregation (with more standarisation and more guidance) to help people understand when to aggregate and when to disaggregate. If something is material, the information must be disaggregated.

She noted that in the ED, entities could not provide a profit and loss through a combination of disaggregation by nature and by function. She noted that there was pushback from preparers on the proposed disclosure of operating expenses by nature in the notes due to cost considerations. She explained that the compromise that was reached between users and preparers on this matter will help to ensure that preparers still provide users with useful information and that their costs of doing so are not prohibitive. This compromise allows a mixed presentation of the information by function (e.g., costs of goods sold and selling expenses) and by nature (i.e., depreciation, amortisation, employee benefits, impairments, and write-downs of inventory).

In conclusion, Linda Mezon-Hutter mentioned the IASB's next steps. She indicated the IASB is expected to complete its redeliberation process by the end of 2023.

EFRAG Presentation

Jens Berger emphasised the importance of the Primary Financial Statements (PFS) project. He noted that EFRAG's constituents expressed their positive feedback toward the IASB project and there had been calls, particularly from users, for the project to move forward. He mentioned that EFRAG welcomed the IASB efforts to improve disaggregation as a complement to the additional subtotals. EFRAG considered that having these requirements in a single place within a new standard will bring clarity and improve the consistency of disclosures. However, further clarifications on the principle of aggregation are necessary.

Regarding disaggregation, he stated that EFRAG observed that in regulated industries such as financial entities, there was more disaggregation than in unregulated industries. Moreover, there was a lack of consistency within regulated industries.

Jens Berger also gave an overview of EFRAG's outreach and field-testing activities on the IASB proposals including those made during the redeliberations. Of note, in 2020, EFRAG and the IASB in coordination with the national standard-setters carried out several roundtables. In December 2022, EFRAG Secretariat published a summary report with recommendations to the IASB reflecting the feedback from the round tables.

Jens Berger noted that within the EFRAG summary report, the recommendations were mainly regarding the presentation of information by function or nature, and the mixed approach suggested by the IASB. He, however, noted there were reservations expressed concerning the lack of guidance to help implementation.

FASB Presentation

Chris Bohdan gave an overview of the FASB project, Disaggregation- Income Statement Expenses. He stated that the FASB's approach to disaggregation is focused only on income statement expenses. It is not related, for example, to MPMs. Moreover, the FASB requirements will be for the disaggregation of expenses in the footnotes' disclosures and not on the face of the income statement.

Chris Bohdan pointed out that the key difference between the FASB and IASB requirements arises because of the long-standing US Security Exchange Commission (SEC) requirements for each industry (i.e., Regulation S-X requirements) for income statement presentation. Regulation S-X has established requirements for expense captions to be present on the face of the income statement. Some entities present certain captions electively. For example, research and

development. Some entities with business activities falling under two industries have a hybrid presentation of their income statement to satisfy the different presentation requirements.

Chris Bohdan stated that the FASB resumed active deliberation on the project in early 2022. An Exposure Draft was expected in several months. He presented illustrative examples of the FASB requirements for the disaggregation of certain expenses and these included the disaggregation of expenses for 'cost of goods sold' and 'SG&A' into specified expense categories. These categories included employee compensation, amount of inventory and other manufacturing expenses and entities are required to do a further disaggregation of these amounts. He highlighted a key similarity between FASB and IASB requirements is the idea of presenting this information as a partial matrix. It is aligned with the IASB's approach of moving away from full disaggregation by nature to disaggregation by both nature and function.

He noted the differences between the FASB and IASB requirements and these include: the different starting points (i.e., related to the notes versus the face of the income statement), FASB will require a category 'purchase of inventory' while IASB will require 'disaggregation of write-downs of inventory by function'. To this end, the FASB will require to disaggregate the costs capitalised to inventory and other manufacturing expenses. On the other hand, IASB decided to require qualitative explanation when these amounts are in the carrying amount of an asset.

Chris Bohdan mentioned that the FASB proposal would provide users with the following benefits: 1) greater transparency into certain expenses on income statements; 2) more comparability of information; 3) expected to reduce investor costs; and 4) will meet the needs of users who have asked for more information about selling expenses.

During FASB's outreach to stakeholders, preparers have pointed out several cost concerns. These include costs related to intracompany and departmental allocations, and standard costing and foreign currency remeasurement. There were also concerns regarding acquisitions which require the integration of systems that may track expenses differently. Moreover, some preparers pointed out that there is no internal use of disaggregated consolidated expenses by nature.

In conclusion, Chris Bohdan mentioned FASB's next steps in the drafting of and public consultation on a proposed Accounting Standards Update

<u>Panel discussion</u>

The moderator, Marsha Hunt asked the panellists why this time around a successful project was likely, while over the past decades, there were struggles with the cost-benefit assessment.

Sharing her overall observations, she considered the FASB project on the disaggregation of expenses to be a workable alternative. She underlined that, as presented by Chris Bohdan, FASB will not change the face of the income statement and its requirements were developed within the constraints of the existing regulatory framework. Within this approach, there is more possibility to consider the cost of services or costs of goods sold line and develop those different tables that would allow to resolve and consider the changes in inventory. That information fits the footnote rather than the face of the income statement. Moreover, in response to users' requests, they selected some significant non-cash categories to be identified in order to allow a better understanding of cash spending related to the income statement functional lines. Marsha Hunt also noted the pandemic and the change in business dynamics made it easier to discuss with preparers the need for disaggregating the expenses.

In response, Linda Mezon-Hutter expressed support for moving further in showing more transparent and comparable information. And both Linda Mezon-Hutter and Jens Berger concurred with the point on the improved engagement with both preparers and users including

via remote/virtual technologies and that this had led to an increased understanding of the respective needs of users and constraints of preparers and an increased acceptance of the proposed changes.

Marsha asked how to minimise the criticism about the cost versus benefit balance in the process of finalising the proposals, and whether technology had a role in lessening these concerns. Chris Bohdan noted that asking about how the implementation cost of alternatives compare to each other, the reasons for and the level of differences in the associated costs of the alternatives, allowed for a more balanced cost and benefit analysis. Linda Mezon-Hutter opined that, to attain a good cost-benefit compromise, rather than pose simple questions on benefits, a more comprehensive dialogue was needed on what users do with this information, and how it's built into and the outcomes from their models. Zach Gast agreed that the users' excitement was around what they could do with the new set of information compared to the original proposals. Jens Berger commented that users usually want more information because they receive it for free. So, explaining why they need it, is useful for preparers.

Regarding the role of technology, Jens Berger observed that a big challenge facing some preparers is getting information by nature from IT systems that have been set up to report by function. He opined that IT upgrades will allow preparers to access certain data required by users in a manner that would have not been possible in the past. He observed some preparers tended to give a default "no" response because they may need to adjust their sometimes very old financial systems. There were lesser concerns from those with upgraded systems as the willingness to provide certain data points is related to companies' IT capabilities.

<u>Day 2: 20 April 2023</u>

Item 8. Introduction

Chiara Del Prete opened the meeting and summarised the day's planned agenda.

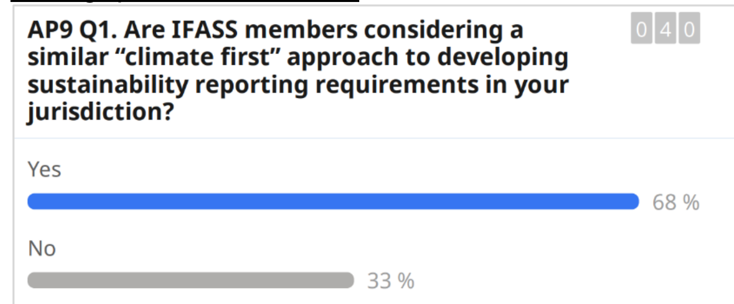
Item 9. Australia's roadmap to sustainability reporting: climate-first approach

John Purcell provided an overview of Australia's climate-first approach to developing sustainability reporting requirements and outlined the key AASB decisions made to date. He explained that AASB would likely develop a separate suite of sustainability reporting standards to complement the current standards. To develop these standards, the AASB would use ISSB's work as a foundation, modifying certain aspects to match the needs of Australian stakeholders and Australian requirements. He remarked that the focus of AASB was (a) to focus on developing standards for for-profit entities (with the non-profit sector being developed at a later stage) (b) to focus on sustainability-related financial information being aligned with the scope of ISSB's work and (c) to apply the existing due process framework for setting standards.

The AASB published an Exposure Draft in April 2022 asking about the Australian context for the two ISSB's Exposure Drafts. Feedback to the AASB ED included: (a) support for a climate-first approach (b) international alignment as a high priority (c) expansion of the scope also to address multi-stakeholder sustainability reporting and (d) long-term goal should be the development of comprehensive sustainability reporting requirements for Australia using ISSB's work as a useful first step.

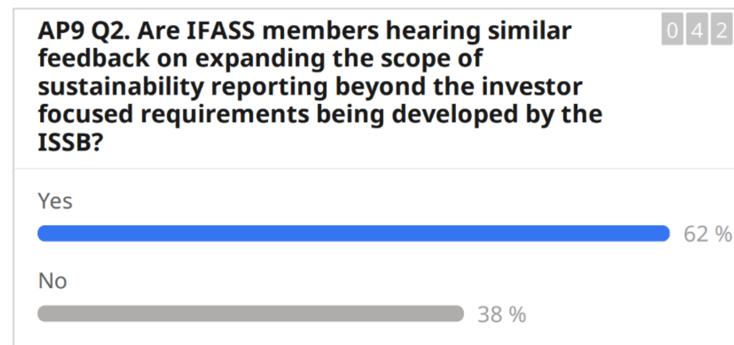
John Purcell stated that, while the AASB redeliberated how best to address feedback on scope, it would develop climate-related financial reporting requirements that could be applied, at least initially, independently of a broader sustainability reporting framework and standards.

Polling questions and Q&A



An IFASS participant that voted yes from Canada explained that their prudential regulator had issued guidance on climate disclosures and once IFRS S2 has been finalised, guidance would be updated to refer to IFRS S2.

An IFASS participant asked whether reporting on climate would be a part of an IFRS S1-type report. In response, John Purcell stated that the location of that report was still under consideration, as well as the manner in which IFRS S1 would feed into and influence the content of Australia's alignment to IFRS S2.



An IFASS member asked whether the AASB planned to go beyond the investor focus, and how the framework could be expanded. John Purcell confirmed that there was feedback from stakeholders who wanted to go beyond investor focus and that, any further development beyond the interest of financial investors would need to be further deliberated. Keith Kendall added that significant cohorts in the stakeholder community supported double materiality, but that had been far from universal. AASB also noted that their Conceptual Framework constrained any shift towards double materiality.

Q&A on AASB roadmap to sustainability reporting update

An IFASS participant noted that a number of investors were also interested in the impacts of reporting entities, not just the financial materiality aspect. She highlighted that longer-term investment horizon considerations go beyond the impact of a single portfolio to examine industry-wide decisions and, in her view, this would resolve the uncertainty surrounding impact versus financial materiality.

Item 10. ISSB update

Sue Lloyd gave an overview of the history, audience, mission, and objectives of the ISSB and how it responds to calls from global regulatory bodies and the market to set requirements for investor-focused sustainability financial disclosures which serve as a global baseline and reduce fragmentation. She noted there was a role for incremental disclosures to be provided by jurisdictions to meet broader informational or jurisdictional needs in a way that the investors could still identify the global baseline. She also noted that the ISSB has been thoughtfully considering efficiency and looking into the efforts needed and the costs for companies in addition to benefits for investors.

Interaction with other initiatives: Sue Lloyd highlighted the ongoing ISSB work on interoperability, in particular, its discussions with the European Commission (EC) and EFRAG in respect of climate-related disclosures in order to lessen the burden of companies that need to meet both sets of requirements. The ISSB also has a Memorandum of Understanding with the Global Reporting Initiative (GRI). The ISSB is also working closely with the International Organization of Securities Commissions (IOSCO), which is conducting an assessment of IFRS S1 and S2 and looking to endorse these two Standards after their publication, as well as working with the IAASB to support assurance that underpins trust in sustainability-related disclosures. Additionally, she noted that market fragmentation would be reduced for Carbon Disclosure Project (CDP) users as the CDP platform would be aligned to IFRS S2.

IFRS S1 and S2 Progress: Sue Lloyd gave an update on the content and progress in the finalisation of the first two ISSB Standards, which would be published by the end of June 2023. The changes from the draft IFRS S1 and S2 are targeted. IFRS S1 sets the scene for the global baseline: it asks companies to report on material information about their sustainability-related risks and opportunities; adopts the structure of TCFD Recommendations, i.e., disclosures on governance, strategy, risk management and metrics and targets. IFRS S1 also refers to other standards and frameworks in the absence of a specific ISSB standard and is GAAP agnostic and therefore applicable across jurisdictions. Material from IAS 1 and IAS 8 had been used in IFRS S1.

IFRS S2, the climate-related disclosures, will be used in accordance with IFRS S1 and asks for the disclosure of material information about climate-related risks and opportunities. IFRS S2 incorporates TCFD recommendations and guidance and includes the requirement to provide industry-specific disclosures. Industry-specific metrics are included as illustrative guidance, taken from the SASB standard. One important change from the draft IFRS S2 is that companies shall consider the SASB Standards but it is not required that the information be provided. IFRS S2 requires the disclosure of material information about physical risks, transition risks and climate-related opportunities. Furthermore, companies will need to disclose Scope 1-3 GHG emissions in accordance with the GHG Protocol Corporate Standard if material.

IFRS S1 and S2 disclosures would be effective for annual reporting periods beginning on or after 1 January 2024, but will be available for use before that date, if a company applies both standards at the same time. To facilitate the adoption of the Standards, there will be a one-year relief period to focus initial efforts on the disclosure of climate-related risks and opportunities.

Upcoming consultations: These included an Agenda Consultation (with four topics as possible projects, namely: biodiversity, human capital, human rights, and integration in reporting), an exposure draft on Digital Taxonomy, an exposure draft with targeted amendments on the Methodology for Enhancing the International Applicability of the SASB Standards.

ISSB priorities: The ISSB is talking to jurisdictions about the adoption and use of ISSB Standards, following a two-prong approach entailing a regulatory channel through mandatory requirements as well as exploring voluntary use through market acceptance. There is significant capacity building to be done in terms of education and support in the implementation of the standards preparing companies for this new type of reporting. The ISSB is working with a range of stakeholders to get the market ready for the reporting and to make the SASB Standards more internationally applicable. It is also starting to do work to develop some incremental potential enhancements to IFRS S2, in particular regarding metrics and disclosures connecting climate and nature.

Q&A on ISSB update

The IFASS Chair asked about the development of a conceptual framework and whether integrated reporting or future management commentary guidance could play a role in providing support for the conceptualisation of connectivity. Sue Lloyd replied that the issue of the conceptual framework did not come up as a priority item in the research undertaken. Regarding the relevance to the work on the conceptual framework, any work that was done on a standard-setting level informed the thinking of the ISSB and may therefore be relevant for future projects.

An IFASS participant asked if the ISSB was getting the right level of feedback and whether they were aware of the capacity of what their stakeholders could handle. Sue Lloyd replied that the IFRS Foundation leadership teams were conscious of how much they were asking their stakeholders at any one time. Stakeholder capacity was a prominent issue and was always being taken into consideration, which was one of the reasons the ISSB had decided to go with a 120-day comment period since the application of IFRS S1 and S2 is time-consuming.

An IFASS participant then asked when the memorandum of understanding between the ISSB and the GRI would be made publicly available. Sue Lloyd replied that it was already in place.

An IFASS participant noted that the timescales for adopting the regulation would be different in different jurisdictions. Authorities in Brazil, Mexico and Argentina were working with public companies that have adopted sustainability standards or GRI or integrated reports and so there would not be a tremendous change for them. The main challenge is for SMEs and they need to work on how to build the capacity for these entities. Sue Lloyd agreed and added that the ISSB was in discussions with IOSCO to help guide the thinking of what regulators in different jurisdictions would need to think about when considering adoption, and looking into realistic ways to introduce requirements. For instance, for jurisdictions to start with their larger companies rather than expecting all companies in the markets to start at the same time.

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Item 11. European Sustainability Reporting Standards (ESRS) update

Patrick de Cambourg gave an overview of the European regulatory regime: the ESRS and the European legal requirements for sustainability reporting – Corporate Sustainability Reporting Directive (CSRD), i.e., it is a mandatory regime for all large entities and listed entities. There is a progressive phase-in to apply ESRS and, for example, the larger and listed entities would have to report on the 2024 financial year in 2025. Other SMEs can adopt simplified voluntary reporting because it is important for them due to their participation in the value chain and also to their relationship with financial institutions. There is a comprehensive coverage of sustainability matters and the EC will adopt them via delegated acts.

Also, the CSRD requires reporting from a double materiality perspective addressing both inside-out effects (i.e., impact materiality and financial materiality). He stated that the sustainability statements will be located in a separate section of the management report.

Initially, there will be mandatory limited assurance and this will be later extended to reasonable assurance. Digitalisation from the first ESRS reporting is still uncertain as it is complex. Patrick de Cambourg indicated that the first set (sector-agnostic Standards) was delivered to the EC, comprising 12 Standards, with two cross-cutting Standards and ten topical Standards. The sector-agnostic Standards comprise 84 disclosure requirements, both qualitative and quantitative, with just over 1,000 data points split over the four pillars of governance; strategy; impacts, risks, and opportunities management; and metrics and targets.

He mentioned that European Securities Market Authority (ESMA), European Banking Authority (EBA), European Insurance and Occupational Pension Authority (EIOPA), European Central Bank (ECB), and others had provided an opinion on EFRAG's draft submitted ESRS, and at the time of this meeting, the EC was in the process of revising EFRAG's draft ESRS. It was expected that after a public consultation period of one month, the EC would adopt the delegated acts in June. EFRAG is also working on digital taxonomy and it will include a link with the European Single Access Point (ESAP).

Patrick de Cambourg noted that EFRAG is going on with Set 2 which involves sector classification, sector-specific standards and SMEs. The sector-specific standards include agriculture; mining, quarrying, and coal; oil and gas; and road transport. There is work being done on a Standard for listed SMEs and there will be voluntary guidance for non-listed SMEs. Four high-impact sectors will be added: energy production, motor vehicles, food and beverage, textiles and also financial institutions will be added.

Further, he stated that the EC decided to prioritise the implementation support for the first set of ESRS (i.e., sector-agnostic Standards), which will include more application guidance and a Q&A (including a channel to receive questions from stakeholders) with priority on materiality assessment guidance, value chain guidance, and providing an inventory of datapoints. Other central elements of implementation support were the availability of comprehensive ESRS-related documentation and the planning of educational initiatives.

Finally, Patrick de Cambourg highlighted the work on interoperability including the ongoing and respective dialogue and cooperation with the ISSB and GRI.

<u>Q&A on ESRS update</u>

In reaction to a question concerning the feedback EFRAG had received from preparers in terms of their readiness to deal with the Standards, Patrick de Cambourg stated that the larger preparers indicated that there would be effort needed but it could be done. Also, there is an ESRS ecosystem being built to help as much as possible. The smaller preparers find it difficult. At the EC level, there is a balancing act between moving fast and phasing in certain aspects, which is a political decision.

Reacting to Patrick de Cambourg's remarks on interoperability, Sue Lloyd concurred that there had been a significant amount of interoperability work done between ISSB, the EC, and EFRAG, particularly on the climate-related risk requirements. And there were a significant number of areas where the requirements have been brought closer together, reducing the need for duplication. For instance, certain disclosure elements could be used to meet both the ISSB's and ESRS' requirements. However, she mentioned that there are also differences and, even with the significant progress in the interoperability work, compliance with ESRS E1 would not automatically equate to compliance with IFRS S2. Both EFRAG and the ISSB were working together to find the best way to communicate the path that a company would need to follow to reduce the risk of duplication in reporting.

An IFASS participant asked if a national data bank would be used for digitalisation; Patrick de Cambourg responded that this question is outside of EFRAG's remit.

Item 12. Global Reporting Initiative (GRI) Update

Bastian Buck described the role of the GRI, an international sustainability reporting standard setter responsible for the GRI standards, which is the world's most widely adopted voluntary sustainability reporting guidance. He detailed the uptake of GRI Standards globally and the architecture of these Standards. Specifically, they were a modular system that comprised three series of standards: revised universal standards applied to all company's reporting, new sector standards, applied to companies within a sector, and adapted topical standards applied to specific information on a company's material topics.

Bastian Buck stated that there was a move planned towards a dual-pillar reporting governance structure with Pillar 1 as strengthened financial reporting and Pillar 2 as impact reporting. He gave an overview of GRI definitions of material topics, due diligence and a stakeholder. He explained the two ways of reporting (i.e., in accordance with the GRI standards; or with reference to the GRI standards) and companies were expected to explain which of these two forms of reporting they had applied.

Concerning sector-specific guidance on high-impact sectors, Bastian Buck stated that GRI had some pilots completed and that work was ongoing on the following sectors: Mining, textiles, banking, insurance, forestry, and asset management.

GRI founder, Robert Massie gave concluding remarks. He observed that there had been enormous changes across the reporting landscape during the last 35 years, and the work done

so far was necessary but not sufficient. He acknowledged the importance of the issues being grappled with including on what is material information. He noted, in the United States, many attorneys were pushing back against the inclusion of nonfinancial factors, but there was also ongoing support from several key institutions.

Q&A on the GRI update

An IFASS participant asked about the links between impact and materiality. Bastian Buck replied that understanding the significant impacts of the activities was seen by GRI as an important exercise in its own right. He observed that any discussion of the significant impacts of the activities leads to discussions on financial risks and opportunities because the significant impacts of an organisation also manifest on the risk and opportunity side.

Item 13. Sustainability reporting panel- Criteria for departing from the baseline of ISSB Standards

The panel session on the criteria for departing from the baseline of ISSB Standards was moderated by Keith Kendall of the AASB. To provide perspectives from four different jurisdictions, the panellists were Charles-Antoine St-Jean from the Canadian Sustainability Standards Board (CSSB); Woung-hee Lee from the Korea Sustainability Standards Board (KSSB); April Mackenzie from the New Zealand External Reporting Board (XRB); and Erik van der Plaats from the EC. Thereafter, Sue Lloyd of the ISSB provided wrap-up comments.

To set the scene, Keith Kendall described the approach to developing a sustainability reporting standard-setting framework in Australia. A major call from the consultation feedback[2] was for the AASB to enable the comparability of sustainability standards. Accordingly, the AASB fully supports ISSB as a global baseline and stakeholders were supportive of the ISSB taking ownership of sustainability reporting in Australia as opposed to setting a separate Australian Sustainability Board. Hence, in the short and medium term, Australia will adopt the same process it has in place for IFRS standards. The AASB will take on the ISSB standards as written but may allow themselves to take away, depart, amend, or add to the baseline according to several criteria.

Keith Kendall noted that it is highly unlikely the latter situation will happen as Australia does not have a history of taking away from IFRS Standards. He observed that the criteria for departing from the baseline of the ISSB would be the same as those applied for departing from IFRS Accounting Standards, and would cover instances where international standards did not adequately address Australian-specific matters, when benefits may not fully outweigh costs, or where there is already a requirement in place. He noted these criteria have rarely been invoked. There was, or was likely to be, diversity in practice and this would warrant Australian-specific requirements or guidance. However, the latter requirements would not deliver user benefits that

[2] As noted in agenda item 9, the AASB published an Exposure Draft in April 2022 asking about the Australian context for the two ISSB's Exposure Drafts. Feedback to the AASB ED included: (a) support for a climate-first approach (b) international alignment as a high priority (c) expansion of the scope also to address multi-stakeholder sustainability reporting and (d) long-term goal should be the development of comprehensive sustainability reporting requirements for Australia using ISSB's work as a useful first step.

outweighed any undue preparer cost/effort and would conflict with global sustainability reporting practice.

He noted there were equivalent disclosure requirements currently present in Australian legislation that would already meet the objectives of the baseline requirements and would result in duplicate reporting for Australian entities. Transitioning from existing Australian practices to baseline requirements would impose additional costs and/or time when compared with international counterparts, warranting deferral of the application date.

After his introductory remarks, Keith Kendall led the panel discussion which touched on several themes as outlined below.

Jurisdictional approaches to the baseline of ISSB Standards: Keith Kendall asked all the panellists about their respective approaches to considering the baseline of IFRS Sustainability Disclosure Standards within their jurisdictions. A variety of jurisdictional approaches to the ISSB baseline were expressed by the panellists ranging from an intended full adoption, monitoring while deciding what to do, to non-adoption and/or integration into jurisdictional requirements. The specific responses are below.

Charles-Antoine St-Jean stated that the CSSB oversight council would work with the ISSB to implement the standards in Canada.

Woung-hee Lee explained that the KSSB, which was launched in 2022, tackles the question of ISSB sustainability standards in South Korea. There were ongoing discussions around developing KSSB standards, but no decisions had been reached regarding the use of the ISSB standards as a baseline. They are considering a two-tier sustainability system, where large companies would apply ISSB standards to meet the needs of global investors. For SMEs, the ISSB standards would be more useful as a starting point whereby certain aspects of the ISSB standards could be changed and disclosure requirements would be added if demanded by government bodies.

Though supportive of the global alignment of sustainability standards, April Mckenzie highlighted that the Parliament of the New Zealand government gave XRB the responsibility of developing climate-related standards in 2020 and these were published in December 2022 and are already effective and apply for reporting periods of 1 January 2023. These standards will be the applicable requirements in New Zealand as immediately switching to ISSB standards would be unreasonable for entities.

Erik van der Plaats noted that the EU had a long history of providing guidance for nonfinancial disclosures. The EC and EFRAG are developing European Sustainability Reporting Standards (ESRS) and the legal basis for the ESRS is the Corporate Sustainability Reporting Directive (CSRD). When developing its technical advice on ESRS, EFRAG had to take international standards into account and the ISSB had a special position in this regard. The legal mandate was that the content of the ISSB standards had to be integrated into the EU standards as much as possible.

Conflict or duplication between ISSB Standards and local requirements: Keith Kendall asked the panellists if they had encountered ISSB proposals that conflicted with or duplicated local requirements. The panellists did not point to any specific conflict and there was an indication of an ongoing evaluation of the ISSB requirements. Below are the specific responses provided by the panellists.

Charles-Antoine St-Jean stated that Canada did not have that many additional mandatory reporting regulations, so many of the ISSB proposals would not be an issue in this regard, but it would need to be checked if they conflicted with local requirements. He noted that the CSSB had been created to be a focal point of the discussion of matters in Canada and tried to advise legislation.

Woung-hee Lee explained that there were no conflict issues in South Korea, but that ISSB standards already address the issue of duplication with domestic requirements. To minimise conflict, a solution could be to use the same terms and expressions in disclosure standards and information disclosures by government divisions. In this regard, the KSSB had recently started a dialogue with the Ministry of Environment to align its disclosure format with the ISSB standards. Since 2011, Korean law has required public institutions and large and medium-sized private companies to disclose their sustainability information.

April Mackenzie stated that the New Zealand Parliament set the rules and laws. Local law does not recognize international standards. The latter are neither mandatory nor do they have legal status. Even if they are considered important, the local law expressed that XRB will develop non-binding guidance and there is no obligation to apply any specific international standards. In effect, there is no mandatory global standard such as IFRS S1 or S2 that will be applicable in New Zealand.

Erik van der Plaats stated that, as required by the CSRD, the EU integrated the content of ISSB standards into ESRS, so there was a significant overlap of the respective requirements. However, if there was a conflict of standards, EU law would take precedence over the standards issued by an international, private standard-setting body.

Balancing international alignment versus local stakeholder needs: Keith Kendall asked April Mackenzie what the experience of the XRB had been in balancing the need for international alignment with the needs of New Zealand stakeholders. April Mackenzie explained that a mandatory climate-related disclosure regime and alignment with the TCFD framework[3] was recommended by a 2018 report from an independent government advisory body, the Productivity Commission. The New Zealand requirements were aligned with the TCFD in both content and architecture. In effect, a global voluntary regime was refined and turned into a mandatory regime, including through the imposition of penalties for non-compliance.

April Mackenzie added that the XRB had also decided to ensure that climate-reporting entities needed to be identified. And New Zealand had an advantage, due to its small size, the legislation only captured around 200 entities that will have to comply with the mandatory climate reporting.

Incorporating double materiality: Keith Kendall asked Erik van der Plaats whether the amendment to the ISSB baseline provided national standard setters in the EU the opportunity to consider developing double-materiality-based disclosure requirements.

Erik Van der Plats remarked that, in the EU, the ISSB global baseline is seen through the lens of ESRS and the latter encompass double materiality consistent with the legal mandate. He

[3] The TCFD framework is applied voluntarily across multiple jurisdictions and it also informed the development of IFRS S1 and S2.

reiterated that the EU had looked at the content of the ISSB and integrated it to the maximum extent possible into the ESRS.

Erik Van der Plats said it was difficult to opine whether other jurisdictions should add impact materiality or make it more pronounced in their requirements as it is a call to be made by each jurisdiction. He, however, pointed to the relevance of impact materiality even for regimes that are exclusively focused on financial materiality. He observed that any impact that a company has nearly always had a financial effect. He provided an example of how the use of child labour can eventually have a reputational effect that affects the financials. He mentioned that, in certain instances, the difference between impact and financial materiality is not as big as some might think, and he considered impact materiality to be useful for investors as it helps to prevent greenwashing.

Implications of the location of information requirements: Keith Kendall asked Woung-hee Lee how the ISSB's decision regarding the location of information poses a challenge in adopting or aligning with the baseline of IFRS sustainability disclosure standards. Woung-hee Lee stated that this had led to concerns in South Korea because if a company applied ISSB standards, it needed to disclose sustainability-related information as an attachment to the business report. In South Korea, the business report is demanded under the threat of fines and/or prosecution by senior management.

Interaction with local and international Financial Reporting requirements: Keith Kendall asked Charles-Antoine St-Jean how the CSSB intended to work with existing Canadian standard-setting bodies to determine the scope of its work and the interaction with jurisdictional and international financial reporting standards. Charles-Antoine St-Jean explained that three other boards exist in Canada aside from the CSSB: the Accounting Standards Board, the Audit and Assurance Standard Board, and the Public Sector Accounting Board. The CSSB worked closely with all three of those entities.

Q&A on the sustainability reporting panel

An IFASS participant asked what challenges the standard setters had faced in obtaining board members and staff to write or adopt the sustainability standards.

Keith Kendall stated that the AASB had taken deliberate decisions to expand its staffing and board membership. Charles-Antoine St-Jean explained that the CSSB was in the process of constructing its now multidisciplinary board and was ensuring it had representation from various communities in Canada. April Mackenzie stated that the XRB had employed and recruited a specialist team with an understanding of the science and complexities of climate change.

Chiara Del Prete detailed the scale, multi-disciplinary nature and multi-stakeholder representation that EFRAG has needed to meet the breadth and complexity of sustainability topics addressed under ESRS. This has included within its Sustainability Reporting governance bodies (i.e., Technical Expert Group-TEG and Sustainability Reporting Board, which collectively consist of 44 members), multiple working groups including project task forces, and a growing pool of supporting Secretariat (35). Woung-hee Lee stated that the KSSB had grown, and the Council now consisted of members from 20 different professional backgrounds.

On skills development, an IFASS participant gave examples of relevant certification programs by professional organisations.

An IFASS participant noted that Woung-hee Lee had said that the largest South Korean companies were reluctant to provide disclosures and asked April Mackenzie what her experience and feedback had been with the largest companies in New Zealand around providing disclosures.

April Mackenzie replied that the XRB had extensive consultation and this contributed to a very positive reaction from stakeholders and companies. The XRB had put comparability in a 'passenger seat' as it was significantly more important that the entity was able to figure out its story in this space. The standard had been written in a way to allow the entity to explain where it was on its journey to help move New Zealand to a lower-emissions economy. A post-implementation review (PIR) would take place in 2025.

Wrap-up comments

Summing up the session, Sue Lloyd observed that much of the thinking around having IFRS Accounting Standards as the common language for financial reporting would be similarly applicable to the ISSB's global baseline. The ISSB invites input through its projects and consultations to reduce potential issues of duplication. She noted the ISSB had asked for emissions to be calculated using the GHG protocol, and she acknowledged that in some jurisdictions that would result in duplication of reporting. That was why the ISSB Standards' requirement was for companies to apply the GHG protocol unless duplicate reporting would occur. The experience of avoiding duplication is not that different from that faced when considering accounting standards relative to tax or several other regulatory requirements.

Sue Lloyd proposed that different jurisdictions could examine the SASB metrics to see if there were any issues with duplications or conflicts. That would link into the SASB ED around improving the international applicability of the SASB metrics.

Sue Lloyd encouraged jurisdictions to think about owning the global baseline, of which the element of resourcing is a key aspect, and she noted that working together helps reduce the burden on everyone's resources. On the topic of comparability, she commented that making room for estimation was needed and the ISSB acknowledged that this was a journey and that companies would initially do things qualitatively. The ISSB was also very keen to work in partnership with entities on capacity building, as investors around the world needed to be confident that they could compare and make capital allocation decisions based on comparable information.

Item 14. Connectivity between financial and sustainability reporting

This session consisted of presentations by a) AASB (Tom Frick), UKEB (Seema Jamil-O'Neill) and AcSB (Armand Capisciolto). These standard setters have been collaboratively preparing a series of papers on IASB-ISSB connectivity-related themes; b) Chiara Del Prete on EFRAG's research project; and c) Sarah-Jayne Dominic on recent FRC-UK (Financial Reporting Council) thematic reviews on climate reporting.

AASB- Conceptual Framework-related themes

Tom Frick's presentation focused on elements of a conceptual framework for sustainability reporting and implications for connectivity with financial reporting information. He noted there was a broad level of alignment between the concepts in draft IFRS S1 and the IFRS Conceptual

Framework for Financial Reporting, but some concepts exhibit a degree of variation that could make connectivity between financial statements and sustainability statements difficult. Some areas could also benefit from more detail and guidance on how connectivity should be achieved. He highlighted differences in the following aspects.

Materiality: Tom Frick noted materiality is a crucial concept that needs to be defined and that materiality in draft IFRS S1 takes a view that is closely aligned with IFRS accounting standards, which could potentially not be easily applied across different jurisdictional GAAPs. He also observed that it is currently unclear how materiality judgments should be made throughout the broader financial reporting package for sustainability-related information that is outside of the financial statements. And he suggested more detailed guidance and specific examples of how quantitative factors, qualitative factors and interactions of those factors could inform materiality judgments in a sustainability context.

Qualitative characteristics of information: Tom Frick observed that, when analysing the qualitative characteristics of information of the IFRS conceptual framework and draft IFRS S1, there is a higher degree of alignment in the relevance and timeliness aspects, and a lower degree of alignment with the faithful representation and understandability aspects. Draft IFRS S1 creates a higher threshold for an entity to achieve a faithful representation of information.

Basis of preparation: there is a higher degree of alignment in the reporting period and reporting entity aspects, but a lower degree of alignment with the going concern and time horizon aspects. Going concern is not currently present in draft IFRS S1 but including it is possible that sustainability-related risks and opportunities could materially impact an entity. In current guidance, it is unclear how an entity would connect information over various timeframes to its financial position, financial performance and cashflows within the financial statements.

Presentation and disclosure of information: There is a higher degree of alignment in the aggregation of information and a lower degree of alignment with the connectivity of information. Draft IFRS S1 is location agnostic and does not set out classification requirements beyond classifying information across the four TCFD categories. It is currently unclear how entities might disclose sustainability-related financial information through their reports, so users of reports would be likely to see a variety of approaches taken by different reporting entities.

In conclusion, Tom Frick noted that draft S1 has more detailed concepts or requirements to account for the different nature of sustainability-related financial information than the IFRS conceptual framework. There are potentially some significant connectivity issues in the application of materiality, both in guidance of how to make sustainability-related materiality judgments if an entity was applying IFRS accounting standards or through a different jurisdictional GAAP. More detailed guidance was needed on how direct connections between financial reporting information and sustainability-related information should be conceptualised and disclosed within an entity's financial reports.

UKEB- Connectivity related to Asset recognition

Seema Jamil-O'Neill's presentation primarily focused on asset recognition connectivity issues. She noted that both draft IFRS S1 and the IFRS Conceptual Framework for Financial Reporting consider the disclosure of financial information on assets in many different ways. In comparing accounting standards with related sustainability disclosure guidance in IFRS S1 and S2, key connectivity themes arise including judgments and estimates, impairment reviews, useful economic lives of assets, segmental reporting, and disaggregated disclosures.

Seema Jamil-O'Neill reflected on the findings of UKEB's outreach to investors/users and insights from the review of company reports in the UK. She highlighted a raft of questions posed and

needs expressed by investors/users on the connectivity of financial reporting and sustainability reporting information. For instance;

- It was not always clear if or how the potential impact highlighted under TCFD disclosures had been considered in the key judgments and estimates that companies have been making, and why that impact is not visible in the financial statements.
- Investors often have not seen any quantification of impacts on estimates or recoverability of assets and have regularly communicated that they need to have a bridge between what companies are saying in their sustainability reports and what is being seen in the financial reporting.
- In their sustainability disclosures, companies outline their plans to replace long-lived material assets to reduce carbon emissions in order to achieve net zero targets, but investors find limited or no disclosure regarding how climate targets have been reflected in the useful lives of assets, or if there were associated changes in depreciation or amortisation models. Investors also want to know which type of assets has been affected and to what extent depreciation has been accelerated if an asset's useful life has been reduced.
- Companies also highlight their plans to restructure the business along new product lines to ensure the entity remained sustainable in the long term. However, investors have noted that segmental reporting usually does not reflect the new business lines. Investors want to know the status of the new product lines, as well as whether they are independent or integrated with existing product lines.
- Companies undertake significant efforts relating to staff wellbeing or additional costs on assets to ensure lower long-term carbon emissions, but the amount spent on sustainability-related activities had not been separately disclosed. Investors would like to know if there was a long-term economic benefit from that cost, and why it could not be recognised as an asset and subsequently amortised.

AcSB- Connectivity related to Liabilities and Provisions

Armand Capisciolto highlighted that the AcSB had been addressing connectivity issues related to liabilities and provisions. He noted that both the IFRS accounting standards (IAS 37) and the draft IFRS S1 and S2 provide guidance on reporting uncertainties regarding the future. In addition to the overarching requirements of IAS 1 for the presentation of financial statements, specific standards are relevant to the reporting of provisions. In comparing IAS 37 guidance with related sustainability disclosure guidance in IFRS S1 and S2, two key connectivity concerns arise:

- Determining when the information disclosed under IFRS S1 and S2 triggered disclosure or recognition in the financial statements.
- the different approaches to the disclosure of commercially sensitive information.

When is disclosure or recognition in financial statements triggered? It is not always clear when disclosure under IFRS S1 and S2 would trigger disclosure and recognition under IAS 37. IFRS S1 requires entities to disclose if there is a significant risk of a material adjustment to the carrying amounts of assets or liabilities within the next year but not whether that would translate to a probable outflow of resources in the IAS 37 recognition guidance for provisions. If an entity discloses extensive information on its sustainability-related targets and transition plans, which then creates a valid expectation among others, then a constructive obligation could be created. The ambiguity lies in whether that would give rise to a provision, contingent liability, or neither.

Armand Capisciolto gave examples of this challenge. For instance, a company pledging to reduce GHG emissions as part of its net-zero commitments and there being no specific information on the financial impacts of climate-related commitments. The ambiguity lies in whether any of the climate commitments outlined would be considered a constructive obligation and lead to the recognition of a provision, or disclosure of a contingent liability, in the financial statements.

Armand Capisciolto suggested possible solutions. For instance, the IASB could introduce illustrative guidance to show when disclosure of sustainability-related targets and transition plans could trigger provisions or contingent liabilities. This could perhaps be done through the IASB climate-related risks in financial statements project. The IASB could also provide guidance on material disconnects. Some sustainability disclosures may create user expectations that a provision or contingent liability would exist, but neither would ultimately be triggered. The IASB and ISSB could explore providing educational guidance to help preparers identify when disclosing an explanation of such disconnects would be warranted. If standard-setting action is needed, the IASB could explore this through its climate-related risks project.

Disclosure of commercially sensitive information: Both IFRS S1 and IAS 37 contain exemptions from disclosing commercially sensitive information where disclosure could be expected to seriously prejudice the entity's position. However, the exemption in IFRS S1 was asymmetric (i.e., only applies to opportunities and not risks), whereas the exemption in IAS 37 was symmetric (i.e., applies to contingent assets as well as provisions and contingent liabilities).

Hence, even if an entity was exempt from disclosing commercially sensitive information on sustainability-related risks in its financial statements it would still be required to provide such information in its sustainability disclosures. When users see such information, they could question why there was no corresponding financial statement disclosure. A possible solution could be to amend either IFRS S1 or IAS 37 to align these exemptions.

Q&A and discussion on the IASB-ISSB connectivity presentations

Nili Shah noted that a number of connectivity issues were being cleared up by the IASB and ISSB in the drafting process and there would be more alignment. She also noted that the climate-related risks in financial statements project was now active and it would examine the points around the lack of connectivity. In her view, the biggest expectations gap was around the notion of a past event, as having a commitment did not trigger the recognition of a provision. And she observed that parts of the broader stakeholder pool did not always fully understand the criteria for the definition of liabilities and assets in the financial statements, so there could be some value to educational materials.

Armand Capisciolto observed that, unlike the private sector, from a public sector standpoint it was very common to have constructive obligations because governments made statements that people relied on and entered into economic transactions based on that. The question was whether, in considering climate commitments by the private sector, a similar view of the existence of constructive obligations ought to arise for such commitments.

Seema Jamil-O'Neill stated that standard setters needed to come up with a solution that addressed the information needs of investors without providing a checklist of all of the things that companies had to say.

An IFASS participant noted that in the draft IFRS S1 there had been a requirement to be consistent in terms of the financial information that was reported in compliance with IFRS S1 and S2 to the extent possible that it could be made consistent with what was in the financial statements. The ISSB had tentatively proposed an additional requirement, which was that a

significant difference in the assumptions underpinning the financial-related information and what was presented in the financial statements needed to be flagged and explained.

An IFASS participant asked if the connectivity between the IFRS disclosure standards and local GAAP had been considered. Seema Jamil-O'Neill explained that the papers presented had been developed by an informal grouping of standard setters and their focus was on the connectivity of IASB-ISSB requirements. She, however, observed that the UK had some companies (with significant presence and revenue earned in the EU) that will need to comply with the ESRS requirements and they rely on the European authorities to carry out their work in that space.

Armand Capisciolto stated that Canada had multiple reporting requirements. Its domestic requirements for private enterprises differed from IFRS requirements. Although sustainability reporting would likely be required by listed entities there would be domestic private companies that would also have to do sustainability reporting.

IASB Chair, Andreas Barckow pointed out that, for IFRS reporting entities, there is only one accounting standard among multiple sustainability standards which is not an ideal situation. He also stated that there were bound to be all sorts of variations from the existing IFRS standards that cannot be addressed. Furthermore, the question was whether the sustainability standards could also be applied in conjunction with domestic accounting standards, and whether, as a result, domestic requirements would also need to be constantly changed. In his view, a financial report and/or a sustainability report cannot tell the entire truth and these reports can only be an excerpt of a company's reality.

An IFASS participant observed that financial reporting also had a long-term element to the time horizon. For example, if an entity had an obligation in 50 years, it would have to be dealt with under financial reporting. He suggested that sustainability reporting also needed a framework to consider the time horizon and value of information because there was higher uncertainty in the future, more sensitivity, and a broader corridor of possible outcomes. Both financial and sustainability reporting were trying to reflect certain elements of reality in a certain way, and both were periodic reports.

EFRAG Research Project on Connectivity

Chiara Del Prete gave an overview of the EFRAG research project on connectivity between financial reporting and sustainability reporting information including the project's background, scope and approach. She highlighted the constitution of an advisory panel on connectivity comprised of sustainability and financial reporting experts including preparers, users, academics, auditors, and civil society.

She described the sustainability reporting ecosystem in Europe including the placement requirements. Of note, the management report has a dedicated section for sustainability reporting information called the ESRS Sustainability Statements. Information from other reports can be incorporated into the Sustainability Statements by cross-reference. She commented on the connection of information contained in the ESRS Sustainability Statements, financial statements, and the rest of the management report information.

She noted the general principles of connected information in ESRS 1 *General Requirements* are aligned with those of IFRS S1. Entities within the scope of ESRS requirements included both IFRS and national GAAP applicants. Hence, the connectivity considerations under EU reporting are broader than those related to IFRS S1 and S2 versus IFRS Accounting requirements connectivity.

The Acting EFRAG TEG Chair, Jens Berger added that over 150 applications had been received for the advisory panel. He noted that when connectivity discussions were held with various stakeholder groups it had been clear that people had very different understandings of certain terms depending on their background. Hence, it would be vital to have common ground in the terminology applied and in defining the appropriate project objective.

FRC thematic review of climate reporting

Sarah-Jayne Dominic reported on the scope and structure of the FRC's 2022 thematic review. The TCFD reporting focused on the Board oversight and management of risks and opportunities; identification, management and integration of risks; risks and opportunities and their impact. A lower level of emphasis was on scenario analysis, and metrics and targets. The financial statements review focused on impairment reviews, useful lives and residual values, provisions, deferred tax asset recoverability, financial instruments, the disaggregation of disclosures, and sensitivities. 25 entities from the most-affected sectors were reviewed.

Regarding the findings, companies had not always evidenced how they had applied the requirements of the TCFD recommendations. There is a demand from investors to apply the Paris-aligned scenarios, but some companies think those scenarios are not applicable in their business area. 22 out of the 25 companies had contained a reference to climate change in their financial statements, and a small number of companies had disclosed the impact of climate change on amounts recognised in the financial statements.

Sarah Jayne Dominic highlighted there would be a 2023 FRC thematic review and she outlined its focus areas.

Item 15. Digital assets

This session consisted of presentations by a) AASB (Keith Kendall); b) AcSB (Armand Capisciolto); and c) FASB (Nick Capiello).

AASB

Keith Kendall highlighted the AASB had conducted an agenda consultation and the feedback conveyed the importance that different stakeholders assigned for the AASB to develop a reporting framework for digital assets. He emphasised that the research project regarding the development of a reporting framework was at an early stage.

Keith Kendall observed that Australia was ranked 40th globally in crypto adoption but the topic was gaining significance. He also highlighted recent jurisdictional developments including trials of a retail central bank currency (CBDC), the launch of the first Australian Dollar-pegged stablecoins and a 63% increase in taxpayers undertaking cryptocurrency transactions. Hence, there was some urgency to provide entities reporting guidance to account for this type of assets so as to provide decision-useful information for users and other stakeholders of the financial statements on which they would base their investing, financing or other decisions.

Keith Kendall highlighted the AASB outreach to stakeholders including its User Accounting Committee for feedback on the prevalence of cryptocurrencies in the Australian economy, their accounting and reporting concerns, and on the expected future direction regarding these digital assets. The feedback so far indicated that only a few listed entities used digital assets, but the use amongst private companies was increasing and it could become a significant issue as customers have started requesting to pay using cryptocurrency. So, although not pervasive, the scope of potential regulation of digital assets could be significant in the near future.

Keith Kendall opined that cryptocurrencies cannot be considered as cash or cash equivalents after taking into consideration their specific characteristics and that some stakeholders failed to see it that way. He pointed to the following aspects that raise significant matters:

- *Gas fees*: The gas fees are a payment for access to the blockchain network and it is argued that these fees are considered by some stakeholders as prepayments and as intangible assets by other stakeholders.
- *Audits*: It is very difficult for companies to obtain an audit of digital assets as auditors need to better understand the technology associated with cryptocurrencies, especially blockchain. And naturally, this has a significant negative impact on the users of the financial statements who cannot base their decisions on unaudited information provided by the company.
- *Diversity in accounting treatment*: Many stakeholders are of the opinion that cryptocurrencies need to be fair valued through the profit and loss statement rather than the other comprehensive income and think that it better reflects the economic substance of these transactions. There are also views that cryptocurrencies only need to be reported regarding liabilities. Keith Kendall gave an example of a company borrowing cryptocurrencies from another company and these digital assets are accounted for in the liabilities according to this point of view.

Q&A on the AASB digital assets presentation

An IFASS participant noted that there needs to be a distinction between the accounting treatment of cryptocurrencies recognised by the regulators and those not recognised by the regulators. Keith Kendall replied by stating that cryptocurrencies are not considered legal tender in any jurisdiction in the world, but it was the basis of exchange so needed to be accounted for.

An IFASS participant asked how cryptocurrencies were embedded in the business model of stakeholders. Keith Kendall stated that the entities were still trying to work that out, as they had recognised that cryptocurrency was a growing area. The transactions were not yet material for reporting purposes, which was consistent with that experimental approach.

An IFASS participant also observed that each technology was different and certain transactions and contracts could only be done with that technology. The question was the nature of the asset that was being discussed. Keith Kendall noted that Australia was not 'leading the way' on cryptocurrency so it would be looking at the experience from other jurisdictions to inform its own insights.

AcSB

Armand Capisciolto highlighted that Canada attracts a lot of companies with cryptocurrencies-related activities. Consequently, stakeholders are putting pressure on the AcSB to provide accounting and reporting guidance for these digital assets. This is in addition to the June 2019 International Financial Reporting Interpretations Committee (IFRIC) agenda decision on the holdings of cryptocurrencies, which concluded that IAS 2 *Inventories* applied when they were held

for sale in the ordinary course of business, and IAS 38 *Intangible Assets* applied in all other cases[4].

Armand Capisciolto gave an overview of the AcSB's past publications and its current workplan and engagement with stakeholders on the use of digital assets including through the formation of a multi-expert Crypto-assets Working Group (CWG). He indicated a thought leadership release on payment tokens was expected in June 2023 and another on stable coins in Q3 2023.

Armand Capisciolto's presentation focused on the payment tokens[5] thought leadership release that was under development. He stated it aimed to give some elements to help with the classification, measurement, presentation and disclosure related to crypto currencies with a scope focusing on payment tokens and excluding Initial Coin Offerings (ICOs), custodial holdings and wrapped tokens. The CWG focused on the financial statement user perspective identifying relevant and decision-useful information about payment token holdings and the preparer and practitioner perspective for identifying challenges and costs to provide decision-useful information.

The CWG view was that remeasurement through profit and loss resulted in the most decision-useful information for all types of payment tokens and fair value measurement better reflected the economics of an entity's payment token holding, and it will enhance comparability across entities. The fair value of thinly traded payment tokens was more useful than their cost, given the heightened price volatility inherent to payment tokens.

Armand Capisciolto stated that users were mostly supportive of the additional identified disclosures (i.e., significant types of payment token holdings, source of fair value information and the assumptions used to calculate the fair value of thinly traded payment tokens, a description of the governance, safeguarding and risk management processes, and information about any restrictions or lockup periods on the entity's payment token holdings).

Q&A on the AcSB digital assets presentation

An IFASS participant asked if the CWG had discussed the exclusion of preparer-created crypto. Armand Capisciolto stated that it had not, but crypto mining was a significant number of the entities listed in Canada. Those would be considered internally generated. Nick Cappiello explained that from a FASB perspective, it was the person who was sponsoring the work on the blockchain and creating those tokens. The miners did not create that token but earned it by doing the work.

The IASB Chair, Andreas Barckow asked why entities would not qualify for the IAS 2 broker-dealer exception if they sought fair value through P&L treatment. Armand Capisciolto stated that entities which were not actively trading would probably claim the reason they were holding crypto-assets was for capital appreciation and they were almost offended by the intangible asset classification as they did not hold these assets for operational purposes.

FASB

[4] Cryptocurrencies did not currently meet the definition of financial assets in IFRS 9 Financial Instruments, or cash equivalents in IAS 7 Statement of Cash Flows.

[5] Payment tokens are tokens without physical substance, were fungible, had been created or resided on a blockchain and were secured through cryptography, were not issued and/or backed by a central bank, whose value was not pegged or tied to that of another currency, commodity, or other financial instrument, and did not provide the payment token holder with enforceable rights to, or claims on, any underlying goods, services, or other assets

Nick Cappiello gave an overview of the feedback to the FASB agenda consultation that showed strong support for standard setting on digital assets. The following main issues with current accounting for digital assets were raised by stakeholders:

- Accounting does not reflect the economics: Accounting for crypto as an indefinite-lived intangible asset did not show gains until realised.
- Impairment: Applying the intangible asset model captured the greatest loss experienced without any consideration of recovery.
- Restatement risk: A lack of guidance was leading to different interpretations and could ultimately lead to restatements.

In March 2023, FASB issued a proposed Accounting Standards Update (ASU), *Intangibles- Good and Other- Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto-Assets*. Nick Cappiello described the scope of the proposed ASU. To qualify to be considered as crypto assets, an asset should meet all the following criteria:

- Meet the definition of an intangible asset as defined in the codification master glossary because it puts out of scope any financial assets that might reside in a blockchain
- Not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets because it eliminates services like concert tickets through the blockchain.
- created or resided on a distributed ledger based on blockchain technology because it puts out of scope the intangible assets which are not created or do not reside in the blockchain like the personal data collected through the internet for example.
- secured through cryptography
- fungible because it is really hard to value non-fungible assets which are unique.
- Not being created or issued by the reporting entity or its related parties because it excludes from the scope the issuer of the crypto currency and not the miner of it as he is rewarded by the token that was created by the blockchain.

Nick Cappiello presented the proposition of the FASB guidance in which crypto assets within scope would be measured at fair value, increases and decreases would go through net income, and costs to acquire crypto assets, such as commissions, would be measured as incurred expenses.

The improvement was that it better reflected the economics, reduced cost, depicted volatility, and standardised information that was currently provided voluntarily.

In the income statement and according to Nick Cappiello, the gains and losses on the price movements in crypto currencies should not be together with the amortisation or impairment of those other intangibles. In the balance sheet, crypto assets would need to be separated from other intangible assets measured using other measurement bases.

Nick Cappiello mentioned the additional disclosures of crypto assets (i.e., Significant crypto asset holdings; Restrictions on crypto assets held; Reconciliation of activity between the beginning and the end of the period; Historical realised gains and losses)

Nick Cappiello stated that once the proposed Accounting Standards Update (ASU) became final, preparers would adopt the following transition guidance. In the year of its application preparers would adjust the beginning of period retained earnings for the transition to fair value. Guidance

would also be effective on the same date for all entities and early adoption would be allowed. Finally, he outlined the envisioned next steps in the consultation, redeliberation and ASU finalisation.

Q&A on the FASB digital assets presentation

An IFASS participant noted the characteristics of a currency were not currently present in cryptocurrencies. Companies trading with cryptocurrency were very incidental, and some of them had abandoned it because they could not put it through the risk management policy.

An IFASS participant asked whether the accounting disclosure would be used for corporate entities, limited liability partnerships (LLPs) or NGOs. Nick Cappiello stated that it would apply to all reporting entities under US GAAP.

Item 16. Jurisdictional financial reporting priorities and updates 1

AOSSG

Nishan Fernando explained that the Asian-Oceanian Standards Setters Group (AOSSG) had 28 member jurisdictions across the Asian-Oceanian region, and 14 had provided information. Some jurisdictions had fully converged with IFRS 17 and some had not. The majority of jurisdictions were fully or substantially converged with IFRS applicable for listed entities, but differences included differences in effective dates, changes in wording to be in line with other legislations or regulations, and differences in the application of IFRS 9. The majority had adopted IFRS for SMEs for the financial reporting of small and medium enterprises.

Priorities for the jurisdictions included IFRS convergence, the elimination of carveouts, issues that had surfaced during the post-implementation review ('PIR') of IFRS 9, full implementation of IFRS 9 and IFRS 17, service concession arrangements, capacity building, and PIRs on IFRS 15 and IFRS 16. The key issues for most jurisdictions were related to sustainability reporting and IFRS 17.

Nishan Fernando further indicated that issues on IFRS 9 included a lack of methodologies for borrower rating, which led to a significant increase in credit risk ('SICR') based on days past due. There was ambiguity in applying paragraph 2.6(b) of IFRS 9 on the ability to settle net in cash by practice. There was also a lack of guidance on whether and when an entity was permitted to change its accounting for such contracts from 'own use' to derivative accounting and vice versa after contract inception. He noted that with regard to day-one gains or losses, paragraph B5.1.2A of IFRS 9 did not adequately cater for contracts to buy or sell a non-financial item that was within the scope of IFRS 9, which could lead to an inappropriate accounting outcome. Research was being carried out on the classification and measurement aspects of IFRS 9 as identified during its PIR.

Issues on IFRS 15 included the identification of a financing component and the application of paragraph 35(c) of IFRS 15 relating to over time revenue recognition. For IFRS 16, there have been complexities in estimating the incremental borrowing rate and the lease term when

extension options are not explicit. Furthermore, the main reasons for not implementing IFRS 17 are the lack of expertise, lack of data, resources, and the cost versus the benefit of implementing it. Despite these issues, most jurisdictions were in line to adopt IFRS 17 by 2025.

Nishan Fernando added that some jurisdictions needed to strengthen their regulatory frameworks and engage stakeholders. He also talked about other priorities such as lack of clarity in separate financial statements and carbon emissions trading. He further noted for sustainability reporting different jurisdictions were at different stages. 13 jurisdictions have started initial work on the sustainability standards. Nine jurisdictions are liaising with other regulators as there is a lack of a regulatory mechanism to implement sustainability standards. Seven jurisdictions are studying the sustainability standards and are performing research and educational programmes. Three jurisdictions have set up separate Sustainability Standards Boards but no one has issues sustainability standards officially. They are waiting for the ISSB's Standards and then will adopt them.

PAFA

Lewis Hussein presented the Zimbabwean perspective on the application of hyperinflationary accounting (IAS 29 *Financial Reporting in Hyperinflationary Economies*). He presented a review of the definition of hyperinflation as per the standard which has five indicators, for example, an indicator about keeping wealth in non-monetary assets or stable foreign currency is applicable in Zimbabwe.

From a user's perspective, there are differing implications of the current Standard for the two main types of users.

- For users (e.g., major shareholders) with access to privileged information including managerial accounting information[6], and who would look at the information on a more regular basis, the standard would create an impression that wrong decisions were undertaken by the reporting investee entity. So, these users did not agree with the reported outcomes from applying the standard. For them, there is a strong case for the use of a stable currency as the measuring and reporting currency to avoid applying consumer price indices (CPIs) and exchange rates. This particular issue affects holding companies and listed entities that hold Zimbabwe investments.
- For users who do not have access to privileged information, the financial statements from the current Standard can form the basis for their analyses.

From a preparer's perspective, preparers found it hard to apply the standard; it took too much time to prepare; it neither faithfully reflected the transactions nor did it provide relevant information. The alternative exchange rate was more reflective of the actual level of inflation better than the CPIs that are published. Tax records have to be on a historical cost basis and there are tax advantages upon assessment of preparers' income. However, there are disadvantages, e.g.,

[6] Managerial accounting is likely to be in US dollars or another stable currency. There may be some disparities between the information that would have been used at a point in time for decision-making for executing transactions, for e.g., additions to fixed assets costed 8 million US dollars paid in Zimbabwe dollars. At year-end, applying the current standard resulted in reflecting only 4 million US dollars spent (as the Zimbabwe dollar is the reporting currency) instead of the 8 million US dollars actually spent.

relating to tax depreciation. In Zimbabwe, there are blended exchange rates where a mixture of US dollar inflation and Zimbabwe dollar inflation is calculated and this presents challenges for preparers. Also, preparers indicated that their audit report would have some modifications, e.g., relating to non-compliance with IAS 21 or entities having used a rate that is not the official rate, therefore not complying with laws and regulations.

From an auditor's perspective, compliance with the official exchange rates and official general CPIs would help them as some reporting requirements are set out in legislation. However, this was not what was done in practice.

Lewis Hussein then provided some points for attention/improvement. For example, both standards IAS 21 and IAS 29 need to be linked better to provide decision-useful information to users. The local currency is treated as a foreign currency, but decisions are made in US dollars, so further guidance is needed on whether the US dollar could be the functional currency.

Q&A on the PAFA update

An IFASS participant asked which currency the Zimbabwean public use to conduct transactions, and how Zimbabwean companies or individuals saved their money in banks. Lewis Hussein explained that it depended on the individual type of employment or sources of income. Diaspora remittances represented a significant inflow of money into Zimbabwe. There was sometimes pressure on the Zimbabwean government to encourage payment for some utilities and tax liabilities in US dollars.

Lewis Hussein added that both individuals and firms try and maintain US dollar cash balances and receivables and have also kept US dollars in the bank in recent years. The policy around access to bank balances has remained fairly stable. Non-mandatory assets remained an attractive avenue but were fairly illiquid.

An IFASS participant asked if Zimbabwe had encountered any problems in implementing paragraph 14 of IAS 21, which stated that the functional currency of a jurisdiction was not allowed to be changed if the local currency became hyperinflationary. Lewis Hussein explained that Zimbabwe had been applying it on the basis that if there were no significant US dollar inflows and outflows then the conclusion would be that the functional currency remained the local currency, which was hyperinflationary, which would necessitate a need to continue to apply IAS 29. From a regulatory perspective, there had been an insistence on having the local currency as the accounting currency in Zimbabwe, which had been a source of confusion in not being able to apply the standard in the suggested manner.

UK FRC

UK FRS updates

Stephen Maloney provided an overview of UK FRC's recent publications. He stated that regarding FRED 82 *Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review*, the FRC's six FRSs were subject to a periodic review every five years. The 'Main standard' FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* had originally been based on the IFRS for SMEs accounting standards and the second periodic review had commenced in March 2021. In the

course of this second periodic review, changes to IFRS accounting standards, notably IFRS 9, IFRS 15 and IFRS 16 which were not considered in the first periodic review, had been a key focus. The FRC also looked at the changes proposed for the third edition of the IFRS for SMEs Accounting Standard.

Stephen Maloney provided an overview of the proposed FRED 82 amendments published on 15 December 2022. In particular, for Revenue from Contracts with Customers, proposals included rewriting Section 23 Revenue of FRS 102 to align towards the IFRS 15 five-step revenue recognition model, with appropriate simplifications. Section 18 Revenue of FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* would be rewritten based on the same principles but with further simplifications. He provided an overview of why the amendments are being proposed, e.g., the FRC's accounting standard-setting principles include seeking IFRS-based solutions unless an alternative clearly better meets the FRC's overriding objective for standard-setting.

On lease accounting, the proposal was to rewrite Section 20 Leases of FRS 102 to align towards the on-balance sheet lease accounting model from IFRS 16 Leases. Feedback received provided support to align with IFRS 16 and to recognise leases on the Balance Sheet provided that appropriate simplifications could be offered, e.g., simplifications in determining the discount rate.

There was no expected credit loss model proposed as stakeholder feedback indicated that it was too soon to introduce such a model, pending the finalisation of the third edition of the IFRS for SMEs Accounting Standard.

Stephen Maloney then provided an overview of the proposed amendments for FRED 83 *Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 101 Reduced Disclosure Framework – Pillar Two model rules* based on the IAS 12 IASB Exposure Draft.

Non-financial reporting

Jenny Carter stated that the UK government had recently made some announcements around ISSB endorsement, and intended to put in place a formal mechanism to assess the first two standards. It had also committed to introducing mandatory reporting against UK-endorsed standards. To support the government in its decision making in that regard, it planned to set up two advisory committees. The first would be government-led and would consider public policy issues. The second would be supported by the FRC with an independent chair and would have a technical focus and consider how the requirements of the ISSB standards fit alongside the existing reporting requirements for the entities that would be within scope.

A non-financial reporting review had also been announced by the government, which the FRC was advising on. This is a broader review of the UK's non-financial reporting framework intending to take a fresh look at the wider legal landscaping with sustainability disclosures.

Four corporate reporting requirements had been proposed, which would provide better information to investors:

- Proposals on the resilience statement, which requires companies to provide information about their resilience over the short, medium and long-term.
- Proposals on the audit and assurance policy, which would require companies to put in place a policy around the extent to which they were seeking assurance over matters reported in the annual report. The company would set a policy on a three-year basis and would report annually on how that policy had been implemented.

- Additional reporting on the steps that company directors had taken in relation to fraud prevention.
- Capital maintenance and dividends proposals that would require disclosure of distributable profits in the annual report, as well as narrative information about the policy related to dividends, which linked back to the resilience statement, as well as information confirming the legality of the dividends that had been paid.

Role of UKEB

Pauline Wallace commented on the role of the UKEB noting it was an independent body with endorsement responsibility, and which made its decisions independent of both the UK government and the FRC. She stated that the UKEB would be endorsing a number of projects in 2023, one of which was the Pillar 2 tax project whereby the endorsement process needed to be done very quickly; and a second is the supplier financial arrangements project.

Day 3: 21 April 2023

Item 17. Introduction

Chiara Del Prete welcomed the attendees and summarised the day's planned agenda.

Item 18. Jurisdictional financial reporting priorities and updates 2

FASB Update

Jeffrey Mechanick gave an overview of FASB's mission, objective and audience.

He highlighted that the FASB did not have a broad mandate to set standards for sustainability reporting, but it had a couple of ESG-related projects on its agenda on issues that affected financial reporting. Given the various inquiries and interest from stakeholders on sustainability matters, the FASB also issued a Staff Education Paper in 2021 on the intersection of ESG matters and financial reporting standards. He also noted that FASB staff and Board members had heard a specific interest in ESG/ sustainability reporting from members of the FASB's Not-for-Profit Advisory Committee and other stakeholders in that sector, and he mentioned that impact materiality appeared to be as important as financial materiality for that sector.

Eight Accounting Standards Updates (ASU) had been issued since the beginning of 2022, including two thus far in 2023. That low number reflects the fact that the FASB had reset its agenda following a public agenda consultation in 2021. ASU 2022-02 removed the specialised troubled debt restructuring guidance for certain types of loan modifications. ASU 2023-01 covered leasing arrangements between entities under common control. ASU 2022-01 better aligned the hedge accounting in US GAAP with an entity's risk management activities by allowing entities to hedge multiple layers in a single closed portfolio in a fair value hedging arrangement. ASU 2022-04 focused on the disclosure of supplier finance programme obligations. Jeffrey Mechanick explained that buyers had to include a description of the payment terms and assets pledged as security, as well as the obligations that the buyer had confirmed as valid to the finance provider or intermediary.

During the FASB's agenda consultation, four key themes were identified:

- Greater disaggregation of Financial Reporting information for financial statements users.

- Need to address emerging issues such as digital assets, and ESG-related areas.
- Reduce unnecessary complexities in US GAAP.
- Need to improve the FASB's standard-setting process.

Jeffrey Mechanick detailed the prioritisation of topics during the feedback to FASB's agenda consultation. A project on digital assets was the highest priority for respondents from all stakeholder groups. The third highest priority, but with strong interest from investors was the disaggregation of financial reporting information. He mentioned that the top seven topics based on investors' priorities were now either on FASB's technical or research agendas.

Three new projects had been added to the technical agenda and several projects from the research agenda had been removed. The new projects included accounting for and disclosure of crypto assets, accounting for and disclosure of software costs, and accounting for environmental credit programmes, where he noted the lack of guidance had contributed to diversity in how these programmes were accounted for in practice.

Jeffrey Mechanick outlined the FASB's current projects, including fourteen technical agenda projects, seven research projects, and three post-implementation review (PIR) projects. He mentioned that for the Joint Venture formations project, there will be amendments in the following months. There was further explanation stating that the amendments would require a joint venture to initially measure its net assets at fair value upon formation, based on the existing requirements for business combinations in US GAAP.

Jeffrey Mechanick elaborated on the segment reporting project. He noted that currently in US GAAP there was limited information on segment expenses, but such information was considered valuable by investors. An exposure draft was issued in October 2022 focused on providing additional transparency by introducing a disclosure principle requiring public entities to disclose significant segment expenses.

He noted that the issue involving financial instruments with ESG-linked features within the research project on the definition of a derivative covered the same matter as the IFRS 9 amendments project. However, for US GAAP, when there was an embedded feature, the key issue was whether it was clearly and closely related to the host instrument, or a derivative that had to be bifurcated out and accounted for separately at fair value.

Jeffrey Mechanick also gave an update on the 'Accounting for and Disclosure of Software Costs' project. He explained that there are two software accounting models under the US GAAP related to software that is solely for an entity's internal use versus software that the entity plans to sell or licence to customers, with different capitalization thresholds and timeframes. Stakeholders had identified that the guidance was outdated, inconsistent, and often resulted in diversity in practice. The FASB had decided that the project objective was to modernise the accounting for software costs and to enhance transparency on entities' software costs. The FASB had recently decided to pursue only a single model, more like the internal-use model, and the FASB staff were working on various details of the model.

Jeffrey Mechanick commented on the 'Accounting for Government Grants' research project, a topic that has enjoyed renewed interest due to the US Federal and other governmental assistance provided during the COVID-19 pandemic. Thirty years ago, the FASB had scoped out businesses from the guidance that applied to not-for-profits for further study, but this study has never occurred. The FASB will be asked whether to move this project to the technical agenda and to try to agree on the details of an IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*-based model.

Q&A on the FASB update

The IFASS Chair asked about the outcome of the educational material on ESG. Jeffrey Mechanick explained that the elaboration of this paper had raised awareness that ESG considerations affected financial reporting. FASB Technical Director, Hilary Salo noted that the feedback had helped to provide context with regard to the FASB's view that many ESG-related risks and opportunities would already be considered in many of its accounting standards.

An IFASS participant asked for more information about the 'Accounting for and Disclosure of Software Costs' project. Jeffrey Mechanick replied that the types of costs capitalized would not likely be different. The bigger question was when to start or stop capitalization. Hilary Salo added that the aim was to determine whether it was possible to have a single model.

An IFASS participant asked how the FASB balanced the push for developing new standards against meeting constituents' needs. Jeffrey Mechanick noted that balancing the needs of all stakeholders was challenging, and particular attention was paid to the needs of investors. He noted that the research agenda was used for additional outreach to help determine whether there was a need for a standard. Hilary Salo added that any opportunities to provide educational materials to help with how the standard should be applied broadly without moving to a standard-setting process were taken advantage of. There were also criteria in place for whether a project should be added to the FASB's technical agenda, which included: whether the issue is pervasive; whether technically feasible, cost-effective solutions exist; and whether the issue has an identifiable scope.

The Group of Latin American Accounting Standard Setters (GLASS) Update

Jose Luiz Carvalho gave an overview of GLASS's objectives. GLASS is a not-for-profit organisation representing 16 countries in Latin America. Its objective included: 1) participating and responding to documents issued by IASB and ISSB (amongst others) 2) improving the quality of information in financial statements by promoting the adoption of standards, 3) collaborating in the dissemination and training of IASB/ISSB standards in Latin America, and 4) interacting with technical bodies for project financing.

GLASS had a permanent agenda decision committee and a permanent sustainability committee. It was noted that GLASS participated in Accounting Standards Advisory Forum and had representation in the Sustainability Standards Advisory Forum (SSAF). It has also been building its relationship with ISSB and developing a translation committee for translating the standards into Spanish.

Jose Luiz Carvalho commented on the key topics for GLASS. He mentioned that hyperinflationary environments complicated the economy. Regarding agriculture, the task force had identified some inconsistencies. For income taxes, there were concerns regarding certain deferred tax liabilities (DTLs) and regarding the prohibition of discounting of DTLs. It was mentioned that there were concerns about not accounting for research and development (R&D) expenditure and capitalisation of borrowing costs for SMEs. On sustainability, the issue was about the changes to legislation required to apply the standards.

Q&A on the GLASS update

An IFASS participant asked about the remit of the standard-setting boards to issue locally adopted standards. Jose Luiz Carvalho explained that stock exchanges had created a special programme for companies adopting sustainability standards. He pointed out that it is the government who needs to require the application of sustainability standards therefore it is easier when countries have professional bodies that belong to the government to make the process of converging towards sustainability standards.

An IFASS participant asked whether IAS 29 could be applied. Jose Luiz Carvalho explained that IAS 29 is very restrictive for countries with high inflation. He noted that there was also a judgmental issue in certain circumstances. He noted that a sample of countries in the region had been taken together to simulate the effect of inflation on the financials and there had been a qualitative discussion beyond the 100% threshold.

Item 19. Intangibles

This session consisted of presentations and a panel discussion on intangibles moderated by IFASS Chair Chiara Del Prete and consisting of four panellists: Pauline Wallace (UKEB), Keith Kendall (AASB), Hernan Casinelli (GLASS); and Jens Berger (EFRAG).

UKEB presentation

Pauline Wallace highlighted key messages reflected in a March 2023 UKEB Qualitative Study on intangibles: *Accounting for Intangibles- UK Stakeholder Views*[7]. She observed that accounting for intangible assets was top of the agenda for UK stakeholders. In this regard, she highlighted that UKEB had done an economic literature analysis akin to that done when assessing Standards for endorsement. The macroeconomic literature pointed to the absence of intangibles from gross domestic product calculations. For the UK, Office for National Statistics (ONS) estimates suggest that, in recent years, UK annual investment in intangibles has been very similar to investment in physical assets, but many intangibles do not appear in official national accounts. From a microeconomic perspective, the literature had indicated that there is some positive correlation between intangibles and a company's performance. She also noted that most of the intangibles on the balance sheets of UK-listed FTSE-350 companies arise from acquisitions.

UKEB had also engaged with stakeholders through extensive interviews. A key finding was that there was no single problem or answer to the accounting of intangibles. There were generally consistent messages coming from stakeholders about the need for increased disclosures due to the following concerns:

- The first concern is that there is limited recognition of intangibles. IAS 38 is an old standard and, in addition to not reflecting the current environment, there has been a change in the conceptual framework. Many assets would meet the definition of an asset but these are prohibited from recognition in IAS 38.
- IAS 38 is rules-based, and the basis for the prohibition of capitalisation is not always clear.
- There are inconsistencies between IAS 38 and IFRS 3 *Business Combinations* and IFRS 6 *Exploration for and Evaluation of Mineral Resources* requirements. There is an

[7] UKEB, March 2023, Accounting for Intangibles- UK Stakeholder Views

issue with the granularity in the disclosures, particularly for intangible expenses that are not capitalised.

Nonetheless, some stakeholders preferred that IAS 38 does not undergo any changes, though the arguments given might not be accepted by standard setters. In response to these concerns, Pauline Wallace suggested a more principles-based approach to the recognition of intangibles. Increased recognition would result in increased judgment, and potentially reduce comparability. On measurement, she noted that there was general support for a cost-based model, except for crypto-assets that should be measured at fair value.

Finally, she noted that stakeholders have conveyed that there is a lack of information to allow an understanding of the nature of the capitalised and non-capitalised assets. Thus, some investors do not have confidence in the recognition of intangibles on the balance sheet and would be concerned about over-capitalisation.

AASB presentation

Keith Kendall gave an overview of an AASB project on intangibles, which has been focused on the views of lenders. This project is a follow-up to a March 2022 AASB staff paper[8] that focused on improving intangible assets' disclosures and reflected the views of all stakeholders. The AASB project aims to address the broader intangibles concept encompassing questions about whether items not included on the balance sheet should be recognised on the balance sheet, and if they are to be recognised on the balance sheet, why and how they should be included. To provide some context, he highlighted the growing significance of intangibles in the Australian economy including amongst Australian SMEs, which are more likely to achieve high growth than their peers, if they file their Intellectual Property (IP) rights. Compared to other IFRS-adopting jurisdictions, Australia had a higher level of intangible assets recognised on balance sheets. There has also been a particular focus on the feasibility of intangibles being used as loan collateral and to secure financing.

Keith Kendall highlighted that the 2022 AASB staff paper had concluded that stakeholders generally agreed about the need for increased disclosures, but not necessarily greater recognition on the balance sheet. Consequently, the AASB has decided to prioritise disclosures in the project and explore potential solutions that would better prepare and inform preparers and users about the increased disclosures.

Phase 1 of the AASB project would consider the metrics that users find useful. Examples of these metrics include brand awareness, customer loyalty and employee retention and satisfaction rates. He acknowledged that there were a number of reporting frameworks that could be referenced and used by entities and the AASB is not starting from scratch, but it is building on what already exists.

Keith Kendall shared preliminary feedback on a survey that was targeted at lenders.

- First survey question (i.e., *whether intangibles can be an indicator of a company's value and support financial financing decisions? The affirmative response options were: all intangibles including those not recognised in the financial statements; some intangibles including those not recognised in the financial statements; and only intangible assets that are recognised in the financial statements*): Most respondents responded affirmatively to this question. (i.e., 43% of respondents indicated all intangibles, and nearly a third of respondents indicated that only some intangibles would be an indicator of a company's value and support financial financing decisions).

[8] AASB, March 2022, Intangible Assets: Reducing the Financial Statements Information Gap Through Improved Disclosures

- Second survey question (i.e., *whether intangibles can be an indicator of a company's value and support financial financing decisions? The affirmative response options were: all intangibles assets; and only intangibles assets that are identifiable/separable and expected to generate future economic benefits*): This follow-up and largely similar to the first question. It resulted in different responses (i.e., approximately 30% of respondents indicated that all intangible assets would be an indicator of a company's value and support financial financing decisions, but a majority of respondents-57% indicated that only intangible assets that were identifiable/ separable and expected to generate future economic benefits would do so). The inconsistency between the responses to the first and second questions could be because of what respondents regarded as separable or identifiable.
- Respondents were also asked how accounting requirements should be expanded to incorporate more information on intangibles in financial reports. A majority of respondents (i.e., 57% of respondents) wanted more intangible assets to be recognised on the balance sheet and a majority (i.e., 53% of respondents) wanted to have more disaggregated information regarding expenses. This finding is in contrast with that of the March 2022 AASB staff paper, which as noted showed support for increased disclosure but not necessarily greater recognition on the balance sheet. This could be due to the current AASB project being focused on the views of lenders.
- On other questions posed, most respondents (89%) considered metrics would provide useful information; the majority of respondents (64%) supported integrating the metrics into the balance sheet and statement of comprehensive income; and most respondents (75%) indicated that metrics on intangibles should be disclosed in the notes to the financial statements.

GLASS presentation

Hernan Casinelli highlighted several concerns related to IFRS requirements for intangible assets (i.e., IAS 38) that are faced by constituents in Latin America.

Cryptocurrencies: Hernan Casinelli noted that accounting for cryptocurrencies is challenging due to the fast evolution of the asset class and the diversity of opinion on the 2019 IFRS Interpretations Committee (IC) agenda decision that clarified the accounting for cryptocurrencies with no claim on the issuer. Some stakeholders had expressed concerns about the IASB addressing the accounting for cryptocurrencies through the intangibles project. They had concerns about the quality of the information on cryptocurrencies and wanted a comprehensive standard on the recognition, measurement and disclosure of crypto-assets. Consequently, the Mexican accounting standards setter, CINIF, has issued a comprehensive national accounting standard for cryptocurrencies, which had been welcomed by stakeholders.

IAS 38 application challenges: Another concern for stakeholders is whether IAS 38 is working well in practice. Deficiencies in the reporting of intangible assets include the need for alignment to the definition of 'assets' in the conceptual framework, and difficulties applying IFRIC 12 *Service Concession Arrangements* when the intangible asset model is required. In the Latin American region, concession arrangements were very important, and there is a lack of experience with respect to applying the interpretation when the intangible-asset model is used for the contracts.

Some stakeholders preferred the elimination of the re-evaluation model under IAS 38 because users and regulators have concerns about the quality and reliability of the information provided through different techniques for estimating the fair value of intangible assets. Regarding intangible assets with an indefinite useful life, some stakeholders preferred the IFRS for SMEs approach.

Capitalisation of development costs: Hernan Casinelli noted the mixed views on the capitalisation of development costs. Some users had advocated for expensing this expenditure arguing that the current treatment (i.e., capitalisation) introduced difficulties when discounted cashflow models were used to estimate the market value of a company. However, others were in favour of recognising such expenditures in the balance sheet. SMEs were more inclined towards including the expenditure as an asset in the balance sheet compared to listed companies.

Disclosures: Some stakeholders had concerns about disclosures for the whole intangibles ecosystem and not just about recognised intangibles. Disclosing information about the risks and opportunities arising from the intangibles is important, in order to understand the impact on a company's ability to generate cash flows and thus, the market value of the company.

EFRAG presentation

Jens Berger highlighted the key messages from the April 2023 EFRAG Recommendations and Feedback Statement[9] to the Discussion Paper[10] *Better Information on Intangibles, Which is the Best Way to Go?* He noted that EFRAG's project on intangible assets had focused on intangibles used in an entity's operation.

Recognition: The feedback suggested that different solutions might be needed for different types of intangibles. While stakeholders accepted that IAS 38 should be replaced or updated, they did not necessarily want every intangible to be recognised on the balance sheet. The feedback has also suggested that the difference between market capitalisation and the book value of equity should not necessarily be explained on the balance sheet, but there is potential for additional intangibles to be recognised on the balance sheet.

Instead of explicit prohibitions for recognition of certain intangibles, it would be better to explain when there was control of the assets and when to start or stop recognising costs. He observed that IAS 38 was a fallback standard, and many problems arose because there was no other standard to turn to. EFRAG suggested enriching the standard with application guidance explaining the concepts better in terms of the actual issues companies faced. EFRAG recommended conditional recognition, as some internally generated intangibles have to follow a lengthy route before they could be recognised, and the costs incurred would effectively be lost. Furthermore, the disclosure requirements should be looked at to determine whether they were fit for purpose.

Measurement: As the EFRAG project scope/focus was on intangibles used in the operation of entities, cost was considered to be the default measurement basis, but fair value might sometimes be a sensible solution.

Information on future-oriented expenses: Jens Berger highlighted the support expressed for disclosure of future-oriented expenses (i.e., incurred expenses that have the potential to generate or enhance future income). EFRAG recommended either:

- preparer's management should be allowed to decide what are the future-oriented expenses. However, this must be guided by the accounting standard setters; or
- alternatively, a matrix presentation proposed by EFRAG could be used by preparers to present the future-oriented expenses. Jens Berger observed that the feedback on the

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[9] EFRAG, April 2023, *Recommendations and Feedback Statement: Discussion Paper- Better Information on Intangibles*

[10] EFRAG, July 2021, *Better Information on Intangibles: Which is the Best Way to Go?*

proposed matrix presentation was positive in contrast to the reservations expressed on a similar proposal under the Primary Financial Statements project.

It is also worthwhile to include some of the future-oriented expenses in the notes to the financial statements.

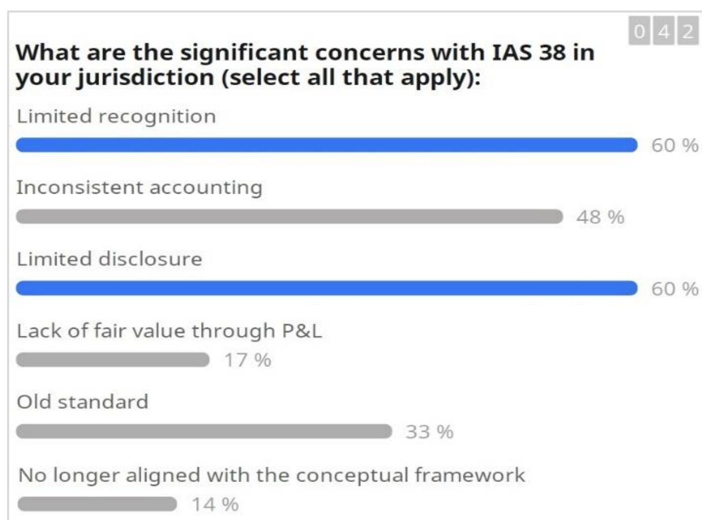
Information on specific intangibles: the concept of key intangibles had been raised. More information is sought on the 'key' intangibles that drove the value of a company. Quantitative information should and could be included, along with narrative descriptions.

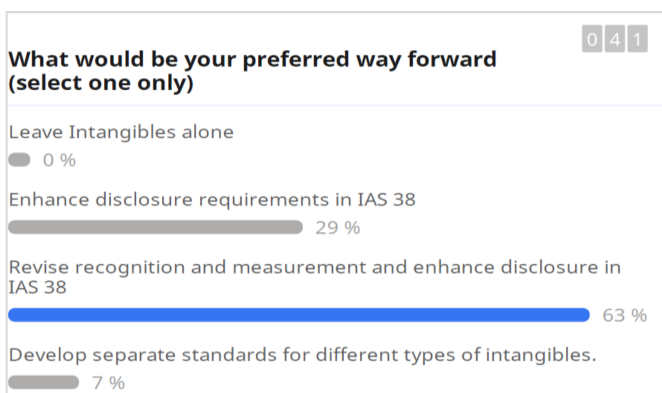
Information on risk and opportunity factors affecting intangibles: The feedback had been to limit this information to the key intangibles. EFRAG recommended that some information about the risks and opportunities arising from these intangibles should be disclosed, including how the KPIs are being measured and how risks are mitigated. Information on risks and opportunities for certain intangibles was a connectivity point with sustainability reporting.

Scope: Jens Berger noted that any project on intangibles would be very significant, even if there was a phased approach. There could initially be consideration of disclosures or measurement. Commercial sensitivity is also a concern for many, and there has to be a balance with respect to the need for information on intangibles.

Panel discussion

Significant concerns and way forward: Chiara Del Prete initiated the panel discussion with polling questions. She asked the IFASS participants what they thought the significant concerns with IAS 38 were, and what was their preferred way forward. The responses are reflected below.





User perspective: Chiara Del Prete asked Pauline Wallace why investors do not put significant weight on the recognition of intangibles on the balance sheet, and whether the role of the notes to the financial statements is changing. In reply, Pauline Wallace suggested that one issue is that investors like disclosures as they could fit them into their models. However, she thought that among investors there is an increasing understanding of the relationship between capitalisation and the usefulness of information and, therefore, the need for capitalisation. There is also a lack of confidence in the decisions around capitalisation and the judgements applied. However, that might be a wider issue and not specific to intangibles. Investors' preference is to have the disclosure in the financial statements.

Metrics: Chiara Del Prete asked Keith Kendall why the AASB had focused on metrics. He replied that based on previous research, there have been indications that users would like to use metrics to gain the information they seek as they were familiar with these metrics. This choice also builds on a lot of work previously undertaken by different frameworks, particularly in the non-financial information setting with sustainability reporting.

Implications for SMEs: Chiara Del Prete asked Hernan Casinelli how changes to IAS 38 would impact SMEs in Latin America. He replied that there is a concern among users on the treatment for some intangibles in Section 18 of IFRS for SMEs, which has more restrictions than IAS 38 on recognising intangible assets. There is a desire to recognise some intangibles that could not be recognised under the current requirements, for example, expenditure related to development. If IAS 38 changes differently from IFRS for SMEs, then there could be a barrier to implementing the sought changes. Many local GAAPs require SMEs to recognise such assets on the balance sheets, so applying IFRS for SMEs for the first time and having to remove all of the assets from the balance sheet would have a significant impact.

Approaches to different types of intangibles: Chiara Del Prete asked Jens Berger whether there is a unified asset class of intangibles, and whether there is a correlation between the type of resource and the possible reporting requirements to be applied. She also asked about the treatment of 'intangible intangibles' (i.e., those with no clear relationship between an investment and the value the intangible creates). He replied that if intangibles are considered to be everything other than tangible assets, then that would encompass a very large group of items and different solutions have been proposed for different types of intangibles. For 'intangible intangibles', the solution is more about disclosing information in the notes, and possibly the management report. For more tangible intangibles there is more sympathy for recognition in the financial statements.

Q&A on the intangibles presentation and panels

Nili Shah observed that the subject of intangibles is very broad and some stakeholders have suggested that the IASB takes a phased approach to the project. She asked for suggestions on practical approaches to doing so. She also asked whether the sustainability reporting side should be allowed to develop (i.e., possibly encompassing the disclosure of some intangibles) first before addressing the financial reporting aspects, and whether the initial focus of the IASB should only be on enhancing the disclosures in the financial statements.

Pauline Wallace expressed concern about breaking up the work by type of intangible asset, as that would lead to a lack of comparability, though there could be specific asset categories that have to be looked at, such as digital assets or emissions certificates. She was concerned about pursuing disclosures first because there was an underlying problem with IAS 38 and its recognition and measurement requirements. Chiara Del Prete remarked that there are two types of disclosures depending on whether the intangible meets the definition of an asset. For one type, there could be a development of KPIs with financial content, whereas for the other intangibles, like reputation and human capital, there could be an overlap with sustainability reporting and they could be better suited to remaining in the management report.

Andreas Barckow suggested that any recommendations to the IASB should take into account how to best use the scarce available resources at the IASB. He observed that, as is the case for tangible assets with their numerous standards, there could be a question about whether there should be only one intangible assets standard. He opined that the intangibles problem could not be completely resolved with the amendment of a single standard. He asked whether the project should be centred around finding the value of intangibles or the value creation potential of intangibles. And whether the objective was to depict the asset base or the performance of an entity over time. He noted that expensing everything as incurred would likely understate the performance of an entity in one year, with the consequence of overstating in another period.

Pauline Wallace noted that her concern is that individual asset types should not be looked at; the focus should be on the objective of holding the assets. She suggested that value creation is implicit in the Conceptual Framework's definition of an asset. She emphasised that not a single standard but one principle is what is needed.

Jens Berger agreed that it is value creation that is important, at least for some assets. For more fungible items, a standalone value might be of interest, but users have indicated that in that case, fair value should be used as the measurement basis. At some point, there would be a need to look at how to divide up the project. He also noted that people from a sustainability background had a different understanding of the term 'intangibles'.

An IFASS participant expressed his reservations about modifying the Conceptual Framework (i.e., asset recognition criteria) to address some of the aired concerns, and he remarked that sustainability reporting also has an intangibles dimension underscoring the importance of connectivity. He observed that there is also the integrated reporting (IR) framework that refers to 'capitals' rather than intangibles. In his view, a key question is whether monetary information was the solution in all cases, he doubted that should be the case.

Item 20. Closing Remarks

Chiara Del Prete noted that IFASS members had expressed that the overall time allocated to financial reporting topics should not be reduced due to the coverage of sustainability reporting topics. Consequently, additional virtual meetings or longer in-person meetings may be considered.

She thanked all that contributed to the agenda including the IFASS Advisory Panel of which the members are Bee Leng Tan from MASB and Katharine Christopoulos from AcSB. She asked for suggestions of topics to be brought to the next IFASS meeting(s) and indicated a survey would be conducted in this respect and to also seek feedback on the April and January 2023 IFASS meetings.

She announced that the next meeting would take place on 26-27 September 2023 in London while the Spring 2024 IFASS meeting would be hosted in Seoul, South Korea by the KASB, whose Chair, Han Yi expressed that KASB looked forward to hosting the Spring meeting.

Chiara Del Prete thanked the FASB for hosting the April 2023 meeting, and both she and FASB Board Member, Marsha Hunt gave special thanks to the FASB staff involved in organising the meeting in particular Melissa Maroney, Tricia McKnight, and John Richter.

Chiara Del Prete also thanked all participants for their attendance and contribution and the IFASS Secretariat for their support. She then closed the meeting.

ACTION LIST

IFASS Chair/Secretariat
• To finalise the meeting report including updating for comments received from IFASS members on the draft report • To organise an in-person meeting with remote participation for 26-27 September 2023
All IFASS participants
• To provide feedback on the draft meeting report • To advise the IFASS Secretariat of potential agenda items for the physical meeting in September 2023 or Spring 2024 meeting • Seeking volunteers to participate in an informal advisory group

APPENDIX: LIST OF IFASS PARTICIPANTS

IFASS participants that attended in person:

	Name	Organisation
1	Chi-Chun Liu	Accounting Research and Development Foundation
2	Margaret Tsui	Accounting Research and Development Foundation
3	Emi Chujo	Accounting Standards Board of Japan
4	Nami Yamaguchi	Accounting Standards Board of Japan
5	Norihiro Hanazawa	Accounting Standards Board of Japan
6	Sven Morich	Accounting Standards Committee of Germany (ASCG)
7	Nishan Fernando	AOSSG / CA Sri Lanka
8	Prabin D. Joshi	ASB Nepal
9	Prakash Jung Thapa	ASB Nepal
10	Mahesh Baral	ASB Nepal
11	John Purcell	Australian Accounting Standards Board
12	Keith Kendall	Australian Accounting Standards Board
13	Ophèle Robert	Autorité des Normes Comptables
14	Vincent Louis	Autorité des Normes Comptables
15	Sadi Podevijn	Belgian Accounting Standards Board
16	Andrew White	Canadian Accounting Standards Board
17	Armand Capisciolto	Canadian Accounting Standards Board
18	Charles-Antoine St-Jean	Canadian Sustainability Standards Board
19	Lisa French	Canadian Sustainability Standards Board
20	Michel Charbonneau	Canadian Accounting Standards Board
21	Christine Barckow	Deloitte
22	Chiara Del Prete	EFRAG
23	Jens Berger	EFRAG
24	Patrick De Cambourg	EFRAG
25	Robert Stojek	EFRAG
26	Sapna Heeralall	EFRAG
27	Vincent Papa	EFRAG
28	Chris Bohdan	FASB
29	Hillary Salo	FASB
30	Jeffrey Mechanick	FASB

	Name	Organisation
31	John Richter	FASB
32	Marsha Hunt	FASB
33	Melissa Maroney	FASB
34	Nick Cappiello	FASB
35	Tricia McKnight	FASB
36	Hernan Pablo Casinelli	GLASS
37	Jose Luiz Carvalho	GLASS
38	Matthew Rusk	GRI
39	Robert Massie	GRI
40	Carlos Moreno Saiz	ICAC
41	Maria Dolores Urrea Sandoval	ICAC
42	Andreas Barckow	IFRS Foundation
43	Granville Martin	IFRS Foundation
44	Jonathan Bravo	IFRS Foundation
45	Linda Mezon-Hutter	IFRS Foundation
46	Nili Shah	IFRS Foundation
47	Zach Gast	IFRS Foundation
48	Dave Warren	IPSASB
49	Ross Smith	IPSASB
50	Han Yi	Korea Accounting Institute
51	Hyeonjae Bae	Korea Accounting Institute
52	Jae-Ho Kim	Korea Accounting Institute
53	Somin Park	Korea Accounting Institute
54	Woung-hee Lee	Korea Accounting Institute
55	Young-seo Jung	Korea Accounting Institute
56	Kwang-Il Kim	Korea Financial Services Commission
57	Mohd Amirul Mukminin Mansor	Malaysian Accounting Standards Board
58	Alberto Giussani	OIC
59	Leonardo Mario Piombino	OIC
60	Tommaso Fabi	OIC
61	Lebogang Senne	Pan African Federation of Accountants
62	Abubakr Eltayeb Ahmed Hummeida	Sudanese Council of Certified Accountants
63	Tomomi Eguchi	Sustainability Standards Board of Japan
64	Yasunobu Kawanishi	Sustainability Standards Board of Japan

	Name	Organisation
65	Fredrik Walmeus	Swedish Financial Reporting Board
66	Anuj Goyal	The Institute of Chartered Accountants of India
67	Sanjay Kumar Agarwal	The Institute of Chartered Accountants of India
68	Pauline Wallace	UK Endorsement Board
69	Seema Jamil-O'Neill	UK Endorsement Board
70	Jenny Carter	UK Financial Reporting Council
71	Sarah-Jayne Dominic	UK Financial Reporting Council
72	Stephen Maloney	UK Financial Reporting Council
73	Carolyn Cordery	XRB

The following IFASS participants registered to join the meeting remotely:

	Name	Organisation
1	Aanchal Bhandari	AASB
2	Eric Lee	AASB
3	Fridrich Housa	AASB
4	Joanna Spencer	AASB
5	Maggie Man	AASB
6	Siobhan Hammond	AASB
7	Tom Frick	AASB
8	Ao Li	AASB
9	Yu Shan Koo	ACRA
10	Alfred Wagenhofer	AFRAC
11	Gerhard Prachner	AFRAC
12	Lina Liaw	ARDF
13	Linda Yu	ARDF
14	Sushil Poudel	ASB Nepal
15	Atsushi Ochi	ASBJ
16	Hiroto Kimura	ASBJ
17	Masami Yamamoto	ASBJ
18	Masaya Hiramoto	ASBJ
19	Shingo Murase	ASBJ
20	Shuji Ito	ASBJ
21	Takeshi Maruoka	ASBJ
22	Yuta Kirishima	ASBJ
23	Suat Cheng Goh	ASC
24	Yat Hwa Guan	ASC
25	Baiyu Shi	CASC

	Name	Organisation
26	Bing Zhong	CASC
27	Huaxin Xu	CASC
28	Hui Cheng	CASC
29	Juan Zhang	CASC
30	Minzi Zhang	CASC
31	Xiaohong Dong	CASC
32	Xiaoqing Yi	CASC
33	Xingyue Yang	CASC
34	Mirela Paunescu	CECCAR
35	Elsa García	CINIF
36	María Pineda	CINIF
37	William Biese	CINIF
38	Karen Sanderson	CIPFA
39	Jimmy Bolaño	CTCP
40	Gerard van Santen	DASB
41	Jan Peter Larsen	DASC
42	Alexander Tjahyadi	DSAK IAI
43	Kathrin Schoene	EFRAG
44	Erik van der Plaats	European Commission
45	Domingo Mario Marchese	FACPE
46	Jennifer Kimmel	FASB
47	Share Slides	FASB
48	Bastian Buck	GRI
49	Matthew Rusk	GRI
50	Cecilia Kwei	HKICPA
51	Eky Liu	HKICPA
52	George Au	HKICPA
53	Kennis Lee	HKICPA
54	Agsa Ariefandi	IAI
55	Irfana Dzikria	IAI
56	Wiwied Widyastuti	IAI
57	Pera Yulianingsih	IAI
58	Yully Handajani	IAI
59	Parminder Kaur	ICAI
60	Craig Smith	IFRS Foundation
61	Deborah Bailey	IFRS Foundation
62	Eun Young Park	IFRS Foundation
63	Fred Nieto	IFRS Foundation
64	Jawaid Dossani	IFRS Foundation
65	Juliane-Rebecca Upmeier	IFRS Foundation
66	Michelle Fisher	IFRS Foundation

	Name	Organisation
67	Michelle Sansom	IFRS Foundation
68	Mostafa Mouit	IFRS Foundation
69	Riana Wiesner	IFRS Foundation
70	Roanne Hasegawa	IFRS Foundation
71	Sue Lloyd	IFRS Foundation
72	Bee Leng Tan	MASB
73	Yoke Pin Foo	MASB
74	Tatsiana Rybak	Ministry of Finance of the Republic of Belarus
75	Bjørn Einar Strandberg	NASB
76	Signe Haakanes	NASB
77	Kjell Ove Røsok	NHH
78	Admire Ndurunduru	PAAB
79	Lewis Hussein	PAAB
80	Raymond Chamboko	PAFA
81	Yue Hu	SNAI
82	Reto Zemp	Swiss GAAP FER
83	Louise Freeman	UK Endorsement Board
84	Andrew Death	UK Endorsement Board
85	Denise Durant	UK Endorsement Board
86	Justin Ryan	UK Endorsement Board
87	Matthew Tilling	UK Endorsement Board
88	Elisa Noble	UK FRC
89	Amelia Sharman	XRB
90	April Mackenzie	XRB
91	Charis Halliday	XRB
92	Gali Slyuzberg	XRB