

---

## Accounting Standards Advisory Forum

Date **8–9 July 2024**

Contact **NSS@ifrs.org**

This document summarises a meeting of the Accounting Standards Advisory Forum (ASAF), a group of nominated members from national organisations and regional bodies involved with accounting standard-setting. The ASAF supports the IFRS Foundation and the International Accounting Standards Board (IASB) in their objectives, and contributes towards the development, in the public interest, of high-quality, understandable, enforceable and globally accepted IFRS Accounting Standards.

---

## ASAF members who attended the meeting

Region	Members
Africa	Pan African Federation of Accountants (PAFA)
Asia-Oceania (including one at large)	Accounting Regulatory Department, Ministry of Finance PRC (ARD) Accounting Standards Board of Japan (ASBJ) Asian-Oceanian Standard-Setters Group (AOSSG)* Korea Accounting Standards Board (KASB)
Europe (including one at large)	Accounting Standards Committee of Germany (ASCG)* Autorité des normes comptables (ANC) EFRAG UK Endorsement Board (UKEB)
The Americas	Canadian Accounting Standards Board (AcSB)* Financial Accounting Standards Board, United States (FASB) Group of Latin American Accounting Standard-Setters (GLASS)

\* Remote participation via videoconference.

## Agenda planning and feedback from previous ASAF meetings

1. This session discussed the proposed topics for the next ASAF meeting, which is scheduled for 26–27 September 2024. Participants agreed the meeting should include discussion of projects on:
  - (a) Dynamic Risk Management;
  - (b) Climate-related and Other Uncertainties in the Financial Statements;
  - (c) Rate-regulated Activities;
  - (d) Post-implementation Review of IFRS 16 *Leases*;
  - (e) Statement of Cash Flows (research project conducted by AcSB); and
  - (f) IFRS 17 *Insurance Contracts* (presentations by AcSB).
2. The UKEB representative suggested two other topics for discussion in September:
  - (a) Power Purchase Agreements; and
  - (b) Pollutant Pricing Mechanisms.

## Financial Instruments with Characteristics of Equity

### Purpose of the session

3. The purpose of this session was to provide summary of the feedback and key themes from comment letters and investor outreach on the Exposure Draft *Financial Instruments with Characteristics of Equity* issued in November 2023.
4. ASAF members were asked whether they have any questions or comments on the feedback summary and for their views on which topics the IASB should prioritise in its redeliberations.

### Summary of the feedback

5. Many ASAF members said that the feedback was consistent with the views of stakeholders in their jurisdictions and these members expressed support for the IASB's efforts and progress.

---

**Classification proposals**

6. ASAF members provided comments on the classification proposals including which topics the IASB should prioritise:
- (a) *the effects of relevant laws or regulations*—the AOSSG, ARD and GLASS representatives said the IASB should prioritise this topic in its redeliberations. The ANC and EFRAG representatives favoured an ‘all-inclusive’ approach that considers both the contract and laws or regulations and said it might be better for the IASB to explore this topic as a separate project. The GLASS representative said that applying the proposals retrospectively would be challenging in this member’s highly regulated jurisdiction.
  - (b) *fixed-for-fixed condition*—the ARD and GLASS representatives said the IASB should prioritise this topic in its redeliberations. The ARD representative mentioned jurisdictional concerns about passage-of-time adjustments. The GLASS representative mentioned that many financial instruments in this member’s jurisdiction are denominated in foreign currency and/or their strike prices vary with an inflation index. The KASB representative said that down-round adjustments are widely used in this member’s jurisdiction and should meet the fixed-for-fixed condition because they protect the holder of convertible instruments from dilution effects and preserve the contract value. The FASB representative added that the FASB made an exception for instruments with such features to be classified as equity in response to feedback about the complexity and costs if these instruments are classified as liabilities.
  - (c) *obligations to purchase an entity’s own equity instruments*—the ANC representative said that continuing to recognise the non-controlling interest in equity when the put option is granted would not be appropriate. The EFRAG representative suggested the IASB explore this topic in a separate project because, in this member’s view, there are no new arguments which would help to resolve the diversity in practice.

- (d) *contingent settlement provisions*—the AOSSG representative said that the IASB should prioritise this topic in its redeliberations. The EFRAG representative mentioned that the IASB should consider the potential impact of the debt versus equity classification on its Dynamic Risk Management project. The KASB and UKEB representatives said that the measurement of instruments with contingent settlement provisions should be subject to the general principles of IFRS 9 *Financial Instruments*.
- (e) *reclassification*—the AOSSG and ARD representatives said that the IASB should prioritise this topic in its redeliberations. The AcSB representative suggested that the proposals would reduce diversity in practice when the substance of the contractual arrangement changes because of a change in circumstances external to the contractual arrangement. The ANC and KASB representatives said that reclassification should be required when the substance of the contractual arrangements change due to the passage of time. The KASB representative mentioned that jurisdictional feedback indicated that requiring reclassification for these changes would not be burdensome for preparers. The UKEB representative said that entities have already developed sensible solutions for assessing when reclassification is appropriate or when to apply the derecognition requirements. In this member's view, the diversity in practice reflects the varied characteristics of the instruments, so the IASB should not address the diversity.

### ***Disclosure proposals***

7. ASAF members provided comments on the disclosure proposals including discussing how to reach the right balance between investors' needs for detailed information and preparers' needs for reducing disclosure overload:
- (a) the ANC representative emphasised the difficulty of providing useful information regarding the priority of claims against the entity on liquidation, especially for large international banks preparing consolidated financial statements. The member noted variations in priority on resolution and said

the IASB should compare these disclosures with the disclosures of large US banks in finding that right balance.

- (b) the EFRAG representative generally agreed with the disclosure proposals and acknowledged that the costs versus benefits are changing as technology develops.
- (c) the PAFA representative agreed with the IASB's direction, noted the need for adequate disclosures so that users understand the instruments but cautioned against cluttering the financial statements with more disclosure than is absolutely necessary. The member said entities should apply the materiality framework and principles to determine which disclosures to include in the financial statements.
- (d) the UKEB representative acknowledged the need for more disclosures than currently required in IFRS 7 *Financial Instruments: Disclosures* and that the proposed disclosures seem sensible but was concerned about the risk of excessive disclosures for banks. The member said that the IASB should consider the objectives of the disclosures and what information users of financial statements need.

### **Other comments**

- 8. ASAF members provided other comments about ways to move the project forward:
  - (a) the AcSB representative mentioned that the IASB should consider whether diversity in practice causes significant problems and consider narrowing the changes proposed for IAS 32 *Financial Instruments: Presentation*. The member reported that users of financial statements want more disclosures because of the various types of instruments. In the member's view, regardless of the instrument's classification, users can make decisions about the impact on future cash flows if they have relevant information.
  - (b) the ANC representative expressed the view that at some point a fundamental review of IAS 32 would be needed if the principles do not result in outcomes that provide relevant information.

- (c) the EFRAG representative advised the IASB to select the topics it has the appetite to change and acknowledged that making clarifying amendments on a number of these issues will affect practice.
- (d) the FASB representative commented that whenever the wording in a Standard changes, complexity and implementation questions increase. The member advised the IASB to consider whether:
  - (i) a proposed solution would create more problems than what the objective was trying to accomplish;
  - (ii) a balance between costs and benefits could be reached on some issues that are narrower in scope;
  - (iii) users of financial statements have sufficient transparency of financial information; and
  - (iv) diversity is acceptable.
- (e) the KASB representative stressed the importance of the IASB providing application guidance and illustrative examples to prevent new interpretation issues from arising.
- (f) the UKEB representative was concerned about forcing rigour or specific rules because every instrument differs; this member cautioned against proposals that could result in unintended consequences. The member questioned whether the IASB found any significantly problematic issue and/or whether current requirements are resulting in fundamentally wrong answers.

### Next steps

9. The IASB will consider the feedback from ASAF members when it discusses the project plan and redeliberates the proposals in the Exposure Draft *Financial Instruments with Characteristics of Equity*.

## Provisions—Targeted Improvements

### Purpose of the session

10. The purpose of this session was to seek ASAF members' views on the IASB's proposals for targeted improvements to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, particularly those relating to:
  - (a) the 'present obligation' criterion for recognising a provision; and
  - (b) discount rates.

### Summary of the feedback

#### ***'Present obligation' recognition criterion***

11. The AcSB, ANC, ARD, ASBJ, GLASS and UKEB representatives said they agreed with the IASB's proposal to align the definition of a 'liability' and the wording of the 'present obligation' criterion in IAS 37 with the *Conceptual Framework for Financial Reporting (Conceptual Framework)*.
12. The AcSB, ANC and UKEB representatives highlighted their agreement with the IASB's proposal to separate out and explain the three conditions within the 'present obligation' criterion. However, members had mixed views on whether the labels proposed by the IASB for the three conditions (namely 'strength', 'timing' and 'nature') are clear, helpful or even necessary. The ASBJ representative cautioned that the suggested labels would be difficult to translate into Japanese.
13. Several members commented on:
  - (a) *the 'strength' condition*—the ARD representative said the principle of 'no practical ability to avoid' is difficult to understand. The AOSSG representative said that principle could lead to a change in practice with entities recognising fewer provisions than they recognise under the requirements in IAS 37.
  - (b) *the 'nature' condition*—the ASBJ representative questioned the statement that an *exchange* of economic resources is not a *transfer* of an economic resource. An exchange is a two-way transfer. The ASBJ representative also questioned the reference to onerous contracts within the general

requirements because those general requirements apply to all forms of obligation, not only to contractual obligations.

- (c) *the ‘timing’ condition:*
- (i) the ARD representative expressed concern that the requirements for threshold-triggered costs would be difficult to implement—applying them would require judgement, estimations and subsequent adjustments. The AOSSG representative suggested adding an example illustrating a fact pattern in which an entity is unlikely to meet the threshold.
  - (ii) the ANC representative asked for further guidance on the ‘timing’ condition. This member suggested that the IASB further consider whether the notion of ‘future action’ is compatible with (i) the going concern assumption and (ii) the fact that probability is an attribute of a *probable outflow of resources*, rather than of a *present obligation*.
  - (iii) the AOSSG representative questioned the proposals to refer to ‘actions’ when the requirement refers to a past ‘event’.
14. Several members agreed with the IASB’s proposal to amend the *Guidance on implementing IAS 37*—expanding the decision tree and including new examples based on the fact patterns of:
- (a) IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*,
  - (b) various levies (including those in IFRIC 21 *Levies*); and
  - (c) Agenda Decisions *Negative Low Emission Vehicle Credits and Climate-related Commitments*.
15. The AcSB representative said moving the analysis from the agenda decisions into the *Guidance on implementing IAS 37* would improve the accessibility of that analysis. The UKEB representative cautioned that scenarios in the illustrative examples should be complex enough to test the principles of IAS 37. The AOSSG representative asked that the analysis of the fourth levy example in IFRIC 6 be



expanded to clarify that the entity considers its practical ability to avoid exceeding the specified threshold and the probability of a levy being paid.

16. The EFRAG and UKEB representatives expressed doubt about the requirements for situations in which two separate actions are required to trigger a charge. The UKEB representative agrees with the accounting outcome for levies but had not considered the consequence for other types of transaction. The EFRAG representative reported that some of its stakeholders disagreed with the proposed withdrawal of IFRIC 21 because they were concerned the proposed amendments to IAS 37 would blur the distinction between recognition and measurement. The FASB representative noted that the guidance it is developing in its project on environmental credit programmes would be more aligned with IFRIC 21 than with IAS 37 if amended as proposed.

### ***Discount rates***

17. The AcSB, ANC, ARD, EFRAG, KASB, PAFA and UKEB representatives said they agree with the IASB's proposal to specify that an entity uses a rate that reflects the time value of money—represented by a risk-free rate—with no adjustment for non-performance risk. Some members said this change would simplify practice and reduce an entity's need to exercise judgement.
18. The EFRAG representative conveyed comments from some of its stakeholders that, if a rate-regulated entity is required to use a specified discount rate for regulatory purposes, the IASB should allow the use of that rate for accounting purposes.
19. A few members suggested the IASB provide further clarification, including:
  - (a) acknowledgement that rates could be determined in various ways as discussed in paragraphs 17 and 22 of the Agenda Paper 22C for the IASB's April 2024 meeting;
  - (b) the rationale for the rate proposed—IFRS Accounting Standards require various discount rates and the rationale for the differences between them is not always clear;
  - (c) guidance for fact patterns involving negative interest rates;

- (d) requirements on inflation; and
  - (e) clarification of the effects of recognising outflow uncertainty in the discount rate for a provision—the effect is to decrease, not increase, the discount rate.
20. The AcSB representative said it agrees with the IASB’s proposal to require an entity to disclose, for each class of provision, the rate (or rates) used in measuring the provision and the approach used to determine that rate (or those rates). The member said this proposal would not create significant additional workload for entities because they should already have the necessary information.

#### **Other comments**

21. The GLASS representative noted that the proposals would likely create significant changes in practice. The member said it would be important to consider transition requirements.
22. The AOSSG representative said one of its stakeholders questioned the implications of climate-related legal cases on provisions, highlighting recent cases that might set a precedent for future cases.

#### **Next steps**

23. The IASB will consider the feedback from ASAF members and other stakeholders as it finalises its proposals for public comment. It aims to publish a provisions exposure draft in the fourth quarter of 2024.

## **Power Purchase Agreements**

#### **Purpose of the session**

24. The purpose of this session was to ask ASAF members for their views on the proposals in the Exposure Draft *Contracts for Renewable Electricity*. Specifically, the ASAF members were asked whether:

- (a) the proposed requirements address the objectives the IASB aims to achieve. If not, ASAF members were asked to explain why not and what alternatives they would suggest (Question 1).
- (b) they are aware of any operational challenges in providing the proposed disclosures. If so, ASAF members were asked what reasons their stakeholders provided and asked whether they could suggest changes that would result in entities providing useful information to users of financial statements (Question 2).
- (c) they have views about an appropriate effective date for the proposed amendments given that stakeholders have requested a timely solution (Question 3).

## Summary of the feedback

### *Question 1*

25. ANC, ARD, ASBJ, EFRAG, FASB and KASB representatives agreed that the proposals address the IASB's objectives. These members provided feedback on possible areas for improvement. Notably:
- (a) the ANC representative said stakeholders unanimously agreed with the proposals. He suggested clarifications to the proposed own-use requirements about: (i) how an entity considers ancillary contracts (for example with an aggregator) if assessing the design of the contract and the market structure; and (ii) the proposed time over which an entity is required to assess whether it is a net purchaser of electricity. He also asked the IASB to consider whether to allow retrospective application of the proposed hedge accounting requirements.
  - (b) the ARD representative requested clarification on whether the proposed own-use assessment is a continuous assessment. She also said that stakeholders asked that the IASB issue illustrative examples to enable them to better understand how to apply the proposals.

- (c) the ASBJ representative reported concerns about excluding from the scope of this project the accounting for the Renewable Energy Certificates (RECs). She questioned whether it is appropriate to assume the RECs are separate components of the contracts that can be accounted for separately. She also stressed that the proposals should remain narrow in scope and included within the same section in IFRS Accounting Standards to avoid unintended consequences.
  - (d) the EFRAG representative raised concerns about the characteristics used to define the scope the proposals and the factors to consider when determining whether a contract qualifies to be accounted for as own use. He offered EFRAG's preliminary suggestions of how the IASB could improve the proposals.
  - (e) the FASB representative said the organisation has seen similar types of contracts for electricity from non-renewable sources of production. She asked the IASB to consider whether the scope should be limited to renewable electricity.
  - (f) the KASB representative questioned the application of the proposals to a contract for renewable electricity of which the excess (unused) electricity is net settled rather than delivered and sold in the spot market.
26. Representatives of the UKEB and the AcSB, however, expressed concerns about the focus of the amendments, particularly the own-use requirements. The UKEB representative said the scope might be too narrow and arbitrary—most contracts for renewable electricity in the UK would not be within the proposed scope. The AcSB representative explained that some stakeholders understood that the proposed own-use requirements also apply to virtual PPAs because the economics of physical and virtual PPAs, in their view, are the same. The AcSB continues to agree that the proposed hedge accounting requirements should apply to all contracts within the scope of the proposals.
27. The AOSSG representative said some stakeholders agreed the IASB should move ahead with the current proposals; other stakeholders questioned whether the scope

needs to be expanded to include all contracts for hydroelectricity (and not only some as currently proposed). This member reported that some stakeholders were unsure whether the own-use requirements applied to virtual PPAs. Some stakeholders also asked that the IASB clarify whether the own-use assessment is a continuous assessment and how the proposals apply to entities that are both sellers and purchasers of electricity.

### **Question 2**

28. The ASBJ and GLASS representatives asked that the IASB clarify how the proposed disclosures would work with, and relate to, sustainability disclosures.
29. Representatives of the AcSB, ARD, EFRAG and UKEB raised concerns about the scope of the proposed disclosures:
  - (a) the AcSB representative asked whether the disclosures would apply to contracts for renewable electricity that meet the current own-use requirements in IFRS 9;
  - (b) the ARD representative said the scope of the proposed disclosures may be too broad, considering that the proposed amendment mainly focuses on whether contracts for renewable electricity meet the criteria of own-use and hedge accounting requirements in IFRS 9. She suggested the additional disclosure requirements focus only on these two aspects; she also suggested entities that are not in energy-intensive industries should be exempted from the disclosures;
  - (c) the EFRAG representative suggested the proposed disclosure requirements apply only to contracts that change their classification to be accounted for as executory contracts instead of derivatives (that is, meet own-use) because of the proposals; and
  - (d) the UKEB representative asked how the disclosures apply to an entity that is both a seller and a purchaser of electricity.
30. Representatives of AcSB, AOSSG, EFRAG and UKEB questioned whether all the items of information mentioned in the proposals are to be required to meet the needs

of users of financial statements. The AcSB representative reported that stakeholders asked how the market, for example the pricing for RECs would be affected by the proposed requirement to disclose the qualitative effect that the contracts for renewable electricity had on an entity's financial performance.

31. Representatives of the AOSSG and UKEB reported concerns about the operability and/or cost to entities for gathering the required information.

### **Question 3**

32. Representatives of AOSSG, ARD, ASBJ, EFRAG, GLASS and KASB suggested an effective date of 1 January 2026 with early application permitted.
33. The representative of the AcSB commented that due to the prospective application of the proposed hedge accounting requirements, entities that entered into virtual power purchase agreements would benefit very little from the amendments in their 2024 financial statements compared with entities that can apply the proposed own-use requirements early.

### **Next steps**

34. The IASB will consider the feedback at a supplementary IASB meeting in August.

## **Business Combinations—Disclosures, Goodwill and Impairment**

### **Purpose of the session**

35. The purpose of the session was to seek members' views about the IASB's proposals in the Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment* (the Business Combinations Exposure Draft).
36. The discussion focused on:
  - (a) the identification of a strategic business combination;
  - (b) the proposed exemption;
  - (c) the balance of investor needs and preparer costs; and

- (d) the proposed changes to the impairment test of cash-generating units containing goodwill (impairment test).

## Summary of the feedback

### *Identification of strategic business combinations*

- 37. The ARD, AOSSG, EFRAG and KASB representatives agreed with a threshold approach for identifying strategic business combinations (subject to feedback).
- 38. Regarding the proposed quantitative thresholds:
  - (a) the AcSB, ANC, AOSSG, ARD and UKEB representatives said the proposed quantitative thresholds of 10% might be too low;
  - (b) the KASB representative said in 2023 approximately 20% of business combinations by entities listed in Korea would have met the asset threshold;
  - (c) the ANC, AOSSG, ARD, ASBJ, EFRAG and UKEB representatives said operating profit might not be a suitable base for setting a threshold because it can be volatile or low;
  - (d) the EFRAG and UKEB representatives suggested adding a threshold based on market capitalisation;
  - (e) the GLASS representative suggested using an average of three years, to help with issues arising from different currencies and inflation levels and from applying contrasting national GAAPs; and
  - (f) the GLASS representative said that a business combination might be below a quantitative threshold in an entity's consolidated financial statements but above the threshold in its separate financial statements.
- 39. Regarding the proposed qualitative thresholds:
  - (a) some members suggested expanding them to cover business combinations:
    - (i) in which the acquiree has financial problems (AOSSG);
    - (ii) with sustainability objectives (ASBJ); and

- (iii) with significant legal and regulatory risks (GLASS);
  - (b) the EFRAG representative said entering a new geographical area might not indicate a business combination is strategic; and
  - (c) the AOSSG representative requested additional guidance on the application of qualitative thresholds
40. The AcSB, ASBJ and UKEB representatives said the thresholds do not capture series of acquisitions. The ASBJ representative suggested business combinations with the same strategy could be identified as a series. The FASB representative suggested that inextricably linked business combinations completed within 12 months could be identified as a series. The EFRAG representative suggested the IASB not spend time attempting to develop requirements for how to identify a series.
41. The ANC, ASBJ, KASB, PAFA and UKEB representatives suggested a rebuttable presumption approach—for example, if a business combination meets a threshold there would be a rebuttable presumption that it is strategic. Members said a rebuttable presumption approach might address some of their concerns with the proposed thresholds (for example, concerns about volatile operating profit).
42. The AOSSG and UKEB representatives suggested changing the term ‘strategic’ because all business combinations are strategic for an entity. The ASBJ representative suggested moving the description of ‘strategic’ business combinations from the Basis for Conclusions into IFRS 3.

### ***Exemption***

43. The ARD, ASBJ, EFRAG, KASB, UKEB representative agreed the IASB should include an exemption. Members requested further application guidance:
- (a) explaining situations in which the exemption could be applied (AOSSG);
  - (b) explaining the differences between this exemption and that in IAS 37 (KASB); and
  - (c) specifying that its use would be extremely rare (UKEB).
44. Members suggested expanding the exemption to cover information:



- (a) that would cause litigation or social risk (ANC);
- (b) that would prejudice seriously future business combinations (ASBJ); and
- (c) that would be disclosed in documents accompanying the financial statements (KASB).

45. The ANC, EFRAG, KASB and UKEB representative said disclosing the reason for using the exemption could reveal commercially sensitive information.

***Balance of the proposed disclosures***

46. The AcSB, ANC, AOSSG, ARD, FASB and KASB representatives said users want information that would be required under the proposals to assess the performance of acquired business and to assess management stewardship.

47. Members reported concerns about:

- (a) whether the information to disclose applying the proposals would be forward-looking (AcSB, AOSSG).
- (b) auditability—whether auditors can provide reasonable assurance over targets and a potential expectations gap (ANC, AOSSG, FASB, GLASS, KASB, UKEB).
- (c) the meaning of the word ‘synergies’ and potential inconsistent interpretations (AOSSG).
- (d) references to ‘key management personnel’. The references might be replaced by the term ‘management’ (ASBJ). A subsidiary might not have access to the information of its parent’s key management personnel (GLASS).

48. For the proposal to require the information in financial statements:

- (a) the ANC representative agreed, and suggested requiring disclosure of the basis for preparation for metrics not included in or defined by IFRS Accounting Standards;

- (b) the EFRAG and UKEB representatives said the balance of investor needs and preparer costs was about right, with resistance in their jurisdictions to the proposed quantification of synergies;
  - (c) the AOSSG representative reported mixed views;
  - (d) the AcSB representative disagreed with the proposal because users can receive information from other documents, such as management commentary or investor presentations;
  - (e) the ASBJ representative said it's a cross-cutting issue of what types of information should be in the financial statements;
  - (f) the KASB representatives suggested considering whether the benefits of the proposals for investors justify the costs of disclosing information; and
  - (g) the ARD representative said the benefits and costs of the proposed disclosures are expected to vary from entity to entity.
49. The AcSB representative suggested that improvements to IAS 36 could partially meet users' information needs—for example, by requiring entities to disclose assumptions used in their impairment tests of cash-generating units containing goodwill and subsequent performance.
50. Members said the proposed disclosures should only be required for listed companies (GLASS) or companies with public accountability (ANC).

### ***Impairment test***

51. The AcSB and EFRAG representatives agreed with the proposed removal of the restriction on including cash flows from restructuring and asset enhancements. The ARD representative disagreed because it would increase management over-optimism and might not reflect the asset's 'current condition'. The EFRAG representative asked for clarification of what enhancements could be part of an asset's 'current condition'
52. The AcSB and ARD representatives agreed with allowing the use of post-tax discount rates.

53. The AcSB, ARD and EFRAG representatives said the proposed clarification on allocating goodwill to cash-generating units would be unlikely to significantly change practice. The AcSB representative suggested adding an illustrative example on the reallocation of goodwill when an entity integrates CGUs.
54. The ARD representative said the disclosure linking segments and CGUs might provide limited information.
55. The ANC representative asked the IASB to clarify how to incorporate leases in an impairment test.

### Next steps

56. The IASB will consider comments from ASAF members when it reviews stakeholder feedback at a future IASB meeting.

### AcSB's project on Carbon Credits

57. The AcSB representative presented an overview of AcSB staff research findings on potential approaches to accounting for carbon and other environmental credits; the presentation included feedback on the approaches from users and national standard-setters.
58. ASAF members and IASB representatives said that the research provides a useful summary of issues related to the accounting for carbon credits.
59. Some ASAF members asked clarifying questions and shared their perspectives.

### FASB's project on Carbon Credits

60. The FASB representative summarised the FASB's *Accounting for Environmental Credit Programs* project. The representative explained why the FASB reached some tentative decisions during deliberations, including the FASB's tentative decision to exclude from the project's scope environmental credits not probable of being used to settle an environmental credit obligation or separately transferred in an exchange transaction.

61. Some ASAF members asked clarifying questions and shared their perspectives.

## Pollutant Pricing Mechanisms

### Purpose of the session

62. The purpose of the session was to:
- (a) provide ASAF members with an update on the IASB's horizon-scanning activities in relation to pollutant pricing mechanisms; and
  - (b) ask members for their views on whether the IASB should prioritise a project on this topic.

### Summary of the feedback

63. ASAF members provided mixed views on whether the IASB should prioritise a project on pollutant pricing mechanisms.
64. The ANC, AOSSG, UKEB, GLASS, and AcSB representatives said they would like the IASB to prioritise a project. They suggested that the prevalence and significance of pollutant pricing mechanisms is increasing and there is diversity in accounting for these schemes.
65. The AOSSG representative cited new legislative requirements in some jurisdictions and growing concerns over climate change as reasons for prioritising this project.
66. The UKEB representative said that feedback from users in their jurisdiction indicates that they are particularly interested in this topic because of its connections with sustainability-related disclosures, particularly IFRS S2 *Climate-related Disclosures*.
67. The EFRAG, ASCG, ARD, and PAFA representatives expressed less support for the IASB prioritising a project on pollutant pricing mechanisms over others—with some stating that the project should not be prioritised.
68. The representatives from ASGC and EFRAG suggested that the stakeholder feedback they received did not indicate that the financial effects of pollutant pricing mechanisms are significant enough to warrant prioritising a project.

- 
69. The representative from PAFA commented that although pollutant pricing mechanisms are an emerging issue in their jurisdiction, the use of these mechanisms is still in the early stages, and issues like accounting for hyperinflation are of higher priority.
70. Some ASAF members commented on the relationship between a possible project on pollutant pricing mechanisms and on intangible assets:
- (a) the ASCG and ARD representatives suggested that the IASB should first focus on the intangible assets project and then draw on lessons learned from that project for a project on pollutant pricing mechanisms.
  - (b) however, the AcSB representative commented that the intangible assets project is likely to be long, and by the time that project is completed, pollutant pricing mechanisms will be significant for most jurisdictions—at that point, starting a project will be too late.
71. Some ASAF members suggested that to alleviate some of its capacity constraints, the IASB could partner with national standard-setters who have researched the topic or plan to do so. Other ASAF members suggested projects that the IASB could deprioritise to free up capacity for a project on pollutant pricing mechanisms.

### Next step

72. The IASB will continue horizon-scanning and decide whether to prioritise a project later this year.

### UKEB's project on Intangible Assets

73. Representatives of the UKEB presented the results of their research on intangible assets. ASAF members heard:
- (a) a brief overview of the UKEB's report *Accounting for Intangibles: UK Stakeholders' Views* (previously presented to ASAF in July 2023); and

- (b) an overview of the UKEB's reports *Accounting for Intangibles: A Quantitative Analysis of UK Financial Reports* and *Accounting for Intangibles: A survey of users' views*.
74. This presentation included question-and-answer sessions and discussions with ASAF members. ASAF members agreed that the accounting for intangible items is becoming increasingly important, and welcomed the work done by the UKEB. ASAF members provided their views on the UKEB's research based on evidence from their jurisdictions.

## Intangible Assets

### Purpose of the session

75. The purpose of the session was to obtain ASAF members' input to help the IASB consider:
- (a) the overall problem that needs to be solved;
  - (b) the scope of the project; and
  - (c) the approach to staging the work.

### Summary of the feedback

#### ***The overall problem that needs to be solved***

76. The AcSB and EFRAG representatives said that financial reporting does not provide sufficient information about how entities generate value.
77. The AcSB and FASB representatives said intangibles are a residual category, and therefore, IAS 38 *Intangible Assets* applies to some items not covered by other IFRS Accounting Standards. As a result, entities might not be providing decision-useful information about those items.
78. The GLASS representative said that IAS 38 does not allow comparisons between entities with varied growth strategies.
79. The ASBJ representative said that the project should not aim to reduce the difference between book and market value.

---

**List of topics to be explored****Scope**

80. The AcSB, KASB and UKEB representatives said that the scope of intangible assets should be considered, and the AcSB, UKEB and ASCG representatives suggested the IASB adopt a similar approach as that to IFRS 9, in which assets are accounted for in accordance with their business models (the reason why the intangible asset is being held). The KASB representative said that the project should focus on financial statement elements, not broader intangible items.
81. The ANC, AcSB, AOSSG, FASB, ASBJ and EFRAG representatives said that stakeholders face challenges with regards to new and emerging intangibles such as software-as-a-service and digitalisation arrangements, cryptocurrencies, carbon credits and other intangibles traded on a market, and new ways intangibles are developed. The ARD representative said that the IASB should consider the accounting for data resources, acquisition of in-process R&D projects, and variable payments. Many of these members urged the IASB to look at these topics on a short-term basis. However, the UKEB representative said that, to avoid inconsistencies, principles should be established before addressing specific assets.

**Definition**

82. The ANC, GLASS, ASCG and UKEB representatives said that the IASB should consider aligning the definition of an intangible asset with the *Conceptual Framework*.
83. The ASBJ representative said that the distinction between tangible and intangible assets based on physical form is outdated, and that intangible items should be accounted for in the same way as similar tangible items. The ANC representative said the IASB should consider clarifying the distinction between a prepayment and an intangible asset.
84. The KASB representative said that consistent labels and terminology are needed for better representation and comparability.

**Recognition**

85. The ANC, AOSSG, and FASB representatives suggested the IASB consider the accounting for internally generated intangible assets versus intangible assets acquired in a business combination. The AcSB representative commented that growth differs between entities that expand organically and those that expand via acquisition, which might reflect the need for distinct accounting for each type of growth strategy.
86. The ANC member agreed with the suggestion to reassess the appropriateness of the recognition criteria, specifically regarding the properties of intangible assets and new types of intangible items and new ways entities are accessing and using intangible items. The ANC, ASCG and ARD representatives also said that prohibitions on recognition of many internally generated intangible assets in IAS 38 should be reconsidered.
87. However, the AcSB representative said users have little appetite for recognising more intangible assets on the balance sheet than are recognised now (except for recognising cloud computing assets).

**Measurement**

88. The ARD, ANC and ASCG representatives suggested that the IASB consider how the amortisation period is determined for intangible assets.
89. The AOSSG representative said that the IASB should consider how to account for intangible assets at fair value. The GLASS representative suggested requiring entities to disclose a reconciliation between the cost and the fair value of intangible items.

**Presentation and disclosure**

90. The ANC representative said that their stakeholders consider disclosures a low priority. Conversely, the KASB, GLASS, AOSSG and ARD representatives said disclosures are a high priority. The KASB representative said that disclosure of information about significant unrecognised intangible assets should be made mandatory rather than just encouraged. The AcSB and FASB representatives said that the focus of the project should be on disaggregation of expenditure on intangible



items. However, the ASBJ and UKEB members warned against a focus solely on disclosure requirements, saying that disclosure requirements should not be a substitute for adequate recognition and measurement requirements.

91. The AOSSG representative said that the links between accounting and sustainability reporting should be considered and, said it was important to have a clear boundary to determine the appropriate location of the information (the ASBJ representative also highlighted the need for a clear boundary). The ASCG representative also made a similar point in reference to the upcoming Corporate Sustainability Reporting Directive in the EU.

### ***Possible project approaches***

92. Many ASAF members (UKEB, AcSB, PAFA, FASB) advocated combining the early evaluation and phased approaches, suggesting such a blended approach would address priorities, give users decision-useful information in a timely manner and use the IASB's resources effectively. The AcSB representative also suggested that the IASB focus on intangible assets held for investment in a separate project.
93. The ANC, ARD and GLASS representatives preferred an early evaluation approach, whereas the KASB representative preferred a phased approach, tackling disclosure first. The EFRAG and AOSSG representatives reported that some of their stakeholders endorsed early evaluation and others preferred a phased approach.
94. The ASCG representative favoured an all-in-one approach, saying it would be difficult to consider topics such as scope, definition, recognition and measurement in isolation.

### **Next steps**

95. The IASB will consider ASAF members' and other stakeholders' views when defining the overall problem that needs to be solved, the scope of the project, and the approach to staging the work.