
Accounting Standards Advisory Forum

Date **26–27 September 2024**

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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.

Dynamic Risk Management (DRM)

Purpose of the session

1. The purpose of this session was:
 - (a) to update ASAF members on the progress of the DRM project towards an exposure draft; and
 - (b) to seek ASAF members' views on the project's progress and the IASB's recent tentative decisions related to the project.
2. Specifically, ASAF members were asked about the appropriateness of the proposed:
 - (a) risk management activities applicable to the DRM model (Question 1); and
 - (b) presentation (Question 2) and disclosure (Question 3) requirements for an entity applying the DRM model.

Summary of the feedback

Question 1

3. The ANC, AOSSG, ARD, EFRAG, KASB, FASB and AcSB representatives welcomed the progress made on the DRM project, and generally supported the IASB's recent tentative decisions related to the project. However, these members and other ASAF members also provided further feedback on the development of the DRM model. Notably:
 - (a) the ANC representative said the IASB might need to consider financial institutions that manage risk differently from other entities—for example, mutual banks that manage risk at subsidiary level instead of at group level.
 - (b) the GLASS representative said using the term 'business activities' to describe the source of repricing risk might inappropriately imply that repricing risk always arises directly from an entity's core business operations, whereas in reality repricing risk could arise from, for example, an entity's treasury activities or investment portfolio management.

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- (c) the AOSSG representative said it would be important to ensure that entities applying the DRM model have robust ‘guard rails’ and provide detailed disclosures. This representative also commented on the potential effects of the proposed requirements in relation to the post-implementation review of the hedge accounting requirements in IFRS 9 *Financial Instruments*.
 - (d) the ASBJ representative asked the IASB to clarify how to assess whether an entity carries out the applicable risk management activities if it manages both interest rate risk and cross-currency risk.
 - (e) the ARD representative suggested that the scope of the DRM model be extended to cover other types of risk—in particular, commodity price risk.
 - (f) the ARD and KASB representatives asked the IASB to provide further explanations and guidance to help entities better understand the four characteristics of applicable risk management activities.
4. The ANC, EFRAG, UKEB and AcSB representatives expressed concerns about whether insurance companies or entities with both banking and insurance businesses would be able to apply the DRM model to their dynamic risk management activities. They asked the IASB to consider the needs of insurers and address insurance-specific challenges in the DRM model. However, the ANC, UKEB and AcSB representatives agreed with the IASB’s initial approach to this issue, which will be to include a question specific to insurers in the prospective DRM exposure draft to better understand how they manage interest rate risks. The UKEB and AcSB representatives also acknowledged the significant differences in asset and liability management between banks and insurers, and said the IASB might need to consider the model further to ensure it would work for insurers.
5. In response, an IASB member assured the ASAF members that the DRM project would not ‘discriminate’ against any industry or type of risk. This IASB member summarised the history of the DRM project and reiterated the reasons for the approach taken by the IASB. The IASB member also explained the IASB’s plan to explore whether the DRM model is applicable to other types of risk management

activities or could be applied to other risks based on the feedback on the prospective DRM exposure draft.

Questions 2 and 3

6. The GLASS, PAFA, ANC, ARD, FASB, AOSSG, KASB and AcSB representatives generally agreed with the proposed presentation and disclosure requirements related to the DRM model. However, some representatives made further comments. For example:
 - (a) the GLASS representative asked the IASB to clarify the meaning of the term ‘banking book’ in relation to determining the line items required in the primary financial statements, and suggested the IASB require DRM-related line items to be presented only in the notes;
 - (b) the PAFA representative said it is important for the IASB to engage with a wider audience because the current feedback on the proposed requirements is only from financial institutions;
 - (c) the AOSSG representative said a minority of stakeholders would prefer the presentation of DRM adjustment in other comprehensive income to be consistent with the *Conceptual Framework for Financial Reporting*;
 - (d) the KASB representative noted that entities’ managed risks and time horizons related to repricing risk vary and that it is important to understand whether the proposed disclosure requirements would lead to entities providing useful information; and
 - (e) the AcSB representative said initial feedback from users about the presentation and disclosure requirements was positive.
7. Representatives from EFRAG, ASBJ and AOSSG expressed concern that entities might be required to disclose commercially sensitive information. The ASBJ representative said quantifying how much risk is mitigated could be both costly and commercially sensitive. The AOSSG representative said although the proposed disclosures focus on the hedging instruments rather than the underlying items, commercial sensitivity remains a concern for some entities. In response, an IASB

member explained that the proposed disclosure requirements are based on the current requirements in IFRS 7 *Financial Instruments: Disclosures* for general hedge accounting. This IASB member also said it would be helpful if stakeholders could explain which disclosure requirements have caused this concern and why it has arisen in relation to the DRM model but not general hedge accounting.

8. The ASBJ representative asked why the IASB has proposed DRM misalignment be presented together with other gains or losses from derivatives. However, the AcSB representative later said the users of financial statements in their jurisdiction are comfortable with that requirement.
9. The EFRAG and ASBJ representatives also called for reduced disclosure requirements, suggesting that qualitative disclosures are preferred to quantitative disclosures. However, these representatives suggested that entities be required to disclose more information about the unwinding of the DRM adjustment. They also suggested that entities be required to disclose both the net interest income and the economic value of equity before and after applying the DRM model. In response, an IASB member said although investors do not always benefit from more disclosures, qualitative information alone might not be enough for them. The IASB member said that entities need to disclose a balance of qualitative and quantitative information.
10. The relationship between the DRM disclosure requirements and regulatory disclosure requirements (such as Basel III for banks and Solvency II for insurers) was also raised by a few ASAF members, including the ANC, FASB, UKEB and AcSB representatives. Although most ASAF members agreed that the DRM disclosure requirements might include similar information to that in existing regulatory disclosure requirements, they also acknowledged that the objective of banking regulators might differ from the objective of financial reporting, and therefore it might not always be possible to align the DRM disclosure requirements with such regulatory disclosure requirements.

Next step

11. The IASB will consider the feedback from ASAF members and other stakeholders in developing its proposals for the prospective DRM exposure draft.

Climate-related and Other Uncertainties in the Financial Statements

Purpose of the session

12. The purpose of this session was:
 - (a) to provide ASAF members with an overview of the Exposure Draft [Climate-related and Other Uncertainties in the Financial Statements](#) (Exposure Draft); and
 - (b) to ask members for their preliminary feedback on the proposals set out in the Exposure Draft.
13. ASAF members were asked whether they agreed:
 - (a) that providing examples to illustrate how an entity applies IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements would help improve the reporting of these effects;
 - (b) with including the examples as illustrative examples accompanying IFRS Accounting Standards; and
 - (c) with the approach to developing the examples, including the selection of requirements, fact patterns and technical content.

Summary of the feedback

Providing illustrative examples

14. ASAF members generally supported providing examples to help improve the reporting of the effects of climate-related and other uncertainties in the financial statements. They also generally agreed with including the examples as illustrative examples accompanying IFRS Accounting Standards.
15. The ASBJ, EFRAG, PAFA and UKEB representatives noted that the Exposure Draft focuses particularly on climate-related uncertainties despite the IASB's decision to generalise the project to include other uncertainties. These representatives suggested the IASB develop additional examples related to other uncertainties.

Approach to developing illustrative examples

16. ASAF members shared their views on the accounting requirements illustrated in the examples. Most ASAF members broadly agreed with the requirements illustrated by the examples. However:
- (a) the ASBJ representative disagreed with the requirements selected to arrive at the conclusions illustrated in the examples. The representative said, for example, that similar conclusions could be reached without referring to IAS 1 *Presentation of Financial Statements*.
 - (b) the ASCG, EFRAG and KASB representatives suggested that, in addition to examples illustrating disclosure requirements, the IASB should develop examples illustrating recognition and measurement requirements.
17. Most ASAF members agreed with the fact patterns selected for inclusion in the examples. However:
- (a) the AOSSG representative reported that a few AOSSG members had said some examples are too simple. These members also said the examples should cover a wider range of scenarios, including more complex fact patterns. The EFRAG representative suggested making the fact pattern for Example 5 more realistic.
 - (b) the ANC and EFRAG representatives said the examples would be more useful if some of them were grouped—particularly Examples 1 and 2—and if their fact patterns were varied. The ASCG and UKEB representatives said it might be helpful for the IASB to develop examples with fact patterns in which an entity’s financial position or financial performance has been affected.
18. Most ASAF members broadly agreed with the technical content of the examples. However:
- (a) the AcSB, AOSSG, ASBJ, EFRAG and UKEB representatives expressed concerns about the examples illustrating paragraphs 31 and 125 of IAS 1,

saying these examples might go beyond how entities currently apply these requirements; and

- (b) the ASCG representative said that it might be difficult to apply Example 8 to a fact pattern in which information could be disaggregated based on several dissimilar risk characteristics. In addition, the EFRAG representative suggested clarifying whether an entity should disaggregate all the information required by paragraph 73 of IAS 16 *Property, Plant and Equipment* between the two types of property, plant and equipment illustrated in the example.

Other comments

19. Some ASAF members commented on:

- (a) *possible standard-setting*—the EFRAG and UKEB representatives said that some standard-setting might be needed. For example, standard-setting might be needed to clarify how an entity applies the requirements in paragraphs 31 and 125 of IAS 1 and how an entity measures an asset's value in use applying IAS 36 *Impairment of Assets*.
- (b) *connectivity*—the ANC, AOSSG, EFRAG and UKEB representatives called for greater emphasis on connectivity between the financial statements and general purpose financial reports. Furthermore, the AcSB, ANC, ASCG and EFRAG representatives emphasised the need to clarify the boundaries between financial statements and other general purpose financial reports such as sustainability-related financial disclosures prepared applying IFRS Sustainability Disclosure Standards.
- (c) *transition*—the AcSB and ASBJ representatives said that because materials accompanying IFRS Accounting Standards do not have transition requirements, the IASB should carefully consider when to issue the illustrative examples to ensure that entities have sufficient time to respond to any changes. The EFRAG representative suggested that the IASB encourage entities to apply the examples as soon as possible because the

illustrative examples do not add or change the requirements in IFRS Accounting Standards.

20. The AOSSG, EFRAG and UKEB representatives suggested that the IASB also issue the final illustrative examples in a single document to improve accessibility and allow stakeholders to refer to the examples as a package.

Next step

21. The IASB will consider the feedback from ASAF members in deciding whether to finalise the illustrative examples.

Rate-regulated Activities

Purpose of the session

22. The purpose of this session was:
- (a) to update ASAF members on the redeliberations of the proposals in the Exposure Draft [Regulatory Assets and Regulatory Liabilities](#) (Exposure Draft); and
 - (b) to seek ASAF members' views on whether the IASB's tentative decisions in the first half of 2024 helped address stakeholders' feedback on:
 - (i) the discount rate, including the minimum interest rate;
 - (ii) disclosures, including reduced disclosures;
 - (iii) the boundary of a regulatory agreement;
 - (iv) the application of the prospective Standard with other IFRS Accounting Standards; and
 - (v) the amendments to other IFRS Accounting Standards.

Summary of the feedback

Discount rate

23. ASAF members generally agreed with the IASB's tentative decisions on the discount rate, including the proposed requirements to use the minimum interest rate in some circumstances. However:
- (a) the ASBJ representative disagreed with the tentative decisions:
 - (i) to retain the minimum interest rate proposals as set out in the Exposure Draft—because these proposals would result in asymmetrical treatment of regulatory assets and regulatory liabilities; and
 - (ii) to require the use of the regulatory interest rate as the discount rate when the regulatory interest rate for a regulatory asset is excessive.
 - (b) the KASB, ARD and AOSSG representatives reported that their stakeholders have said the regulatory interest rate is more objective than the minimum interest rate. These stakeholders have expressed concerns that the minimum interest rate requirements are complex, will be costly to apply, will reduce comparability among entities in the same jurisdiction and will not result in useful information.
 - (c) the UKEB and PAFA representatives also expressed concerns about comparability. The PAFA representative suggested that the minimum interest rate requirements might be difficult to implement in developing regulatory environments.
24. IASB staff stressed that an entity would be required to apply the minimum interest rate requirements only if the regulatory interest rate for a regulatory asset were deemed to be insufficient, which is unlikely to occur often. The decisions to provide some exemptions from discounting should also reduce the instances in which an entity would have to estimate the minimum interest rate and use that rate as the discount rate.

Disclosures

25. ASAF members generally supported the IASB's tentative decisions on disclosures, including its decision not to develop reduced disclosures for inclusion in IFRS 19 *Subsidiaries without Public Accountability: Disclosures* at this time. However, some ASAF members provided further feedback on the IASB's tentative decisions.

Notably:

- (a) the ANC representative stressed the importance of:
 - (i) disclosures providing information about the overall regulatory framework and the effect of the regulatory agreements on the financial statements;
 - (ii) the reconciliation of regulatory assets and regulatory liabilities; and
 - (iii) the application of the aggregation and disaggregation principles in IFRS 18 *Presentation and Disclosure in Financial Statements*.
- (b) the AOSSG representative reported that some of their members have said that some of the proposed disclosures are legally prohibited in their jurisdictions.
- (c) the UKEB representative said entities with no direct relationship between their regulatory capital base and their property, plant and equipment would develop alternative performance measures to provide information about unrecognised regulatory assets and regulatory liabilities. This representative expressed concern that entities would need to use alternative performance measures to provide this information.
- (d) the ARD representative said some stakeholders in their jurisdiction had expressed concern that the proposed disclosure requirements might result in entities providing general information rather than entity-specific information about the risks and uncertainties affecting the recovery of regulatory assets and fulfilment of regulatory liabilities. They suggested that examples might help to address their concern. Some stakeholders also said

it would be useful for entities to disclose the amount of the regulatory capital base.

26. Some ASAF members said they will be commenting on the proposals set out in the Exposure Draft *Amendments to IFRS 19 Subsidiaries without Public Accountability: Disclosures*. The UKEB representative expressed concern about the decision not to develop reduced disclosure requirements at this time.

Boundary of a regulatory agreement

27. ASAF members generally supported the IASB's tentative decisions on the proposed requirements dealing with the boundary of a regulatory agreement. Some ASAF members shared their views on the tentative decisions. Notably:
- (a) the KASB representative said the IASB's tentative decisions are appropriate because some rate-regulated entities in their jurisdiction might have the right to operate for an indefinite period and enforceable present rights to recover regulatory assets over that period; and
 - (b) the ARD representative said their stakeholders would like more guidance on how an entity assesses its practical ability to renew a regulatory agreement and on other parties' practical ability to cancel a regulatory agreement.

Application with, and amendments to, other IFRS Accounting Standards

28. IASB staff summarised the IASB's tentative decisions on applying the prospective Standard with IFRS 17 *Insurance Contracts* and IAS 12 *Income Taxes* and on the amendments to IFRS 3 *Business Combinations*, IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and IAS 36 *Impairment of Assets*.
29. ASAF members generally supported the IASB's tentative decisions on applying the prospective Standard with, and amendments to, other IFRS Accounting Standards. Some ASAF members shared their views on the IASB's tentative decisions. Notably:

- (a) the EFRAG representative said the requirements in the prospective Standard must be clear to avoid entities double counting when applying IFRS 3 and IAS 36.
- (b) the UKEB representative expressed concern about the decision to create an exception to the recognition and measurement principles in IFRS 3 for regulatory assets acquired and regulatory liabilities assumed. In particular, this representative was concerned about the effect this exception would have on goodwill if an entity had unrecognised regulatory assets.
- (c) the ARD representative said some stakeholders in their jurisdiction would welcome more guidance on the treatment of deferred income tax in the prospective Standard, possibly in the form of an illustrative example.
- (d) the AOSSG representative asked whether the IASB had considered making consequential amendments to IFRS 8 *Operating Segments* to reflect the disaggregation of regulatory assets and regulatory liabilities, and, if so, how such amendments might be reflected in operating segment disclosures. IASB staff responded that, after analysis, the IASB had discussed that it was unnecessary to amend IFRS 8 to clarify the relationship between IFRS 8 and the prospective Standard.
- (e) the ASCG representative asked why the IASB decided to omit the amendments to paragraphs 43 and 79 of IAS 36 proposed in the Exposure Draft. IASB staff explained that, in accordance with the requirements in IAS 36, an entity will still be required to consider potential double counting of cash flows and the comparability of the recoverable amount of the cash-generating unit and the carrying amount of the cash-generating unit. Omitting the proposed amendments avoids the possibility of implying that the cash flows of a regulatory asset are always independent of other assets in a cash-generating unit.

Other comments

30. A few ASAF members made other comments regarding the finalisation of the prospective Standard:
- (a) the EFRAG representative encouraged the IASB to finalise the prospective Standard as soon as possible, noting that EFRAG intends to seek rapid endorsement of the prospective Standard.
 - (b) the UKEB representative requested that the IASB continue to consider the concerns this representative has raised about the implications of the direct (no direct) relationship concept for rate-regulated entities in the United Kingdom. The Chair explained that now that the IASB has completed its redeliberations, any further proposals would need to be considered as part of a new project.

Next steps

31. The IASB will consider the feedback from ASAF members and IASB staff will seek feedback from ASAF members on other tentative decisions made by the IASB.
32. Now that the IASB has concluded its redeliberations, IASB staff are drafting the prospective Standard and, with the assistance of ASAF members, gathering feedback on its likely effects. IASB staff will also meet with the IFRS Foundation's consultative bodies. The IASB expects to issue the prospective Standard during the second half of 2025.

Pollutant Pricing Mechanisms

33. IASB staff provided ASAF members with a brief oral update on the work done on pollutant pricing mechanisms since the previous ASAF meeting, including a summary of the feedback from the session held with the IFRS Interpretations Committee in September.
34. ASAF members asked clarifying questions and shared their perspectives on the priority of a project on pollutant pricing mechanisms.

Statement of cash flows

35. The AcSB representative presented the results of the AcSB's staff research and shared users' perspectives on the application of IAS 7 *Statement of Cash Flows*.
36. The AcSB representative also presented potential solutions that the IASB could explore in its project on Statement of Cash Flows and Related Matters. These potential solutions mainly related to:
 - (a) cash flow measures relevant to users of financial statements;
 - (b) methods of reporting cash flows from operating activities; and
 - (c) the usefulness of the statement of cash flows for the financial services sector.
37. The research suggested that targeted improvements to IAS 7 would be more beneficial than a comprehensive review of that Standard.
38. ASAF members and IASB representatives said the research provides a useful summary of issues related to the statement of cash flows.
39. Some ASAF members asked clarifying questions and shared their perspectives. The PAFA, AOSSG, EFRAG and FASB representatives said the research findings are generally consistent with the views of stakeholders in most jurisdictions. However, views on how to resolve some of the issues raised in the research findings vary by jurisdiction.

IFRS 17 *Insurance Contracts*

40. The AcSB representative presented users' perspectives on the first year of application of IFRS 17.
41. The UKEB, ANC, ARD, KASB and AOSSG representatives and some IASB members said they are familiar with most of the issues identified by the AcSB. The EFRAG representative said stakeholders in their jurisdiction have not raised these issues—the most important matter for European insurance companies remains their

inability, in applying IFRS 9, to recycle gains or loss from other comprehensive income when they sell their equity investments.

42. The ASBJ representative thanked the AcSB for identifying challenges early. The UKEB representative and some IASB members said it might be too early to evaluate whether the challenges the AcSB identified are simply symptoms of implementation. Entities are still learning from each other and, therefore, reporting practices will converge over time. Investors also need time to digest the new information and how it can be helpful in their analyses.

Power Purchase Agreements

Purpose of the session

43. The purpose of this session was to provide a project update and to ask whether ASAF members have questions or comments about:
- (a) the feedback on the Exposure Draft [Contracts for Renewable Electricity](#);
and
 - (b) the tentative decisions made by the IASB at its [September 2024](#) meeting.

Summary of the feedback

44. The AcSB, GLASS and UKEB representatives encouraged the IASB to keep the scope of the amendments as narrow and clear as possible to avoid entities analogising other fact patterns to the amendments.
45. The EFRAG representative agreed with the opinion expressed at the September IASB meeting that entities need to apply judgement in deciding whether contracts for hydroelectricity are within the scope of the amendments. This representative said that including some 'base-load' contracts within the scope of the amendments would have been preferable, but acknowledged that such an extension could delay the issue of these much-needed amendments.
46. The AcSB, AOSSG and KASB representatives acknowledged that the accounting for renewable energy certificates or similar attributes is outside the scope of this project,

but encouraged the IASB to consider the accounting for renewable energy certificates as soon as possible.

47. The UKEB representative agreed with the approach taken in finalising the hedge accounting amendments. This representative also said stakeholders might need some education to enable them to understand and apply the amendments. The GLASS representative also agreed that educational material might be necessary. The AOSSG representative reminded ASAF members of feedback from the comment letters regarding the scope of the hedge accounting amendments—for example, some respondents asked for more guidance on the ‘highly probable’ requirement for load following swaps. This representative said that this subject might not fall within the scope of the proposed amendments, but should be reconsidered after the amendments have been finalised.
48. The AcSB, FASB, KASB and UKEB representatives encouraged the IASB to retain the requirements for detailed disclosures about contracts that are accounted for as executory contracts in accordance with the proposed amendments. These representatives said that users of financial statements need detailed disclosures to understand the risks that arise from these contracts. The KASB representative encouraged the IASB to carefully balance the benefits of the commercially sensitive disclosures with the costs of preparing them.
49. The AOSSG representative agreed with the discussion at the September IASB meeting that clarified for them whether an entity can apply the fair value option set out in paragraph 2.5 of IFRS 9 to contracts within the scope of the own-use amendments.
50. The AcSB, AOSSG and UKEB representatives asked the IASB to monitor the applicability and relevance of the amendments as markets, technology (including storage) and valuation techniques continue to evolve. Most of these members agreed that including a ‘sunset clause’ in the amendments would not resolve the issue. The ANC representative stressed that their stakeholders consider the fair value of these contracts to be unreliable. The AcSB representative disagreed that current valuation techniques are lacking and asked the IASB not to express a view

about the reliability of valuations in the basis for conclusions on the amendments because doing so might undermine entities that currently measure their contracts at fair value.

Next step

51. The IASB plans to discuss the hedge accounting amendments, disclosures, effective date and transition and due process requirements at its October meeting.

Post-implementation Review of IFRS 16 Leases

Purpose of the session

52. The purpose of this session was:
- (a) to seek ASAF members' views on the implementation and ongoing application of IFRS 16 *Leases*; and
 - (b) to help the IASB identify matters to include in a request for information (RFI) for public consultation.

Summary of the feedback

Overall assessment of IFRS 16

53. Almost all ASAF members who commented said IFRS 16 is working as intended and has achieved its objectives. However, the ANC representative said, for some users and preparers, the presentation requirements for the lease-related cash flows do not work as intended.

Effects of IFRS 16

54. Many ASAF members commented on the benefits of IFRS 16:
- (a) the ARD, GLASS and most AOSSG representatives said IFRS 16 has improved the quality of financial statements and comparability;
 - (b) the AcSB, ARD and PAFA representatives said IFRS 16 leads to more relevant and useful information than IAS 17 *Leases*;

- (c) the ARD representative said IFRS 16 has improved internal controls and coordination between the accounting and business functions, and has solved most of the issues with the previous accounting model for leases; and

55. Many ASAF members commented on implementation costs:

- (a) the AcSB, AOSSG and PAFA representatives said they had observed significant implementation costs. The AcSB and AOSSG representatives said most of the costs were as expected and were mainly related to setting up new systems.
- (b) the AOSSG representative said in some countries the implementation of IFRS 16 was more challenging than expected—for example, due to the unforeseen challenges of the covid-19 pandemic.
- (c) the ARD representative said the initial application of the lessee model was costly—in particular, for small entities and entities whose lease portfolio was not significant.
- (d) the GLASS representative said the overall cost of implementation was not an issue, despite some initial challenges related to the measurement of leases and changes to accounting systems.
- (e) the AOSSG representative said transition relief and practical expedients helped reduce costs.

56. Many ASAF members commented on ongoing costs:

- (a) the AOSSG representative said feedback from some preparers indicates that actual ongoing costs might be higher than pre-IFRS 16 because IFRS 16 requires some complex calculations and it is costly to maintain accounting systems.
- (b) the ARD representative said the complexity involved in accounting for lease modifications increases costs.
- (c) the AOSSG, ARD and ASCG representatives said eliminating intragroup leases is complex and costly.

- (d) the GLASS representative said monitoring variable lease payments linked to an index or a rate is costly. The AOSSG member said that one member had suggested simplifying the requirements for the reassessment of lease liability (for changes in variable lease payments linked to an index or a rate) to reduce ongoing costs.
- (e) the ANC representative said preparers have found it difficult to determine discount rates in accordance with IFRS 16. Some preparers said their ongoing costs are still high and, in their view, outweigh the benefits of applying IFRS 16.
- (f) the AOSSG representative said lenders tend to reverse the effects of IFRS 16 for the purpose of covenant testing.

Application matters

57. Most ASAF members commented on application questions that the IASB should consider including in the RFI. Their suggestions and comments related to:
- (a) *identifying a lease*—the AOSSG representative said some preparers find it difficult to determine whether a contract is a lease or a service.
 - (b) *discount rates*—the AcSB, ANC, AOSSG, GLASS and PAFA representatives said it is complex to determine discount rates, leading to diversity in practice. The ASCG representative said it is important to understand whether the root cause of the issue is the complexity of the contracts, the economic environment or a deficiency in the requirements.
 - (c) *lease term*—for example, the AcSB and AOSSG representatives said determining the lease term for shorter-term leases with automatic renewal options or with no fixed end date is difficult. The KASB representative said entities vary in how they determine lease terms when lease extensions are required to be mutually agreed.
 - (d) *variable lease payments*—for example, the KASB representative said for some leases it is difficult to determine whether lease payments depend on an index or a rate.

- (e) *sale and leaseback transactions*—the AOSSG, ASBJ and ASCG representatives said the accounting model is complex and concerns have been raised, for example, about inconsistencies with IFRS 15 *Revenue from Contracts with Customers* and the differences between the treatment of variable lease payments in leaseback transactions and in lease transactions.
- (f) *presentation of cash flows*—the ANC representative said, for many analysts and preparers, presentation of lease payments in the statement of cash flows should differ for cash flows related to in-substance acquisitions of assets (investing) and cash flows related to the right to use an asset (operating).
- (g) *accounting for office space leases*—the AcSB representative said users generally do not find information about leases useful if the lease term is relatively short compared to the economic life of an underlying asset. These users said they would rather see rent expense presented in operating costs and included in earnings before interest, taxes, depreciation and amortisation (EBITDA).
- (h) *the relationship between IFRS 16 and other IFRS Accounting Standards*—ASAF members commented on the relationship between the requirements in IFRS 16 and those in some other Accounting Standards, including:
 - (i) IFRS 9—the ANC, AOSSG and EFRAG representatives said it is unclear whether entities should account for lease payments forgiven by applying IFRS 9 or by applying the lease modification requirements in IFRS 16.
 - (ii) IFRS 15—for example, the ASBJ representative said there is diversity in practice in determining whether an entity is a principal or an agent; some entities analogise to the requirements in IFRS 15, and others do not.

Next step

58. The IASB will consider feedback from ASAF members when identifying issues to be included in the RFI.

Agenda planning and feedback from previous ASAF meetings

59. This session discussed the proposed topics for the next ASAF meeting, which is scheduled for 5–6 December 2024. Participants agreed the meeting should include discussion of projects on:
- (a) Rate-regulated Activities;
 - (b) Financial Instruments with Characteristics of Equity;
 - (c) Amortised Cost Measurement;
 - (d) Statement of Cash Flows and Related Matters;
 - (e) Management Commentary; and
 - (f) Updating IFRS 19 *Subsidiaries without Public Accountability: Disclosures*.
60. The ASAF members agreed with the staff proposal to discuss the Equity Method project on the ASAF meeting in March 2025 and to extend the deadline for the agenda paper to enable staff to summarise the feedback on the Exposure Draft and share with the ASAF members.
61. It was agreed that the ASAF meeting on 5–6 December 2024 will be held by videoconference.