IFASS Meeting Report

International Forum of Accounting Standard Setters

17-19 April 2024 IFASS meeting

Hosted by Korea Accounting Institute in Seoul, South Korea

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

17-19 April 2024

Physical Meeting in Seoul, Korea 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 corporate reporting issues. It is a forum at which interested stakeholders can discuss matters of common interest. The group is chaired by Chiara Del Prete from EFRAG for the March 2022-2025 period.

OVERVIEW

This report relates to the IFASS meeting held on 17-19 April 2024 at the Conrad Seoul Hotel, Korea with both in-person and remote participation.

The meeting attendees included representatives (90+ in-person and 110+ virtual) of standard setters from 34 jurisdictions (i.e., Australia, Austria, Belarus, Belgium, Brazil, Canada, China, Denmark, France, Germany, Hong Kong, India, Indonesia, Italy, Japan, Lebanon, Malaysia, Mexico, Nepal, Netherlands, New Zealand, Nigeria, Norway, Singapore, South Africa, South Korea, Spain, Sri Lanka, Sudan, Sweden, Switzerland, Taiwan, United Kingdom and USA).

The attendees also included representatives of three multi-country jurisdictions (i.e., the Group of Latin American Accounting Standard Setters (GLASS), The International Arab Society of Certified Accountants (IASCA) and the Pan African Federation of Accountants (PAFA)).

In addition, there were representatives of the Chartered Institute of Public Finance and Accountancy (CIPFA), Deloitte, the International Accounting Standards Board (IASB), the International Labour Organization (ILO), International Strategic Alliances-ISA Lebanon (ISAL), the International Sustainability Standards Board (ISSB), the International Public Sector Accounting Standards Board (IPSASB), PricewaterhouseCoopers (PwC), the Taskforce on Nature-related Financial Disclosures (TNFD), University of Zurich, and the eXtensible Business Reporting Language International (XBRL International).

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

- Meeting running order;
- Action List; and
- Appendix: List of in-person and virtual IFASS participants at the meeting.

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WELCOME DINNER 16TH APRIL 2024

IN-PERSON ATTENDEES


GROUP PHOTO

MEETING RUNNING ORDER

Day 1: 17 April 2024

Item 1. Welcome and overview of the event

Chiara Del Prete welcomed the attendees and lauded the high numbers and diversity of participation with representatives from 34 countries taking part in the meeting. She thanked the Korean Accounting Institute (KAI) for hosting the event. She observed that the agenda had been designed to evenly cover financial reporting (FR) and sustainability reporting (SR) and it included connectivity as a cross-cutting topic.

Chiara Del Prete summed up the day's agenda before the sessions commenced.

Item 2. Accounting for environmental credits/carbon credits

The session consisted of two presentations. Nellie Debbeler from the Financial Accounting Standards Board (FASB) gave an update on the accounting for environmental credit programs project while Katharine Christopoulos presented the ongoing research by the Accounting Standards Board (AcSB) on accounting for carbon credits.

FASB presentation

Nellie Debbeler presented key aspects of the upcoming FASB Exposure Draft (ED) on environmental credit programmes, which is expected to be published in H2 2024. The FASB project was initiated due to the lack of related guidance plus stakeholders' feedback indicated that environmental credits were gaining significance notwithstanding that they are currently usually immaterial in US entities' financial statements. The project aims to address recognition, measurement, presentation and disclosure requirements for both compliance and voluntary environmental credits.

Definitions and scope: Nellie Debbeler noted that FASB had developed definitions for both environmental credits (ECs) and environmental credit obligations (ECOs). She highlighted that renewable energy certificates (RECs), renewable identification numbers (RINs) and the European Union (EU) emission allowances are included in the project's scope. Tax credits and additional payments entities make to become carbon neutral without a transfer of credits are not in scope. As regards liabilities, the FASB project encompasses only obligations stemming from existing or enacted laws and not those from voluntary carbon neutral or net zero commitments.

Asset recognition and measurement: Mandatory/compliance environmental credit schemes: For mandatory environmental credit schemes, Nellie Debbeler noted that according to the upcoming FASB ED, when it is probable that the EC would either be used to settle an ECO or sold, an entity would recognise an asset. This proposed requirement was based on stakeholders' feedback that entities are usually aware of the specific use of the mandatory ECs they acquire or are granted. Moreover, she noted that if it was probable an EC would be used to settle an ECO, the EC would be recognised at cost and not tested for impairment. In contrast, if it was not probable the EC would be used to settle an obligation, then the EC would be recognised at cost and tested for impairment.

Asset recognition and measurement: Purchased voluntary environmental credits and granted environmental credits: For purchased voluntary ECs, Nellie Debbeler indicated that, as it was not probable these ECs would be either used to settle an obligation or sold, they would be expensed. As per the definition of assets in the FASB conceptual framework, voluntary ECs do not represent a present right to economic benefits for the reporting entity. To reach this conclusion, the FASB had analogised other accounting areas such as accounting for fixed assets not to be used in operations or sold, contributions, and advertising costs. Similarities to the latter arose when entities acquired ECs to mark themselves as being environmentally conscious. Under US generally accepted accounting principles (GAAP), advertising costs are generally treated as incurred expenses. For granted ECs, Nellie Debbeler stated that their cost would be limited to transaction costs, and many of these would be recognised at nil.

Liabilities (ECOs) recognition and measurements: Nellie Debbeler noted that the FASB had decided an entity should recognise a liability when activities or events at or before the balance sheet date indicated an ECO existed. The liability measurement would be split into a funded and an unfunded portion. The funded portion would be measured at the carrying amount of the ECs held. Barring a few exceptions, the unfunded portion would be measured at the fair value of the ECO. Entities would be required to reassess the measurement of the liability at each reporting date, with the remeasurement gain or loss being recognised in earnings. For balance sheet presentation, offsetting between ECOs and the related ECs would be prohibited.

Fair value considerations and environmental credits/ ECOs in business combinations: Nellie Debbeler noted that the FASB had agreed that a subset of ECs could be optionally measured at fair value and was currently exploring the population that would be eligible for this option. Moreover, the FASB had also clarified that ECs and ECOs should be recognised in business combinations based on the ED requirements unless they were not transferrable.

AcSB presentation

Katharine Christopoulos provided an update on the AcSB research on accounting for carbon credits building on the previous update provided during the September 2023 IFASS meeting[1]. She confirmed that carbon credits were not material for Canadian entities' financial statements and there was diversity in the placement of related information with most information disclosed in the management report or sustainability reporting.

Voluntary credits – accounting issues: Katharine Christopoulos highlighted several accounting issues including whether carbon credits meet the definition of an asset or whether they should be expensed. On this question, the AcSB had considered the notion of control (i.e., whether the entity could directly use the carbon credits), the rights to the carbon credits used, which usually stemmed from the contracts in place, and whether the carbon credits could produce economic benefits by either being sold or used to settle emissions liabilities. She provided an example

[1] See item 6 of September 2023 IFASS meeting report.

whereby an entity held a carbon credit that could not be sold, and the entity had no corresponding emissions liability to offset. In this case, the carbon credit would have to be expensed.

Linking asset and liability recognition: Katharine Christopoulos observed that the existence of constructive obligations that could be recognised as provisions under IFRS requirements made the determination of whether carbon credits could be used to settle emissions liabilities more complex under IFRS than under US GAAP. This is because constructive obligations do not exist under US GAAP. She sought IFASS members' views on whether the existence of a provision on the balance sheet also called for an asset to be recognised. Other accounting issues identified included the implications for emission reduction claims that were not achieved and disclosures.

Accounting implications that could be broader than carbon credits specifically: Katharine Christopoulos highlighted accounting issues that, although related to carbon credits may not necessarily be unique to their treatment. These issues related to commodities, to the accounting for by-products where an entity may generate carbon credits at the same time it produces other products, and how to determine the existence of an active market for fair value measurement.

Audience Q&A on accounting for environmental credits/carbon credits

Considerations on whether voluntary carbon credits should be expensed or recognised as assets: Several IFASS participants considered that voluntary carbon credits should be recognised as assets as their acquisition would provide decision-useful information. An IFASS participant acknowledged that, if voluntary carbon credits were to be recognised as assets, the circumstances around their retirement required further consideration. Nellie Debbeler and Katharine Christopoulos indicated that assessing the timing of retiring voluntary carbon credits was more challenging/subjective than assessing the timing of their acquisition. Hence, expensing at the acquisition of credits could be deemed more reliable.

Uncertainty about the purpose of holding carbon credits: Some IFASS participants highlighted that there could still be uncertainty as to the use of carbon credits as these were fungible. An IFASS participant remarked that voluntary credits, even if expensed, could still be sold at a certain point in time for earnings management. Nellie Debbeler acknowledged that the alternatives of recognising a voluntary carbon credit either instantly or over time had been considered but were considered to be also highly judgemental.

Views on fair value measurement: An IFASS participant noted that fair value measurement for carbon credits would improve comparability. Nellie Debbeler affirmed that this was why the FASB was considering the fair value option for a subset of carbon credits. She noted that the FASB had concluded that the cost of a voluntary environmental credit could not be capitalised as another balance sheet item (e.g., inventory). Katharine Christopoulos observed that in practice, carbon credits were either recognised as inventory when held for sale over an entity's ordinary course of business, or as intangible assets.

Difference between net-zero and carbon neutrality in the European Sustainability Reporting Standards (ESRS): Chiara del Prete remarked that under ESRS requirements, there is a difference between net zero and carbon neutrality. This contrasted with the definitions in the IFRS Sustainability Disclosure Standards requirements.

Item 3. Intangibles and crypto assets

This session consisted of presentations on intangibles by Pauline Wallace from the UK Endorsement Board (UKEB) and crypto assets by Yongwoo Kwon from KAI.

Intangibles presentation (UKEB)

Pauline Wallace gave an overview of the UKEB research project on intangibles including their qualitative research project (which was presented at the April 2023 IFASS meeting). The qualitative research project was the basis for the subsequent research that included an investor survey and a quantitative analysis of the UK market. Two reports, the survey of users detailing their views and expectations of current accounting, and a quantitative analysis of the UK intangibles market were due to be published imminently.

UKEB's intangibles survey results and analysis: UKEB got 46 responses to the survey on intangibles. Many respondents were actual investors while a few of them were other users. User expectations gleaned from the survey showed that users were dissatisfied with the reporting of intangibles in the financial statements, and they sought more disclosures, particularly for intangibles not recognised on the balance sheet. They had concerns about inconsistent categorisation in the financial statement, the subjectivity of measurement and a lack of comparability between companies growing by acquisitions and those growing internally. Due to perceived shortfalls with current accounting, they tended to use narrative information to make their own calculations. That said, some other users expressed that the current state of play accorded them a competitive edge that is derived from using their own valuation models.

At the same time, equity investors did not want radical changes to recognition and measurement requirements but instead suggested much more granular disclosures would help. By contrast, lenders asked for the enhanced accounting of intangibles because of the growth of IP-backed finance and the importance of the interaction between companies' accounting and the lending rules for banks to meet their regulatory capital rules.

UKEB quantitative review on intangibles: Given the importance of mergers and acquisitions (M&A) transactions in the recognition of intangibles, UKEB reviewed the M&A transactions across the market from 2011 to 2021 and selected 20 of the largest deals for detailed examination. The reporting in a sample of 80 companies for 2021 was also reviewed.

Pauline Wallace stated that intangible assets were growing in the UK at an average growth rate of 8% per annum and this was a slightly faster rate than the growth of total assets. The percentage of intangible to total assets also increased from 1.7% in 2011 to 3% in 2021. Other headline findings were that a) 79% of the companies had at least one intangible asset on their balance sheet but the largest 25% of companies had 97% of the population of intangible assets identified in the UK sample in terms of carrying amount; b) 10 companies held almost two-thirds of the intangible assets, and those companies had been very actively making acquisitions; c) One UK company held 21% of intangible assets recognised on the balance sheet; and d) 46% of the intangible assets were customer relationships as a result of M&A transactions.

Pauline Wallace observed there was a lot of variability in how intangibles were categorised. Small companies had a wider range of intangible assets on their balance sheets compared to larger companies. She also noted that crypto-assets were missing in the analysis because they were not yet material in the UK even though users had concerns about them.

Furthermore, there was a correlation between intangibles' growth at gross cost and net carrying amount and deal value over the period.

Using various assumptions, it is estimated that at the end of 2021, the value of unrecognised intangibles for the population of listed entities could be between approximately £242 billion and £298 billion. This can be contrasted with the intangible assets actually recognised in companies' balance sheets in 2021 – valued at £351 billion. This estimation sheds light on the potential significance of intangibles from an economic perspective.

Although intangibles were widespread and increasing in value, they only represented about 3% of UK-listed companies' balance sheets. M&A activity drove most of the growth in intangibles, and investors had indicated that this impaired comparability. The UKEB staff assessment was that there could be an intangible assets' recognition gap, but it was too early to make a final judgment in that regard. However, disclosures were not clear, even under current GAAP.

Audience Q&A on the intangibles presentation

An IFASS participant asked whether the presented proportion of intangible assets on the balance sheet was similar to other countries. Pauline Wallace stated that the work had been based on the UK environment entirely. However, the percentage of intangible assets coming out of M&A activity in the UK was comparable to the work from Australia in the previous year.

An IFASS participant asked about the percentages discussed in the slides and how they would be presented taking into consideration the evolution of market value. Pauline Wallace replied that there had been a focus on the balance-sheet-related growth in order to avoid extraneous factors beyond total assets growth.

The IASB Chair, Andreas Barckow asked whether the report findings were referring to intangibles or intangible assets, as many intangibles did not meet the definition of an asset. He pointed out that the IASB had to determine what it would be looking at for its intangibles project. In response, Pauline Wallace clarified that the aim had been to use 'intangible assets' to only describe assets currently recognised on the balance sheets, but there had not been an attempt to provide a conceptual definition of an intangible asset. The estimate of the value of unrecognised intangibles had considered the economic concept of intangibles, but many of those would not meet the definition of an intangible asset. Nonetheless, some of them might meet the definition of something recognised under IFRS 3 *Business Combinations*. Pauline Wallace suggested that there were currently recognised intangible assets, unrecognised intangibles that would meet the conceptual definition of an asset, and unrecognised intangibles that would not meet the definition of an asset. Thus, investors wanted disclosures, as they made their own judgments about what would add value to companies in the future, but that might not meet the definition of an asset.

Crypto-asset presentation (KAI)

Yong-Woo Kwon stated that amendments on additional disclosure requirements for crypto assets, regulatory guidance and illustrative examples of disclosure were released by the KAI and the Korean regulator. His presentation covered recent crypto-assets-related trends and government policies in Korea, accounting and disclosure requirements for crypto-assets, and the status of crypto-reporting by Korean companies in 2023.

Market trends and government policies: Yong-Woo Kwon noted that Bitcoin and Ethereum's market cap had surpassed that of the Korean stock price index (KOSPI) which increased the interest in crypto assets in Korea and changed the perception of crypto, thus helping to legitimise them. Strong demand for crypto in Korea led to an increased price on South Korean assets (i.e. the Kimchi premium).

On government policies, he noted that the Korean government banned all initial coin offerings (ICOs) and bitcoin Exchange-traded funds (ETFs) to avoid speculative activities and due to the lack of an institutional reasonable basis for the underlying asset. Some Korean companies invested in coins overseas through their subsidiaries and then traded and listed them on domestic exchanges. Regulation of 'platform' providers had been passed and would come into effect on the July 19 this year and this will be to regulate fair trading and prohibit market price manipulation. More work would be required in terms of law and institutions.

Accounting and disclosure requirements for crypto-assets: Yong-Woo Kwon highlighted that in 2023 the Korean Accounting Standard Board (KASB) (effective from 1 January 2024) had issued additional disclosure requirements for holders, issuers, and platforms. These included general information and accounting policies and specific requirements for each of the three categories. The scope of this disclosure included all crypto assets other than Non-fungible tokens (NFTs), central bank digital currencies and security tokens.

There was a requirement for the fair value disclosure of all crypto-assets in scope as it could provide useful and reliable information for the financial statement users. The companies had to disclose to users the critical risks associated with the holding. Additionally, disclosure of the contract information was also important, a crypto asset could be restricted from disposal or used for a specific purpose in the future (e.g. Smart contracts, staking or decentralised finance).

Over and above the additional disclosure requirements issued by KASB, the regulator (Financial Supervisory Services) had issued regulatory guidance on recognition and measurement for issuers, holders and platform providers to guide them on whether to recognise major crypto assets (an asset or liability) in their financial statements.

Status of crypto-reporting by Korean companies in 2023: Yong-Woo Kwon presented six Illustrative examples with disclosure and accounting issues related to a range of fact patterns including a crypto-assets-related business model, acquisition of utility token, accounting by a coin issuer, and the fair value measurement of crypto-assets.

Item 4A. Financial reporting parallel stream - Financial Instruments with Characteristics of Equity

The session was a panel discussion moderated by Sven Morich (The Accounting Standards Committee of Germany – ASCG) with five panellists, namely Armand Capisciolto (AcSB), Helena Simkova (Australian Accounting Standards Board – AASB), Huaxin Xu (China Accounting Standards Committee – CASC), Hyeonjae Bae (KAI) and Tommaso Fabi (Organismo Italiano Contabilità – OIC).

The key objective of the session was obtaining feedback from the panellists and the audience regarding the IASB’s overall approach and any key issues for stakeholders within the Financial

Instruments with Characteristics of Equity (FICE) ED. Responses to polling questions during the session can be seen here.

Views on the IASB's overall approach in the ED

Helena Simkova, Huaxin Xu, Hyeonjae Bae and Tomasso Fabi generally agreed with the IASB's overall approach in the ED, i.e., that the amendments to IAS 32 *Financial Instruments: Presentation* should provide clarification of specific issues rather than introduce fundamental changes.

In addition, Hyeonjae Bae mentioned a conflict between IAS 32 and IFRS 9 *Financial Instruments* in what concerns measurement issues and a need for additional guidance in certain areas (e.g., preservation adjustment).

Huaxin Xu stated that fundamental changes may result in changes in classification and current practice, and with the costs of such changes outweighing their benefits.

Helena Simkova added that additional application guidance and illustrative examples were useful, however, the principles were not sufficiently clarified in the ED albeit they were clearly explained in some of the IASB's staff papers. This can be confusing for stakeholders.

Armand Capisciolto noted that clarifications should not be understood as minor changes. He expressed doubts that clarifying the intentions of 2003 (when a revised IAS 32 was issued) is an appropriate approach because there have been huge changes in the financial instruments since then and the intentions of 2003 do not necessarily remain relevant today. He was also concerned that the cost of such clarifications may exceed their benefits.

Views on significant issues in the ED

Panellists were asked to indicate up to three issues in the ED which they consider the most significant. The panellists primarily raised measurement issues, the effects of relevant laws and regulations, the prohibition of reclassification, and the fixed-for-fixed condition.

Addressing measurement issues: Armand Capisciolto, Helena Simkova, Hyeonjae Bae and Tomasso Fabi mentioned measurement issues, including those related to contingent settlement provisions and obligations to purchase own equity instruments, as one of their key concerns about the ED proposals.

Armand Capisciolto explained that in Canada, the IASB's proposals will result in significant changes, notably the addition of the requirement to measure financial instruments with contingent settlement provisions at their redemption amount without taking into account probability and expected timing of occurrence or non-occurrence of uncertain future events. Currently, in Canada, instruments which are contingently settleable through a variable number of shares are accounted for as compound instruments and with the conversion feature treated as a derivative measured at fair value[2]. Users in Canada agree with the current treatment (i.e., measured at fair value). For the Canadian banks, the current proposal may result in equity worth 40 billion dollars being reclassified to liabilities, thus excluding it from the Additional Tier 1 capital (unless the regulator makes a change). He suggested that any measurement issues which appear for financial instruments be dealt with as part of other projects (e.g., the upcoming Amortised Cost Measurement project) instead of the FICE project.

[2] Fair value takes into account probability, whereas probability should be ignored when applying the IASB's proposed measurement.

Helena Simkova, Hyeonjae Bae and Tommaso Fabi shared the concern of introducing measurement issues into IAS 32 and they suggested dealing with these under IFRS 9 would be preferable. In this context, other issues that they touched on included a) the challenge of determining an accounting treatment of the difference between the initial proceeds and redemption/settlement amount of the liability; b) the need for a distinction between on-demand features only controlled by holders and contingent events not controlled by both holders and issuers.

Effects of relevant laws and regulations: Helena Simkova, Huaxin Xu and Tomasso Fabi mentioned *the effects of relevant laws and regulations* as one of their key areas of concern in the ED.

Huaxin Xu stated that it is very difficult for the stakeholders to differentiate between legal and contractual obligations. As a result, the proposals may result in unnecessary economic consequences. Also, in the view of some stakeholders, the reasoning in the Basis for Conclusions may be inconsistent with the Conceptual Framework and the principle on the requirements of laws and regulations in IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*.

Helena Simkova explained that Australian banks issue perpetual notes with discretionary payments subject to bail-in laws and regulations. Currently, these instruments are classified as liabilities. The proposal in the ED that only those conditions should be taken into account which are ''in addition to'' laws and regulations raises application questions, e.g., concerning capital trigger regulations. Thus, she suggested it may be useful to go further in clarifying how the ''in addition to'' principle should be applied in practice. Similarly, Tommaso Fabi opined that this topic was not fit for a narrow-scope amendment. He referred to a discussion over the possibility to adopt an 'all-inclusive approach' and suggested the issue should be further analysed by the IASB.

Prohibition of reclassification: Huaxin Xu and Hyeonjae Bae mentioned the prohibition of reclassification issues as another key concern in the ED. Huaxin Xu observed that where the contractual arrangement changed due to either the 'passage of time' or actions of a party to the arrangement, it may lead to similar contracts being classified differently and impose higher costs and greater complexity. At the same time, the requirement for reclassification under certain limited circumstances represents a fundamental change in IAS 32, whereas such circumstances are uncommon in practice. Accordingly, it is questionable whether the proposed changes in this respect are necessary

Hyeonjae Bae disagreed with the IASB's proposals on prohibiting reclassification. He opined that the reclassification should be allowed on the basis of the substance of the contract. Despite the argumentation in the Basis for Conclusions that requiring reclassification over time could be difficult for preparers, he referred to the current practice in Korea where such reclassifications are performed without a significant burden for preparers.

Fixed-for-fixed conditions: Huaxin Xu and Hyeonjae Bae mentioned fixed-for-fixed conditions as one of the key concerns in the ED. Huaxin Xu expressed concerns with regard to the passage-of-time adjustment and suggested the IASB reconsider the related proposals. While agreeing with the proposals in general, Hyeonjae Bae suggested further clarifications from the IASB on several aspects[3].

[3] For example, for the adjustments that were favourable to shareholders that could be classified as equity, as well as providing qualitative and quantitative criteria to be used to assess whether certain conditions represent a preservation adjustment. Also, the approach of only comparing current and future shareholders may not be sufficient for some specific cases in practice, e.g. a situation where new shares are issued in favour of a third party (not current or future shareholders) and the conversion ratio is adjusted accordingly.

Other issues (discretionary payments recognised in equity, put options over non-controlling interest, shareholders discretion)

Helena Simkova referred to potential changes in the current practice due to the proposals that discretionary payments would be recognised in equity even if the equity component equals zero, as this may result in a disruption of the current hedge accounting practice and accounting mismatches.

Tommaso Fabi mentioned that the issues concerning non-controlling interest (NCI) put options (i.e., reduction of the parent's equity at initial recognition and presenting subsequent remeasurement of the financial liability in profit or loss) should not be addressed in a narrow-scope amendment.

He also noted that on the notion of shareholders' discretion, many stakeholders struggle with the distinction between shareholders acting in their own interest versus acting in the interest of the company as introduced by the IASB's proposal.

Sven Morich highlighted the particular importance of Basis for Conclusions for this project explaining the reasoning of the IASB and its evolution from the Discussion Paper of 2018. He also emphasised the importance of the proposals in the ED on disclosures given the information needs of the users regarding equity instruments.

Disclosure and presentation requirements

The panellists expressed mixed views on the proposed disclosure requirements.

Huaxin Xu mentioned stakeholders' concerns that the disclosure requirements in the ED may overlap with other requirements or be burdensome. In addition, the presentation proposals may create an excessively lengthy presentation format because of the requirement in China to split all reserves between ordinary and other shareholders.

On the contrary, Armand Capisciolto referred to the view of users in Canada that the disclosure requirements will be extremely beneficial as they will provide useful information about the terms and conditions of complex financial instruments

Tommaso Fabi referred to challenges in providing information such as for order of liquidation in consolidated financial statements.

Audience comments

An IFASS participant expressed support for the direction of the project except for a concern that measurement issues are dealt with as part of an IAS 32 project which should focus on classification. The IFASS participant suggested these measurement issues could be addressed within the scope of the Amortised Cost Measurement project. Another concern to be addressed is that reclassification may be confused with derecognition.

Item 4B. Sustainability reporting parallel stream - Digital reporting

The session consisted of three presentations on Digital reporting by John Turner (XBRL International), Tae Young Paik (ISSB), Richard Boessen (EFRAG) and Albert Chou (Accounting Research and Development Foundation -ARDF-Taiwan) and a moderated panel discussion thereafter. Responses to polling questions during the session can be seen here.

XBRL International

Setting the scene, John Turner gave an overview of the mandate of XBRL International as a global, not-for-profit, public interest technical standards development organisation. He explained the XBRL specifications are the foundations, the 'alphabet and grammar' of digital reporting that allow for the free and interoperable exchange of information. Regulators and standards setters define 'dictionaries' or digital models of their disclosure requirements through XBRL taxonomies. By applying XBRL taxonomies, companies can produce, file and publish their digital reports in a uniform way.

John Turner noted that digital reporting is usually performed by tagging, or 'marking-up' facts in a human-readable report and by attaching contextual information ('attributes') to the reported facts, such as their semantic meaning, the currency, the reporting period, or the reporting entity. Tagging simplifies the exchange and consumption of each piece of information.

John Turner noted that XBRL allows for digital information to be captured at the source in an accountable manner directly by the preparer, instead of having third parties such as data aggregators or distributors re-keying such information and thereby potentially impairing the accuracy of the data.

Need for auditing: John Turner highlighted the crucial role auditing plays in providing assurance on digitally-reported information. He, however, noted that currently there is yet to be an international standard for the auditing of such information. He suggested the International Auditing and Assurance Standards Board (IAASB) could fill this void.

Interaction with Artificial Intelligence (AI): John Turner pointed out that AI will also improve the way that digital information is available and the manner in which it is used. However, this process is neither perfect nor even investor-grade as yet. Nonetheless, structured data is becoming more important in an AI era, as it provides the information directly and accountably from the preparer and the combination of the taxonomies and management-prepared digital data provides a rich and substantially more accurate and traceable basis for increasingly sophisticated analysis. AI will also improve and accelerate the process of tagging. The combination of simplified tagging and enhanced, more explainable AI analytics should, he postulates, increase the demand for digital disclosures. Regardless, the advent of AI is likely to mean that the availability of structured data will connect very directly to the visibility of preparer companies. It is therefore crucial that the tagging be done in a consistent and accountable fashion to enable the availability of investor-grade data that allows AI-based analysis.

Interoperability: John Turner noted that the alignment of various taxonomies used across jurisdictions is critical. Such a mapping between taxonomies can be achieved through the collaboration among standard setters and the development of concordance[4] tables. This process, however, is neither magical nor simple and such mappings are unlikely to provide perfect results. They will simplify data preparation and consumption, but they will also need ongoing maintenance and support. Wherever possible, regulators should re-use, therefore, each other's concepts and the definitions provided at a baseline level. Only where this kind of reuse cannot be achieved will

[4] Concordances provide a means to map sustainability data from one XBRL taxonomy against similar data in another taxonomy

this official Concordance approach be practical, but where it is necessary it should materially assist comparability, aiding preparers and users alike.

ISSB Taxonomy

Tae Young Paik presented the main features of the ISSB XBRL taxonomy noting its two basic features were: interoperability at the taxonomy level (based on the interoperability between the standards themselves and then concordance between the taxonomies); and compatibility with other taxonomies (to allow the use of other taxonomies for the tagging of disclosures not prescribed by the ISSB standards).

He explained that the key features of the ISSB taxonomy are the tagging of narrative disclosures which entailed creating elements for the tagging of narrative information at a level that would enable investors to efficiently use this information, i.e. at the sub-paragraph level. It also entailed the introduction of features (Boolean and enumeration elements)[5] that allow investors to analyse narrative information more efficiently (by filtering, or screening, for desired features). It allows the reflection of the relationships between IFRS S1 *General Requirements for Disclosure* and IFRS S2 *Climate-related Disclosures* (by creating a single set of elements for corresponding requirements in both Standards). It also allowed the creation of a repository of detailed metrics and targets (based on IFRS S2, IFRS S2 Industry-based Guidance, other sources, and entity-developed metrics and targets).

ESRS Set 1 Taxonomy

Richard Boessen presented the ESRS Set 1 XBRL taxonomy and its main features. He explained the methodology EFRAG used to develop the ESRS taxonomy, which is based on a transposition of the ESRS and prioritising the quantitative datapoints. It was implemented with the highest granularity with a three-level hierarchy for the narrative information (ranging from the principle-based Level 1 disclosure requirement to the more granular Level 3 elements). It also included various Booleans (i.e., categorical yes/no or true/false answers) and enumerations (e.g., drop-down menu) to enrich narrative disclosures.

Richard Boessen pointed out that another interesting feature of the ESRS taxonomy is the implementation of tagging the impacts, risks, opportunities, policies, actions, metrics and targets prescribed by ESRS 2. Entity-specific and additional disclosures are implemented through typed dimensions (i.e., dimensions that can have any value defined by the user. These dimensions allow users to create their own set of elements within the taxonomy) and by linking them to certain topics or subtopics,

[5] Boolean elements corresponds to a yes/no, true/false categorical answer. Enumeration is a predefined list (like a 'drop-down menu') created in the taxonomy that will facilitate the option to be selected from this list of items by choosing the most appropriate element (single choice) or more elements (multiple choices).

thereby minimising the need for taxonomy extensions (i.e., customisation and variation from standardised taxonomy).

Taiwan Stock Exchange (TWSE) ESG InfoHub

To highlight the practical applications, Albert Chou presented the TWSE approach for the digitalisation and distribution of sustainability data. He explained that the TWSE tried to generate digital reports from PDF filings of sustainability information in order to provide that data to investors through a centralised repository. Their approach was to collect quantitative and narrative data and convert and store it in a digital format in the TWSE ESG InfoHub database. This database is structured into 29 indicators and it will be expanded to 97 indicators by June 2024 by incorporating industry-specific metrics.

Albert Chou explained that the TWSE's data extraction is based on an AI Optical Character Recognition (OCR) model. However, this can only achieve a successful recognition rate of about 85%. Data in pie charts and bar charts are particularly challenging to extract. The reporting entities themselves will then be able to check and correct potential mistakes in the extracted data before generating the XBRL data.

Panel discussion

Following the presentations, John Turner asked the panellists how a company that is subject to multiple reporting obligations using more than one sustainability reporting standard across different jurisdictions would prepare for digital interoperability.

Richard Boessen replied that reporting under ESRS would be compulsory in the EU as mandated by the Corporate Sustainability Reporting Directive (CSRD). By promoting digital interoperability, EFRAG is actively trying to help preparers avoid double reporting. Nonetheless, digital interoperability across taxonomies must follow from a mapping of the reporting standards themselves. As soon as such a concordance is defined, it would then be possible to have an almost automatic conversion of a report based on one taxonomy to another.

Tae Young Paik agreed about the importance of interoperability. He observed that many countries outside of the EU are developing their own sustainability standards based on the ISSB standards. There is therefore extensive collaboration in place to ensure digital interoperability.

John Turner remarked that there is a strong need for collaboration between regulators and standard setters worldwide to ensure interoperability and that the working together of the ISSB and EFRAG is very positive.

Regarding the auditing of digital reports, John Turner observed that there are inconsistent approaches from different audit firms, especially with regard to the tagging of narrative disclosures and the appropriate level of detail. He asked for the panellists' view on the matter. Richard Boessen replied that there has been a steep learning curve for audit firms and there have been different interpretations of how digital reports should be audited.

Item 5. IPSASB update

While providing the IPSASB update, Ross Smith affirmed the IPSASB's mandate covering Financial and Sustainability Reporting for the public sector. He commented on the following major projects of the IPSASB financial reporting workplan[6]:

- IPSAS 1 *Presentation of Financial Statements*, the IPSASB equivalent of IFRS IAS 1 *Presentation of Financial Statements* (now *IFRS 18 Presentation and Disclosure in the Financial Statements*). One reason for undertaking the project was the recently published IFRS 18 and the need to consider the IPSASB's public-sector-specific conceptual framework chapter 8 on presentation in general purpose financial reports, for which IPSAS 1 has not been updated. A consultation paper, the equivalent of a discussion paper, was being developed and is expected to be published in 2025.

- *Accounting for natural resources*: Governments often control large amounts of natural resources and regulate how they are used, including their development, and this is a public sector specific project. The project started in 2019 and the IPSASB will approve an Exposure Draft in September 2024. The objective is to provide guidance related to accounting for assets that meet the definition of natural resources, and the recognition requirements, which would include those assets held for conservation purposes. Further, the guidance will also address accounting for expenditures on natural resource-related activities.

- *Reporting by small entities*: Although the IPSASB decided not to develop the project on international differential reporting, the IPSASB plans to work with the International Federation of Accountants (IFAC) and other partners to develop more practical application material to help with the public sector entities with capacity limitations to more easily apply IPSAS for small entities/organisations.

Strategic plan: Ross Smith highlighted that the proposed 2024-2028 strategy is an evolution of the current strategy. The main change was to reflect the development of public sector sustainability Standards in the updated strategic objective. On the financial reporting side, the work programme would be adjusted to concentrate more on the maintenance of standards instead of the development of the Standards, given the fact the IPSAS are now a fully developed suite of standards for public sector entities. This allows space for the IPSASB to help to address issues encountered by the users of the Standards. The areas of specific focus will be maintenance, research activities on public sector topics including setting up an application panel to consider issues encountered in applying the standards, and the formalisation of post-implementation reviews (PIRs).

Sustainability reporting: As mentioned during past IPSASB updates, Ross Smith affirmed that IPSASB had begun exploring public sector Sustainability Reporting. And he highlighted the genesis of IPSASB's involvement in that regard. Notably, in early 2023, IPSASB had

[6] IPSASB updates also touched on these topics at the April 2023 IFASS meeting (see item 5 in report) and September 2023 IFASS meeting (see item 5 in report).

undertaken research on three potential projects, namely, alignment with ISSB IFRS S1, alignment with ISSB IFRS S2, and a project on natural resources and biodiversity. Thereafter, a decision was taken to proceed with the climate-related disclosures project with the ongoing development of an ED that extensively leveraged IFRS S2.

Ross Smith highlighted there were significant public activities related to the public sector's role as a regulator and policy setter, and there may be a need for public sector specific metrics for entities reporting on their contribution to greenhouse gas emissions. IPSASB aims to publish an ED in September 2024 for public consultation, which is envisioned to include regional roundtables and virtual roundtables. A climate Standard is expected by the end of 2025.

Relatedly, Ross Smith noted several changes to the IPSASB standard-setting institutional support that were not in place for the development of its financial reporting standards. Specifically, to support the IPSASB's standard setting activities related to sustainability reporting the Board has set up a) a sustainability reference group, which includes 17 international regional organisations working in Sustainability Reporting, and this group provides advice to IPSASB; b) a climate topic working group, which includes experts in Sustainability Reporting to provide project related recommendations to the IPSASB; and c) a sustainability implementation forum that is intended to be utilised closer to the release of the ED, and throughout the comment period to help with issues of implementation of a future standard.

<u>Audience Q&A on IPSASB update</u>

An IFASS participant noted that one driver for the public sector adopting the circular basis of accounting had been the supreme audit institutions. He asked if the IPSASB will have a huge role. In response, Ross Smith stated that IPSASB was working with the International Organization of Supreme Audit Institutions (INTOSAI), which was on the IPSASB's sustainability reference group. Moreover, several members of the IPSASB are from supreme audit institutions, which also bring perspectives from the INTOSAI community.

Item 6. IASB update

While providing the IASB update, Andreas Barckow highlighted that the IASB currently had 22 ongoing projects but that would drop to 15 by autumn due to projects being completed. He mentioned that this would free up the IASB resources to tackle other issues that stakeholders had raised. He touched on the following.

Forthcoming standards and amendments

- IFRS 18 had been published. It would affect companies quite differently. Some companies, particularly in Asia, worked with prescribed forms and the standard would introduce change and thus, significant time had been devoted to implementation, and the effective date was 1 January 2027 to allow preparers to get ready.

- IFRS 19 *Subsidiaries without Public Accountability: Disclosures* was to be published in May 2024. It aims to alleviate the cost for the preparers as it would allow subsidiaries that wanted to prepare IFRS financial statements to do so with reduced disclosures. The approach had been to allow companies to use IFRS recognition and measurement requirements but to use the same logic for disclosures in the Small and medium-sized enterprises (SME) standard. There was a great appreciation for this standard as some areas would see a drop of up to 70% in the required disclosures.
- Amendments to the classification measurement of financial instruments in IFRS 9 were to be issued in May 2024. These included clarifications around the treatment of green bonds and green loans, and how general classification requirements applied to these kinds of instruments. There would also be requirements on waterfall instruments that were contractually linked and requirements on cash transfers. The requirements would be effective in 2026.
- In addition, the IASB aimed to finalise the third edition of IFRS for SMEs by the end of the year.

Consultations: Andreas Barckow mentioned a couple of published consultations and stated the importance of reading the Basis for conclusions before commenting on the FICE project's proposals. There would also be several consultations in the second half of the year.

Changes to the work plan

A couple of projects as addendum standards had been added to the SME standard and IFRS 19. Because both projects were interconnected and there was a concern that the IASB board would make some improvements to either one of these without including them in the whole package, the IASB thought about publishing two EDs. The addendum to the Exposure Draft Third edition of the *IFRS for SMEs Accounting Standard* had already been published and the Exposure Draft updating the *Subsidiaries without Public Accountability: Disclosures Standard* would be published soon it will consult about bringing in disclosures on the lack of exchangeability and supply chain financing to both the SME standard and IFRS 19 standard.

A decision had been taken to stop the work on the *Business Combinations Under Common Control* (BCUCC) project as global investors had not been interested in the project, because they focused on the consolidated (rather than the acquirer's) financial statements. Additionally, the IASB had asked regulators for evidence of false classification, whereby a company had used the acquisition method when the book value method would have been appropriate and vice versa, and only one case had been provided.

Other forthcoming publications

The PIRs of IFRS 9 and IFRS 15 would both publish project summaries. He emphasised that PIRs were fact-finding exercises to check that the standard was working as intended. There had been concerns that the IASB's approach to PIRs was too narrow and there was a need to better explain what the IASB is looking for when it came to PIRs. Both PIRs were still ongoing and there might be targeted improvements. Andreas Barckow pointed out that the PIR of IFRS 15 is on a converged standard with the FASB and thus, it was important not to have one-sided changes to the standard.

New projects

- The IASB had started a new research project on intangibles. Andreas Barckow pointed out that a research project starting would not necessarily lead to a standard. Instead, three questions were asked: what problem had to be fixed, whether it was the IASB's role to fix it and whether the IASB could bring about improvements in a timely manner. It was only if there were affirmative answers to all three questions that the project would be moved to the standard setting workplan. Otherwise, the project would be terminated.

- The statement of cash flows and related matters project should start in September 2024 with targeted fixes expected rather than an extensive revamp. And this is based on feedback received by the IASB so far on this project.
- The PIR of IFRS 16 would start in the second quarter. A targeted fix on sale and leaseback accounting had been developed following a question that had gone through the IFRS Interpretations Committee (IC).
- The amortised cost measurement project had arisen from the PIR on the first phase of IFRS 9 and concerned the border between modification accounting and de-recognition accounting. It was called amortised cost measurement because there had been difficulties with applying the effective interest rate method in both areas.

Connectivity between the IASB and the ISSB: Andreas Barckow gave an update on the joint meeting with the ISSB in January 2024. The ISSB decisions for its workplan would have an impact on the IASB decision on its project on management commentary. He underscored that connectivity was part of the daily activities of the IASB and the ISSB, and staff from both organisations worked together.

Snapshot of what's on the horizon

- *Standard setting projects (issuing standards and deciding project direction)*: The next major standard after IFRS 19 would most likely be the rate-regulated activities Standard, for which discussions should be complete by the summer. There would be sessions to discuss issues like transition and the effective date. The writing of the standard was expected to take about a year. On management commentary, the IASB would decide on project direction and this would partly depend on the ISSB's decisions and approach to the potential 'integration in reporting' project. Of note, the ISSB has decided to not proceed with the 'integration in reporting' project.
- *Publishing EDs on standard setting projects*: The IASB aimed to publish an ED on the equity method in the second half of the year and the staff is currently in the drafting phase. More time was needed for the dynamic risk management ED (expected in 2025). Outreach was currently being undertaken with large banks around the world and the feedback had been promising but the standard on the presentation and disclosures was still to come. Andreas Barckow pointed out that as the name suggested, dynamic risk management is done over a period and this required entities to think about how to best convey this kind of information.
- *PIRs:* Andreas Barckow stated that the decision had been taken to not immediately start on hedge accounting because many financial institutions had not changed their current hedge accounting requirements. This was because there was a policy option to continue applying IAS 39 *Financial Instruments: Recognition and Measurement* which was taken by many banks. Many of them were waiting to see what the IASB did on dynamic risk management.
- *Maintenance projects*: There were several maintenance projects for which there would be no research phase, and these projects were usually completed within a couple of years. However, drawing on past lessons, more time was being taken on the Provisions-Targeted Improvements project.

Projects dealing with climate-related matters in the financial statements: Andreas Barckow gave an overview of projects dealing with climate-related matters in the financial statements including the approach taken to the 'Climate-related and Other Uncertainties in the Financial Statements' project. He also touched on other sustainability-linked projects including the amendments to IFRS 9 that related to green loans and green bonds, power purchase agreements (PPAs), and the IFRS IC agenda decision on climate-related commitments that was presented to the IASB for approval in April 2024.

Audience Q&A on the IASB update

An IFASS participant asked about the prioritisation of projects, and whether projects that were considered less urgent could be paused. Linda Mezon-Hutter stated that a prioritisation framework had been developed in recent months, and it would be discussed at the IASB's April meeting. One consideration was the interaction with the agenda consultation and then when non-expected projects came up, the prioritisation would be done on the spot.

Andreas Barckow added that part of the ongoing prioritisation was applied to PIRs. For example, the general feedback on IFRS 9 and IFRS 15 was that the standards were excellent, but there was a desire for additions. Those considerations also had to be balanced under the prioritisation framework to determine how important those requests were to proceed with. If something urgent arose then there was a need to slow down elsewhere. He pointed out that balancing between projects was a challenge as it was not possible to have all the IASB staff become experts in all the projects.

Item 7. Business Combinations—Disclosures, Goodwill and Impairment

In this session, the IASB- Vikash Kalidas and Richard Brown (IASB) outlined the IASB's proposals in the ED *Business Combinations – Disclosures, Goodwill and Impairment* (BCDGI), which was published in March 2024 and is open for public comments until July 2024. This was followed by two presentations by Armand Capisciolto (AcSB) and Pierre Martin (Autorité des Normes Comptables - ANC) providing jurisdictional perspectives on the ED proposals.

IASB Presentation

Richard Brown and Vikash Kalidas touched on the two main focus areas in the ED, i.e., the respective improvements to IFRS 3 and IAS 36 *Impairment of Assets*.

Improvements to IFRS 3: Richard Brown provided an overview of the ED's proposed disclosure requirements where the objective was to strike a balance between users' informational needs and preparers' concerns on providing this information (e.g., commercial sensitivity). The main disclosure requirements were the performance of a business confirmation, quantitative information about expected synergies, and the exemption from disclosing the information under certain circumstances. Richard Brown expanded on the details of these requirements as follows:

- *Disclosure of performance of a business combination*: Entities would be required to provide the acquisition date key objectives and targets, and in subsequent periods whether these are being met. This would be based on a management approach and would apply for as long as the management reviewed the performance of the acquisition. These requirements would only apply to a subset of strategic business combinations identified by meeting any of the quantitative or qualitative thresholds.

- *Quantitative information about expected synergies:* The ED proposal would require entities to disclose under certain categories of expected synergies the amounts, cost to achieve them and expected timeframe. These requirements would apply to material business combinations only in the year of acquisition.

- *Exemption*: Entities would be eligible for exemption if disclosing the information would seriously prejudice the achievement of the key objectives of the business combination. The IASB has also proposed application guidance.

Improvements to IAS 36: Vikash Kalidas highlighted three main concerns that were raised during the IFRS 3 PIR, namely: the delay of impairment, the cost of applying the impairment test, and a suggestion to reintroduce goodwill. To reduce the associated cost and complexity, the ED proposed changes to allow the inclusion of uncommitted restructuring and asset enhancements in the value in use calculation during the impairment test. The ED proposed to allow this calculation to be done on a pre-tax or post-tax basis. Finally, the ED also proposed changes to IAS 36 related to the allocation of goodwill to cash-generating units (CGUs) to minimise the shielding effect, which contributes to delayed impairment.

Jurisdictional perspective- AcSB Presentation Armand Capisciolto gave an overview of the outreach in Canada and shared preliminary feedback on the ED proposals. He noted there was general support for the project's direction, including the proposed disclosures, exemption requirements, and the clarification of goodwill allocation to CGUs.

Regarding the clarification on goodwill allocation to CGUs, Armand Capisciolto questioned how this would play out in the year of transition, especially since in previous periods the impairment test was conducted at a higher level and therefore was subject to the shielding effect. He indicated the AcSB would conduct outreach on this point.

Related to the proposed disclosures on subsequent performance that would be required only for strategic acquisitions, Armand Capisciolto highlighted that the proposed thresholds in the IASB's ED were lower than in Canadian securities regulation, and therefore additional feedback is required for understanding the interaction with securities law in Canada. In addition, he shared some concerns (litigation risk) related to including forward-looking information in the financial statements.

Jurisdictional perspective- ANC Presentation

Pierre Martin highlighted that a working group set up by the ANC generally agreed with the direction/objective of the project of improving the information users receive on acquisitions. They considered the ED proposals more balanced than those that were in the Discussion Paper that was published in 2020, especially related to the concerns on commercial sensitivity and costs of preparing the information. Pierre Martin shared the working group feedback on the following aspects of the ED proposals:

- *Placement:* The working group was yet to conclude which of the proposed disclosure requirements should be disclosed in the financial statements or the management commentary.

- *Key Management Personnel:* the working group would examine how the notion of Key Management Personnel ('KMP') would be applied in practice in the context of the management approach when there are various levels of KMP involved. With regard to the objectives and targets, Pierre Martin shared some of the working group questions in relation to the basis of preparation of non-GAAP measures and the two-year period (as a minimum) that entities would be required to disclose the information.

- *Material and strategic acquisitions:* The working group would be exploring the interaction between the notion of material business combinations (as it currently exists under IFRS 3) and the concept of materiality under IFRS 18. Pierre Martin noted that some preparers supported the relevance of the 10% level set for quantitative thresholds to identify strategic acquisitions. There were also questions about how the thresholds would interact with the definition[7] of strategic acquisitions in the Basis for Conclusions in the ED.

- *Exemption:* The working group would be investigating further whether disclosing the reason for applying the exemption would itself contain commercially sensitive information.

- *Subsequent performance of strategic acquisitions:* The working group is questioning whether the follow-up information would still be useful if provided on an integrated business basis.

- *Synergies:* There were questions on the notion of definite synergies, and whether in practice the synergies would cease to exist.

<u>Audience Q&A on Business Combinations—Disclosures, Goodwill and Impairment</u>

Armand Capisciolto asked if Pierre Martin meant that if entities disclose their exemption from providing the information on cost synergies (e.g., due to French law on job cuts), it can be deduced that there would be future job cuts, and therefore it would be equivalent to disclosing the information itself. Pierre Martin confirmed this was correct.

An IFASS participant agreed with Pierre Martin's concerns about the exemption and requested to share the outcome of their work.

An IFASS participant questioned the implications of the interaction between the proposed thresholds and the Canadian securities regulation as highlighted in the AcSB presentation. In response, Armand Capisciolto noted the issue stemmed from the IASB's proposed thresholds being lower than those set by the securities regulations, and this required entities to disclose more than currently mandated.

In response to the jurisdictional presentations and IFASS participant questions, Richard Brown expressed the IASB's interest in feedback on the practicality of disclosing the reasons for applying the exemption. On the management's review of performance over long time periods, he clarified that when entities stop reviewing the original objectives and targets, they would be disclosing the reason while still disclosing actual performance.

[7] Paragraph BC54 of the ED

Concerning the interaction between the transition requirements and the ED's proposed allocation of goodwill to CGUs raised by Armand Capisciolto, Vikash Kalidas clarified that the ED proposed prospective application, and therefore there is no need to reassess goodwill allocation and impairment. He expressed the IASB's interest in receiving feedback on the practical implications of the goodwill allocation proposal.

Armand Capisciolto remarked that the clarifications in the wording could significantly impact how entities are currently allocating goodwill to operating segments, and he emphasised the importance of understanding users' perspectives on this aspect.

Item 8. Artificial Intelligence in Standard Setting

Richard Brown (IASB) moderated the session involving presentations by Hassane Ferdaous (PwC) and Markus Leippold (University of Zurich) followed by a panel discussion. Responses to polling questions posed during this session can be found here. Notably, 52% of the IFASS participants who responded to a polling question on their current or planned AI application indicated they were either experimenting with (34%) or planned to (18%) explore AI tools.

Hassane Ferdaous presentation

Terminology- Hassane Ferdaous gave an overview of AI and related concepts and terms. The following definitions are noteworthy.

- AI is an umbrella term for computer systems designed to simulate human intelligence.
- Machine learning involves training on data to learn patterns and to predict outcomes or values.
- Deep learning uses statistics and predictive modelling to process huge volumes of data and make decisions and is also able to recognise text and images.
- Generative AI are algorithms that use prompts or existing data to create new content.
- Large Language Models (LLMs) are a subset of Generative AI which are trained on high-volume datasets to generate, summarise and translate human-like text and other multimedia content.
- Foundation models are models trained on broad data at scale that can be adapted to a wide range of tasks.
- Domain-specific models are general models trained to perform well-defined tasks dictated by the specific business context.

He emphasised the versatility of generative AI in areas such as translation, summarisation, content creation, and creativity.

Regulatory developments- Hassane Ferdaous discussed recent developments in AI regulation, noting that the EU has been a pioneer in this regard, and reached an agreement on its AI Act in December 2023 to ensure that models used for customers followed the correct governance processes. The UK was taking a different approach by looking at how to build consensus around safety with sector-specific regulation. In the US, there were state laws and sector-specific elements. As regulators were forming their opinions on AI, it was a good opportunity to engage with them.

Business prioritisation of AI- Presenting data on business leaders' priorities, Hassane Ferdaous highlighted that nearly all were focusing on at least one AI-related initiative. Specifically, 35% were prioritising the governance of AI systems, and 32% of risk professionals were involved in planning generative AI applications. Hassane Ferdaous stressed the need for a responsible AI framework that includes considerations of data ethics, policy, regulation, compliance, and risk management. He also outlined core practices for model validation, addressing data use, bias, and regulatory context, and emphasised the importance of performance monitoring to augment existing governance frameworks.

Starting with AI- Hassane Ferdaous recommended first considering the governance framework, followed by piloting and experimenting to identify use cases and value propositions. He advocated an incremental approach, enhancing existing processes before introducing new ones, and emphasised that experimentation helps in understanding the technology's power and limitations.

Markus Leippold presentation

Markus Leippold discussed the predominance of text data in business and AI's potential to organise this data more effectively than traditional search methods. He stated that in business about 80% of the data available was in text form. Drawing parallels to how the internet and Google evolved into a way of organising information, he referred to the potential of generative AI as a way of organising the world's decision-useful information. He pointed to some significant limitations, however. One was that LLMs could not be trained continuously and had to rely on the information they had available when they were trained and such training was an expensive process. Another problem was 'hallucinations' (i.e., models generating false information).

A further issue was ensuring that the model utilised the most recent information, and one solution to that was to use retrieval-augmented generation (RAG) models. For example, ChatClimate had been developed to be able to answer specific questions about climate change based on the Intergovernmental Panel on Climate Change (IPCC) report. In generating such answers, the tool provided references to allow for fact-checking to be carried out on the generated responses.

Application for disclosure analysis: Markus Leippold observed that it was difficult to have an overview of all standards related to disclosures and this prompted the development of the ChatReport tool, which could analyse corporate sustainability reports according to regulatory standards in a systematic way. The tool would read a report, then read the relevant recommendations, consider which questions should be answered in the report, assess the report for the quality of its answers and then produce a short output summarising its findings. He noted the relevant questions from the Task Force on Climate-Related Financial Disclosures (TCFD) had been used to evaluate the quality of reports. There had then been an analysis of conformity with the TCFD recommendations and how that had changed over time. The analysis showed that reporting quality had increased over time.

Limitations of LLMs: Markus Leippold stated that there should nonetheless be awareness of the limitations in terms of the quality of current LLMs. One recent piece of research looked at the dimensions of evidence-based questions and answers. One metric, source quality, concerned whether the answer was making the correct reference, and another, answer attributability concerned whether the answer had been hallucinated or not. The results from open-source models demonstrated about 50% source quality, and even GPT-4 only managed 62%. When applying LLMs, there had to be appropriate evaluations in place. Fine-tuning the models was possible and it improved their quality. One paper suggested that tools like New Bing and Perplexity also had low scores, with accurate evidence in less than 20% of responses, and, although responses were informative, about 50% of statements were not fully supported by citations, and only 74% of citations were accurate.

Panel discussion

Richard Brown asked whether having a framework first or experimenting and then wrapping the framework around the resulting potential use cases would be better. Hassane Ferdaous suggested that both approaches worked together. It was important to consider how much trust there could be in the models. Without experimentation, entities would not learn and would not see the dangers or the power of the models. Although general LLMs could provide generic answers, what was sought was expertise and that was obtained by carrying out a proof of concept so it was known how much of an entity's knowledge base would have to be embedded in the models. The use cases should be validated at the beginning to understand the value proposition. There should be robust validation of the models in order to understand hallucinations and citations. There was no need to put an extensive framework in place before experimenting.

Richard Brown asked whether experimentation tended to be driven top-down through a formal process to identify use cases, or bottom-up to find the use cases through the experimentation. Hassane Ferdaous replied that both approaches had been utilised. Standard setters would have use cases that were very narrow and would not take very long to implement. There would be other use cases that were extensive, such as disrupting the relevant business. It was generally preferable to begin with the former so that the answers were known to the questions being asked.

Richard Brown asked what sort of areas might fall under that narrow and not disruptive category. He noted that, at the IASB, areas that had been considered were administrative, such as summarising meetings or live capture of action items. Another option was to apply LLMs to comment letter analysis.

Hassane Ferdaous stated that AI was an augmentation tool that should be used in low-risk areas. The tools would improve and become more precise. The question was how to speed up progress to apply the tools to the more challenging, knowledge-based activities. The transformation of knowledge to make it usable for a focused activity were use cases that did not add significant risks.

Markus Leippold stated that whenever there was a large number of documents that had to be analysed, that was something that could be done by AI models. On how to ensure there were no hallucinations, a debate between multiple LLMs with different domain knowledge under a mediator to provide a final response. Such a debate approach could be carried out in an accounting standard setting.

Richard Brown asked how transferrable technologies like ChatReport could be applied to IFRS accounting requirements. Markus Leippold replied that it was possible as the source code for ChatReport was open source.

Chiara Del Prete noted that the audience had identified literature reviews of standard setting topics and the analysis of survey results, disclosures and comment letters as all being areas where AI tools could be considered. The issue of accurately representing the source content was particularly important for analysing comment letters.

Richard Brown added that there was also an issue with not understanding the nuance in comment letters and some human involvement remained essential. Hassane Ferdaous stated that standard setters had expertise in understanding the relevant language and had extensive text data that could be utilised for fine-tuning models, and that could lead to powerful technology for accelerating standard setting processes.

Audience Q&A on AI in standard setting

An IFASS participant asked Markus Leippold what benchmark was used to compare the content of sustainability reports. Markus Leippold replied that it was difficult to identify benchmarks. There was a four-year project regarding checking the materiality of the statements. ClimateBert had been developed to identify specific and non-specific commitments, which had been used as a 'cheap talk index' (CTI), which measured the cheap talk of companies. There were real impacts from the use of such cheap talk. Those entities with the highest level of cheap talk had the highest total emissions and the most negative press coverage. The next phase was to carry out real-world observations, utilising multi-modal models that can analyse text and images. For example, satellite imagery could be used to measure emissions around companies' facilities. The ratio of specific and non-specific commitments provided indications about real actions when measuring emissions and reputational risk.

An IFASS participant asked whether there were existing AI tools that could accurately extract data from PDFs on a large scale worldwide. Markus Leippold replied that there were advanced PDF parsers available, and with the most recent tools, the LLM could be asked to carry out tasks like generating a table for the scope 1, 2 and 3 emissions of an entity utilising its corporate sustainability report, which would be done with relative accuracy. There would nonetheless have to be controls for the quality.

An IFASS participant asked how AI tools would tackle materiality assessments in the analysis of reports, and whether this meant that immaterial information should be omitted. Markus Leippold stated that there would be a need to first define what was understood by material versus non-material information, and then the model would be trained on that to learn the difference.

Richard Brown noted that the more that investors used AI to analyse financial statements, the more they would like to see an explicit confirmation that something did not exist so that it should be known that there had been a deliberate decision to not disclose due to immateriality, as opposed to the current practice of not disclosing if something was not material. The use of AI could therefore affect the approach to standard setting.

An IFASS participant asked whether there was a need to improve the understanding of mathematical models for climate reporting. Markus Leippold replied that for climate reporting it was enough to understand the different climate scenarios, and an AI tool like ChatClimate could be used to understand the current consensus on the state of the climate. Hassane Ferdaous added that many enterprises did not have the right data and so relied on proxies to get to something meaningful. For example, when looking at carbon emission reports, most of the challenges were around data quality and how estimates had been used. AI could be utilised in these areas.

GALA EVENING EVENT ON 17 APRIL 2024

Day 2: 18 April 2024

Item 9. Introduction

In opening the day's session, Chiara Del Prete commended the prior night's enjoyable KAI gala dinner event, and she thanked KAI for generously hosting IFASS members.

She summed up the day's agenda before the sessions commenced.

Item 10. SR Developments and IFRS Sustainability Disclosures Standards Adoption

This session consisted of two presentations by Sam Prestidge (ISSB) on ISSB Standards adoption and Patrick de Cambourg (EFRAG) on interoperability.

Presentation on the ISSB Standards Adoption

Sam Prestidge's presentation highlighted initiatives supporting the adoption of ISSB Standards with a particular focus on the jurisdictional guide.

Jurisdictional guide: the ISSB had been working on its inaugural jurisdictional guide, which had been produced to support jurisdictions by providing helpful information including the policy rationale, the roadmap towards adoption, licensing and translation considerations, and support in capacity-building and the development of a regulatory implementation programme. The guide aims to ensure that stakeholders could be informed about progress towards the adoption of ISSB Standards globally.

A preview of the inaugural jurisdictional guide had been published in February 2024 (an overview had been published in July 2023) enabling early engagement with jurisdictions as they designed their roadmaps. The full guide would be published in May 2024, along with further information about how the IFRS Foundation would describe different jurisdictional approaches, informing jurisdictional profiles. Since the publication of the February preview, the ISSB had continued to engage key stakeholders through regular dialogue. This included collective and bilateral discussions with the jurisdictional working group and International Organization of Securities Commissions (IOSCO's) sustainability taskforce, as well as internal engagement with the IFRS Foundation's monitoring board. The aim was to update the inaugural guide three years after its publication in May 2024.

The guide considers key areas relating to the adoption of ISSB Standards, including the regulatory and legal standing of the requirements, the incorporation of ISSB Standards into corporate reporting legislation, and potential changes to listing rules. The guide describes how jurisdictions might consider a proportionate approach to phasing in requirements and transition reliefs (for example the one-year transition relief for scope 3 greenhouse gas emissions). The jurisdictional profiles would act as a repository of information regarding jurisdictions' progress towards the adoption of ISSB Standards. The profiles would be inspired by those produced by the IFRS Foundation to map the adoption of IFRS Accounting Standards.

IOSCO's endorsement advice referred to the 'adoption and/or other use of ISSB Standards'. The jurisdictional guide considers what this meant in practice and how the introduction of local sustainability-related disclosure requirements by national standard setters would deliver outcomes aligned to those resulting from the application of IFRS S1 and IFRS S2.

Other capacity-building initiatives: The ISSB was aiming to support regulatory partners in preparing for the adoption of ISSB Standards. This included considerations of scalability and phasing in of the requirements in the Standards, identifying relevant and similar jurisdictional approaches, and clarifying how emerging disclosure requirements supported global consistency and comparability. The ISSB was supporting IOSCO's monitoring and capacity-building initiatives. This work would help investors understand jurisdictional approaches. It would also support the IFRS Foundation in capacity building across stakeholder groups.

Presentation on interoperability initiatives

Patrick de Cambourg's presentation detailed how EFRAG supported the interoperability of ESRS with multiple global reporting initiatives including the ISSB Standards, TNFD recommendations and Global Reporting Initiative (GRI) Standards. He recapped the goals of EFRAG's sustainability reporting standard-setting activities noting that EFRAG had begun its sustainability reporting development in September 2020 with three objectives. The first objective had been to bring clarity to sustainability-related data (resolving the alphabet soup, avoiding green washing). The goal was for standardised sustainability reporting to be on an equal footing with financial reporting. Secondly, it had been necessary to provide the required information for the European Green Deal. The characteristics of quality were vitally important and common to ESRS, ISSB Standards and financial reporting standards (relevance, fair representation, verifiability, comparability and understandability). The third objective was global integration and consistency. EFRAG aimed to contribute to the global development of sustainability reporting, including the embedding of a baseline.

Related to the latter point, EFRAG collaborated with other standard setters as much as possible to ensure consistent interpretations. He shared the highlights of several interoperability initiatives as follows.

ESRS-ISSB Standards mapping: Since April 2022, EFRAG had been working with the IFRS Foundation to achieve the maximum level of commonality or interoperability. Patrick de Cambourg observed that the EU was one of the first jurisdictions to have embedded most ISSB disclosures in its reporting regime. By the end of 2025, 50.000 entities representing about 50% of the EU's Gross Domestic Product (GDP) would report under ESRS.

The draft ESRS-ISSB mapping document contained four sections. The first section commented on the general requirements in ESRS and ISSB Standards on four topics: materiality, presentation, other sustainability topics and reliefs. The second section covered common climate-related disclosures. The third and fourth sections described the information needed by preparers starting from ESRS and moving to IFRS S2 or vice versa. The second, third and fourth sections were all limited to climate.

ESRS-Taskforce on Nature-related Financial Disclosures (TNFD) recommendations mapping: Since 2022, there had been a continuous exchange between EFRAG and the TNFD to ensure that TNFD recommendations and guidance would be onboarded as much as possible. A memorandum of understanding had been signed in December 2023 and a draft mapping would be released in May 2024. The TNFD is a market-led, science-based and government-backed initiative with the aim of providing organisations with the tools to act on evolving nature-related issues. Recommendations had been released in September 2023. It is a global and voluntary framework, including 14 disclosure recommendations and a set of connected metrics. The TNFD has also developed the Locate, Evaluate, Assess and Prepare (LEAP) approach to identify and assess nature-related dependencies, impacts, risks and opportunities. The LEAP approach is also referenced in ESRS.

The draft ESRS-TNFD document mapped the TNFD disclosure recommendations against the relevant ESRS disclosure and application requirements. The TNFD encompassed the disclosures covered under the four environmental standards beyond climate: E2 on pollution, E3 on water and marine resources, E4 on biodiversity, and E5 on the circular economy. While there were some semantic differences, the overall objective was to be as aligned as possible.

ESRS-GRI Standards mapping: EFRAG had initially signed a memorandum of cooperation with the GRI to ensure a high level of commonality with the GRI reporting system. A further memorandum of understanding had been signed in November 2023. A draft mapping had been released in 2023; this would be finalised once the GRI had updated some of its standards. Overall, the potential differences between single and double materiality had been exaggerated.

An interoperability index mapped GRI disclosures against the relevant ESRS disclosures. Some GRI disclosures were not embedded within ESRS (e.g. taxation), but the index demonstrated that there was a high level of interoperability. The part of the mapping related to biodiversity was currently being updated. The definition of materiality within ESRS had been aligned with the GRI approach.

Overall message on interoperability mapping: The purpose of the mappings was to ensure that the market was fully conscious of the efforts made and the corresponding outcomes. In drafting the jurisdictional regime, the aim had been to eliminate the need to produce multiple reports. The ESRS reports were largely compatible with ISSB Standards. Any ESRS reporter could be deemed to be reporting with reference to GRI at a high level of commonality. Regarding the TNFD, while there were some minor differences, the general approach was embedded within ESRS. An ESRS reporter wishing to add the information required under another framework could report under Article 114, which had been drafted specifically to eliminate the risk of multiple reports.

<u>Audience Q&A on ISSB Standards adoption and interoperability initiatives</u>

Chiara Del Prete asked whether the same process of embedding ISSB Standards into local regulations undertaken so far (e.g., with ESRS) would take place with other jurisdictions. Sam Prestidge stated that the ISSB would discuss this further as interoperability was embedded within the ongoing standard setting. Stakeholders had highlighted the need for interoperability with the US reporting regime. The ISSB was focusing on working with jurisdictions to ensure the establishment of a global baseline. The objective of the jurisdictional profiles was to describe how the baseline was being established through global adoption.

Patrick de Cambourg stated that it was important to address a) global commonality at the highest level, and b) digitisation issues. On the former, EFRAG was currently analysing the potential commonalities between ISSB Standards and the recent Securities and Exchange Commission (SEC) requirements, although the US requirements were currently disapplied. Regarding digitisation, AI would be particularly helpful in a structured data environment. Taxonomies were important once there was agreement on human-readable correspondence between standards, this should be translated into the appropriate tagging systems.

An IFASS participant asked about EFRAG's experience of collaboration with the ISSB, the TNFD and the GRI. Patrick de Cambourg stated that the experience had been positive. While it was normal for there to be differences of opinion on semantic issues, the organisations shared a willingness to facilitate sustainability reporting. Sam Prestidge noted that the ISSB, the European Commission and EFRAG had declared a high degree of alignment in July 2023, when ESRS had been confirmed. However, it had taken some time to illustrate this alignment accurately for the practical benefit of users. With the broadening of its workplan, the ISSB would continue to work closely with EFRAG. Patrick de Cambourg stated that it was important to focus on substance over form, avoiding excessive complexity. Sam Prestidge confirmed the good cooperation and noted the importance of being able to demonstrate the high degree of alignment between the two sets of standards. Patrick de Cambourg emphasised keeping the substance in mind when developing sustainability standards and not focusing too much on differences in words used.

Item 11A. Financial reporting parallel stream – Rate-regulated activities

A panel discussion on the jurisdictional perspectives on the IASB rate-regulated activities project was moderated by Tommaso Fabi (OIC) and the panellists were Seema Jamil-O'Neill (UKEB), Simone Scettri (OIC) and Sven Morich (ASCG). The panellists presented their jurisdictional perspectives and this was followed by a panel discussion.

Setting the scene, Tommaso Fabi noted that the IASB was close to finalising the redeliberations on the feedback to the 2021 Exposure Draft *Accounting for Regulatory Assets and Regulatory Liabilities* (the ED). A final standard was expected in 2025. In its redeliberations and tentative decisions while responding to concerns raised by respondents with incentive-based regulatory schemes, the IASB introduced the concept of the direct (no direct) relationship between the regulatory capital base (RCB) and property, plant and equipment (PP&E). This concept had not been part of the 2021 ED.

The implication of the IASB tentative decision is that if a reporting entity had a 'direct' relationship, certain differences in timing between the Regulatory Capital Base (RCB) and PP&E (e.g., difference between regulatory recovery pace and the IFRS depreciation of IFRS PP&E) would give rise to regulatory assets (liabilities). If a reporting entity had a 'no direct' relationship, for reasons of impracticability (i.e., difficulties in reconciling at the unit of account), there would be no regulatory assets (liabilities) recognised for certain differences in timing. That said, there would still be differences in timing (e.g., volume variances) that would result in regulatory assets (liabilities) regardless of whether or not an entity had a direct relationship.

<u>UKEB presentation</u>

Seema Jamil-O'Neill stated that UKEB generally supported the IASB model, including the concept of the direct (no direct) relationship. However, as the regulatory model in the UK was incentive-based, there were no UK entities with a direct relationship and there was a concern these entities would be at a disadvantage if precluded from recognising regulatory assets (liabilities) even when they had economic differences in timing. Hence, UKEB staff had developed a top-down model that could supplement the IASB model and were seeking feedback on it. Seema Jamil-O'Neill's presentation covered a) the headline findings of an economic study to understand the consequences of the IASB proposals; and b) key aspects of the top-down model.

Economic study key findings: UKEB commissioned a consultancy firm to conduct an independent economic study on the impact of the IASB proposals. 62 IFRS-reporting entities were identified as potentially being within the scope of the final standard; 13 of these entities were listed groups with a market value of around £93.2 billion and 49 were private entities. Only 40% of the differences in timing in the water industry would be recognised as regulatory assets (liabilities), and UKEB was still assessing the effects on other affected sectors.

The economic study highlighted that the IASB proposals would not necessarily make financial statements more understandable to the generalist investor nor would it improve comparability across reporting entities. If the financial statements were not understandable for the generalist investor, then the expected benefit of a reduction in the cost of capital would not materialise. Seema Jamil-O'Neill opined that the matters raised by UKEB extended beyond the UK. She noted that responses to the IASB survey on whether entities had a direct or no direct relationship showed that 50% of worldwide entities had no direct relationship.

Top-down model: The proposed top-down approach aimed at capturing the difference between the aggregate RCB and PP&E. This was possible in the UK as regulatory figures were publicly available and reconciled annually with their regulator. The top-down approach was similar to the portfolio approaches used in other IFRS Standards (e.g. IFRS 17 *Insurance Contracts*). UKEB was continuing to develop this approach considering aspects such as the unit of account and measurement.

Tomasso Fabi asked how the unit of account considered under the top-down model reconciled with the ED's requirements. Seema Jamil-O'Neill noted that reconciliation based on the ED's unit of account principles was possible, as aggregation was permitted, but she would have to consider the latest IASB decisions to have a more fulsome view. Moreover, she noted that the UKEB rate-regulated advisory group sought to understand the impact of the IASB's proposals as well as the top-down approach on transition. She expressed the view that for entities with a direct relationship or those moving to an incentive-based approach, transition should be straightforward. However, transition for entities already applying an incentive-based approach, like those in the UK, and moving to a cost-based approach would be very difficult even under the top-down approach. She observed that UK entities were using alternative performance measures (APMs). She was concerned that if entities were to apply the IASB's proposals, they were likely to disregard IFRS, and instead continue addressing the shortfall in investor information by developing APMs and pointing investors towards the regulatory accounts.

<u>The OIC presentation</u>

Simone Scettri explained that, across industries, the entities subject to rate regulation in Italy included 30 listed groups, with total revenues and total assets of more than €120 billion and €450 billion, respectively. These entities had a market value of around €180 billion with half of this value concentrated in 3 entities. The OIC was gathering additional information about non-listed entities subject to rate regulation.

Most entities in Italy were subject to a cost-based rate model but the regulator had recently begun a pilot project on a new hybrid approach, which would include both cost-based and incentive-based features such as entity-specific coefficients and industry efficiency benchmarks.

The pilot project triggered discussions between the regulator and the listed entities evaluating the potential impact of the direct / no direct approach. Some companies supported the IASB proposals and considered they would be able to reconcile PP&E and the RCB even if they moved to the hybrid model. One large, listed entity however was interested in getting a deeper understanding of and further exploring the UK top-down approach.

<u>The ASCG presentation</u>

Sven Morich highlighted that, in Germany, the true-up mechanism only applied to energy and gas entities involved in transmission and, partially, in distribution. Therefore, other industries seemed not to be in the scope of the prospective standard. He remarked that the 2021 ED had been welcomed by most companies as it would result in the recognition of timing differences leading to a better depiction of financial statements. Affected companies were currently providing APMs to compensate for the lack of information.

He also noted that since German GAAP figures were used for regulatory purposes there were some differences in depreciation and other measurement differences between PP&E and the RCB that triggered that some entities had a ‘no direct’ relationship. Most entities had supported the IASB’s proposals and the direct (no direct) approach and expressed their desire for early adoption. Sven Morich also explained that since 2022 German GAAP had introduced a recognition principle that allowed entities to recognise regulatory assets and regulatory liabilities but there were not specific measurement requirements. Changes to German GAAP were due to solvency rather than performance reporting reasons as entities needed financing for infrastructure projects, which required a more faithful representation of the balance sheet.

<u>Panel discussion</u>

Views on whether re-exposure of the ED is needed: Tommaso Fabi asked whether the top-down approach would require re-exposure of the standard. Seema Jamil-O’Neill remarked there had been significant changes since the ED. Therefore, if the IASB did not opt for re-exposure, there should be additional field testing. Simone Scettri signalled the importance of finding the right balance between finalising the project and doing enough field testing. Sven Morich did not support a re-exposure as it would slow down the project. On field testing, he supported an approach that would leverage the findings of the endorsement process to be performed by EFRAG.

Views on UKEB top-down model: Tommaso Fabi asked for initial reactions on the top-down approach. Simone Scettri explained that the approach was being discussed with stakeholders in Italy as a potential alternative to account for all regulatory assets and liabilities in the financial statements. He also expressed the need to identify whether the approach could be applied to all the industries affected by rate-regulated activities or whether parallel systems would be needed for entities applying a cost-based model versus those applying an incentive-based model. Sven Morich noted that many German entities were wary of a new approach, as they were concerned that it might slow down the finalisation of the project. However, he also explained that their constituents were aware of the approach and, so far, the ASCG had not received strong pushback and that could be deemed as a ‘positive’.

<u>Audience Q&A on rate-regulated activities</u>

An IFASS participant noted that recognising differences between PP&E and the RCB on a portfolio basis as per the UKEB’s top-down approach may result in entities recognising differences other than the differences in timing intended by the IASB model. He suggested that an alternative valid approach might be one where entities apply judgment to recognise their regulatory assets (liabilities), taking into account a measurement reliability threshold.

Seema Jamil-O’Neill pointed out that the assumption of the IASB model that there were no differences in timing between the RCB and IFRS PPE in the absence of a direct relationship was not accurate. She explained that entities in the UK following the incentive-based model were having the same discussions with the regulators as those had by entities with a cost-based model. The only difference was in how the regulator monitored the allowed income (i.e. based on incentives rather than on the cost of infrastructure). She noted that ensuring that the model only dealt with differences in timing that impact future tariffs agreed with the regulator and not any other differences in timing was essential. Regarding the reliability threshold approach, she explained that a compliance approach was more common in the UK than an approach whereby an entity would unilaterally determine the measurement threshold.

Sven Morich noted there were likely to be simplifications in practice under the IASB model, so in some cases, entities may opt for portfolio approaches rather than on an item-by-item basis because, from a materiality perspective, it would make sense.

The IASB Vice Chair Linda Mezon remarked that the reliability of regulatory reports was key as the top-down model depended on the RCB to derive the differences in timing. In that regard, she asked whether regulatory reports were audited. Seema Jamil-O'Neill stated that regulatory reports in the UK were assured by the entity's auditor and were publicly available on the regulator's website. Simone Scettri explained that the regulatory reports were subject to audit in Italy, although they were not always publicly available. Sven Morich commented that parts of the reports were available in Germany, although not the details of any rate calculations. The basis was audited under the German Commercial Code, but the more important element of reliability was the approval by the regulator.

Pauline Wallace (UKEB) expressed her concern about the implications of the direct (no direct) relationship approach and lauded the work done by the UKEB staff in developing and exploring the top-down model.

Item 11B. Sustainability reporting parallel stream - Guidelines to support Climate disclosures and transition plans

The panel discussion (with two presentations) was moderated by Cecilia Kwei (Hong Kong Institute of Certified Public Accountants - HKICPA) and the panellists were Jack Bisset (External Reporting Board - XRB New Zealand), Gina Chammas (ISAL), Kristian Koktvedgaard (Denmark Accounting Standards Committee-DASC) and Sarah-Jayne Dominic (Financial Reporting Council - FRC UK). Responses to polling questions posed during this session can be found here.

Scene-setting presentation

In a scene-setting presentation, Gina Chammas illustrated the adverse environmental impacts occurring at a global level including the increase in wildfires, drought, and extreme heat. She highlighted that 100 companies are responsible for 71% of global emissions underscoring the necessity for enhanced transparency and cost efficiency through mandatory disclosures. She also highlighted the importance of focusing on regions with greater climate urgency and engaging more countries such as Middle Eastern countries.

In response to Gina Chammas' presentation, Cecilia Kwei highlighted the varying adoption of ISSB standards across different jurisdictions.

Presentation on New Zealand's approach to climate disclosures

Jack Bisset outlined the objectives of New Zealand's climate standard and indicated the business community responded positively to the new standards. He gave an overview of the three standards introduced by New Zealand, namely:

- A standard mirroring the TCFD and IFRS S2 pillars, with added prescriptive climate scenarios.
- An adoption standard offering relief on difficult disclosures, particularly on financial impacts, transition planning, Scope 3 emissions, and comparatives and trends.
- A general requirements standard with key concepts such as value chain and materiality.

Moving from the standards to guidance, the XRB had initially been reluctant to provide much guidance since so much had already been provided by the TCFD. However, preparers wanted to see guidance drafted in accordance with the exact disclosure requirements. The XRB had, therefore, particularly provided guidance on the financial implications of current climate impacts and entity-level scenario analysis.

However, the challenge in scenario analysis is that only guidance might not have been enough. Jack highlighted how collaboration between and within sectors is important so that there are shared assumptions, resulting in more consistent and comparable disclosures. He shared the positive response that about 15 sectors in New Zealand have completed or are close to completing a sector-level analysis; this will then inform entity-level analyses. The XRB had not just written guidance; it had helped people to organise, encouraged collaboration, and promoted the use of scenario analysis.

<u>Panel discussion</u>

Cecilia Kwei asked how the XRB would ensure progress continued in New Zealand, to which Jack Bisset acknowledged the challenge of sector alignment.

Cecilia Kwei asked if there were any shortcomings in the climate-first approach. Kristian Koktvedgaard pointed out that while urgent climate action is necessary, it must not overshadow the complex sustainability system, advocating for a holistic approach that captures all interactions between various sustainability topics.

Cecilia Kwei asked what regulators can do to allay stakeholder concerns about being punished for imperfect disclosures and create a safe space for undertakings to experiment with the requirements. Sarah-Jayne Dominic suggested a phased implementation of standards using a 'comply or explain' mechanism, sharing best practices and case summaries with preparers. She emphasised the UK's supportive approach through supervisory and monitoring regimes rather than immediate enforcement.

Transition planning: Transition planning was a response to corporations setting ambitious climate targets without understanding the means to achieve them. Jack Bisset and Kristian Koktvedgaard discussed the challenges and importance of aligning transition plans with corporate strategy and the business model. They noted that credible transition plans could unlock capital for green finance, with financial institutions offering incentives for clear and quantitative plans.

Cecilia Kwei noted that the UK Transition Plan Taskforce (TPT) had published its final disclosure framework in October 2023, followed by a sector summary and seven sector guidance in April 2024. She then asked about particularly relevant differences in the industry-specific guidance. Gina Chammas highlighted differences in industry-specific guidance, particularly for oil-producing companies, where disclosure motivation is often lacking. In the Middle East, there is a need for additional technical support to help industries apply IFRS and promote sustainability reporting.

Cecilia Kwei asked the panel members what value companies could derive from transition planning, and how credible transition plans could help divert capital towards green investments. Kristian Koktvedgaard stated that reporting standards should have a real-life impact. As preparers, the goal is to provide readily available guidance for undertakings to have a starting point and to ensure that the guidance supports actions. A key point is to speak the same language as the undertakings, to ensure there is clear information for all stakeholders. Jack Bisset added that the purpose is for preparers can understand the challenges they face to start making changes.

Cecilia Kwei asked how a credible transition plan can unlock capital for green finance. Jack Bisset stated that financial institutions can play an important role by offering discounted capital to companies with clear transition plans. Kristian Koktvedgaard stated that it is important to look beyond capital markets. In terms of credit ratings, financial institutions want to lend money to businesses that can repay the capital, so there is an interest in the provision of forward-looking information.

Audience Q&A on the guidelines to support Climate disclosures and transition plans

An IFASS participant questioned how unique energy circumstances could be reflected in climate disclosures. Jack Bisset emphasised the need for credible narratives from entities to investors. Sarah-Jayne Dominic added the importance of focusing on potential competitive advantages for SMEs and the collaborative approach between sectors to encourage sustainability.

Item 12. Application of materiality in Sustainability Reporting

A panel discussion was held on the application of materiality in sustainability reporting. The panel was moderated by Chiara Del Prete (IFASS Chair) and the panellists were Jack Bisset (NZ XRB), Kristian Koktvedgaard (DASC), Patricia Moles (consejo mexicano para la investigación y desarrollo de norma - CINIF), Sue Lloyd (ISSB) and Yasunobu Kawanishi (Sustainability Standards Board Japan- SSBJ).

In setting the scene, Chiara Del Prete remarked that the application of materiality is one of the application challenges in sustainability reporting. She noted entities' materiality assessment supports the identification of information to be reported and it involves two steps: a) determining which sustainability matters are material and should be covered in a sustainability report; and b) determining which information within such matters/topical standards is material and should be disclosed. Both steps had their own implementation challenges. Moreover, under a double materiality perspective, there is a challenge of identifying which impacts are material in addition to the risks and opportunities reported under a financially material lens.

Thereafter, panellists discussed several themes. Responses to polling questions during the session can be accessed here.

Material topics-climate risk

Question to Jack Bisset and Kristian Koktvedgaard - Can a company conclude that climate-related risks are not material?

In the context of climate risk, Jack Bisset emphasised the importance of paying attention to the analysis of hazards, exposure, and vulnerabilities. He noted that, by implementing mandatory climate disclosures, the New Zealand government had effectively decided that climate was a material topic. Through an example of the implications on the educational offerings by a university (with low physical risk and low emissions), he underscored the importance of underlying risk analysis rather than just focusing on categorising items as either material or not material.

Kristian Koktvedgaard affirmed that there were situations in which climate was not material, albeit from a short-term perspective, these situations would be rare. Moreover, for reporting entities, there may be other issues that are more material than climate and it is a question of where thresholds are set. In effect, climate has to compete with other topics in terms of relative materiality and it may cease to be material in future periods (e.g. if an entity becomes climate-neutral). He also noted that like other risks, not being material does not preclude there being financial effects. He concurred with Jack Bisset on the need for underlying analysis of why an item is material and gave an example of an entity assessing energy efficiency as being impact material but not necessarily financially material. Finally, in light of the dynamic nature of the materiality of matters, he suggested the standard-setting process needs to consider what may come material across different time horizons.

Determining material information

Chiara Del Prete noted that IFRS S2 provides the required disclosures for climate risk subject to materiality and this was no different to the application of materiality in determining what to report in the financial statements.

Question to Yasunobu Kawanishi, Sue Lloyd, Kristian Koktvedgaard, and Jack Bisset - *Is there a difference in choosing what to disclose for a Standard for financial statements versus what to disclosure from a Standard under sustainability reporting?*

Yasunobu Kawanishi observed that the definition of material information in ISSB Standards was derived from the Conceptual Framework for Financial Reporting, which is applicable to IFRS general purpose financial reporting including IFRS sustainability-related financial disclosures. One difference was that materiality in the financial statements was usually considered in the context of the recognition and measurement of assets and liabilities (i.e., specific Standards and IAS 1 requirements). IAS 1.125 refers to the 12-month horizon in contrast to the reference to short, medium and long-term under sustainability reporting. He also noted that, in the context of climate reporting, small amounts of emissions did not necessarily mean that those emissions were not material (i.e. it could signal effective risk management). In effect, qualitative materiality was important to consider in the context of climate reporting.

Sue Lloyd noted that the same definition of material information for ISSB Standards and IFRS Accounting Standards as pointed out by Yasunobu Kawanishi was to support connections of sustainability-related financial disclosures with the financial statements' information. Under both reporting domains, there was a similar focus on information that would be reasonably expected to influence investors' decisions, but the context and considerations were different. For example, sustainability reporting tended to consider longer time horizons than financial statements. Moreover, value chain considerations were more pertinent in the context of sustainability reporting albeit being also applicable to financial statements' information (e.g. while determining goodwill or expected credit losses).

Kristian Koktvedgaard noted that double materiality both presented significant challenges and added benefits when determining relevant topics. Combining financial and GRI thinking while adding the specificities of EU legislation would complicate the assessment of what was likely to influence investment decisions. Done correctly, materiality assessments should be linked to a company's business model and strategy. He observed that entities coming from a financial reporting perspective needed to understand how to appropriately include their stakeholders in the process.

Jack Bisset stated that the main challenge in New Zealand was less about how to determine information materiality and more about how to implement robust methods given the significant uncertainty when considering the medium and long-term financial impacts of climate change. He emphasised the importance of an integrated approach to risk analysis and the roles that need to be fulfilled by the finance function in that regard.

Addressing material topics beyond climate

Question to Yasunobu Kawanishi, Patricia Moles, and Sue Lloyd - what are the challenges in addressing topics beyond climate? Do the Sustainability Accounting Standards Board (SASB) sectoral standards provide complete guidance?

As context, Yasunobu Kawanishi mentioned that the Sustainability Standards Board of Japan (SSBJ) had issued an exposure draft (in March 2024) proposing to adopt all requirements in IFRS S1 and IFRS S2 with some jurisdiction-specific options. He noted for companies that had never done any sustainability reporting, the SASB Standards were useful. However, companies that have applied multiple frameworks for SR tended to report on risks and opportunities in their own words. In his view, selectively picking from SASB Standards (as recommended by some consultants) would be a step back relative to the use of own words by management. He noted that some users had also expressed taking from the SASB menu creates some comparability.

Patricia Moles highlighted that Mexico was highly vulnerable to water stress and other material sustainability risks. When providing guidance to entities reporting under IFRS S1, there was a danger that some companies refer only to SASB Standards and inappropriately conclude that certain risks were not material. Comparability among industries was important, but it was necessary to also consider entities' operating location (physical risk) and transition risk. Hence, it was important that companies not apply SASB Standards as a mere checklist. In her remarks, she highlighted the difference in requirements for Mexican Public Interest Entities (PIEs) and Non-PIEs (SMEs). The former comply with IFRS S1 and IFRS S2 while for the latter a set of mandatory metrics and indicators were being developed.

Sue Lloyd observed that the ISSB job did not end with the issuance of IFRS S1 and IFRS S2 and IFRS S1 aimed to enable the start of reporting on topics beyond climate. She referred to a hierarchy in IFRS S1, which she emphasised is not a two-step materiality assessment. First, is to decide on what to report on and entities can look at SASB Standards and industry practice. Second, would be the particular information to provide and reference can be made to SASB Standards and ESRS or GRI Standards albeit for the latter the focus should be on the information that meets investor information needed. She underscored the wording in IFRS S1 does not require the use of SASB Standards (rather it is that entities "shall refer to" and shall consider", i.e., SASB guidance is more a source of inspiration). Recognising the limitations of SASB Standards, in March 2024, the ISSB decided that updating the SASB Standards was a priority to ensure they were more comprehensive and internationally applicable. She also noted entities are not precluded from providing relevant entity-specific disclosures.

The usefulness of EFRAG materiality assessment guidance

Question to Kristian Koktvedgaard and Patricia Moles- What are the *challenges relating to materiality assessments under double materiality? What is the usefulness of ESRS Materiality Assessment Implementation Guidance (MAIG)?*

In the context of double materiality assessment, Kristian Koktvedgaard noted that there was the inside-out perspective inspired by (but not the same as) GRI thinking, the outside-in perspective aligned with IFRS Accounting thinking, and EU-specificities to consider. The key issue is that no one has done a double materiality analysis yet. While a few early adopters were in the process of conducting double materiality assessments, there was not yet any guidance in place. Moreover, there were also many first-time adopters of ESRS. Notwithstanding the limited experience, he observed there are existing in-house processes (e.g. safety, climate) that could be leveraged. He underscored that rather than ticking off a list of disclosures, double materiality assessment is about understanding the business and it is a multidisciplinary undertaking. And it impacts how entities structure their business and reporting.

Patricia Moles stated that the ESRS materiality assessment guidance was a useful and practical point of reference. It provided clarity for some developers of sustainability information for Mexican companies who had been familiar with a GRI perspective and had been confused about the concept of materiality in IFRS S1 and IFRS S2. In addition, CINIF is developing a climate standard for SMEs that is aligned with IFRS S2 but with limited disclosures. Thus, ESRS guidance will help in developing guidance for these entities that have limited experience with assessing financial and impact materiality (including in training entities on how an impact can become a risk and how to read sustainability risks for financial reporting).

ISSB Educational support

Sue Lloyd confirmed that the ISSB was considering providing additional guidance for the benefit of audiences who have not had to apply financial materiality and are new to reporting sustainability risks and opportunities to investors. This guidance will address when the materiality assessment is applied in the ISSB Standards. She underscored that ISSB never asks whether a matter is material. It only focuses on material information (Step 2 of materiality assessment articulated by Chiara Del Prete in her introduction). The guidance will also touch on the materiality definition and the primary users. Also, it will touch on why sustainability risks and opportunities are important to investors. It will encompass impacts, which will be encompassed in the ESRS–ISSB Standards interoperability guidance (with an aligned financial materiality definition).

Challenges with implementing materiality

In reaction to a polling question response that showed the lack of skilled resources, missing practical guidance and tools were the biggest practical challenges; Jack Bisset outlined the key challenges faced in New Zealand in the context of a climate-first approach before scaling to other topics were mainly related to capacity rather capability/competence. Among other factors, he emphasised the importance of collaboration amongst various actors (sector-level collaboration on scenario analysis involving non-governmental organisations (NGOs) and governmental parties) and their working with indigenous communities to ensure the latter’s values are infused into the process.

Sue Lloyd noted the biggest barrier was understanding and knowledge. For investor-focused reporting, identifying sustainability risks and integrating this into entities’ scenario analysis and long-term planning was challenging. To this effect, leveraging sector-specific and industry-specific information could be a helpful gateway.

Patricia Moles noted the ongoing transformation of the financial profession required an intense level of education. She highlighted the high-level of support that CINIF had received.

Kristian Koktvedgaard pointed to the high number of ESRS-eligible companies and the associated significant administrative costs faced by new and experienced reporters, auditors and regulators. He observed there was a significant capacity-building challenge akin to that faced by implementing IFRS Accounting Standards 20 years ago albeit that it is occurring at a faster pace.

Expectations for future guidance

Question - What should be further included in implementation guidance?

Jack Bisset affirmed the need for standard setters to work closely with regulators to ensure clarity on mandatory reporting. He noted the need for guidance on current and anticipated financial effects and for the connectivity of information.

Sue Lloyd highlighted that the ISSB was aiming to remain engaged with the market to understand where additional guidance would be useful. She pointed to the completed and at-the-time forthcoming publications (i.e., climate-related risks relating to nature and social aspects issued last year, the forthcoming educational material on current and anticipated financial effects, and the ESRS–ISSB Standards interoperability guidance). She also pointed to the demand for examples of good disclosures and that they will have to find creative ways of addressing this need from a standard setter standpoint.

Kristian Koktvedgaard mentioned that EFRAG will be finalising and issuing the ESRS materiality assessment implementation guidance and value chain guidance, as well as a list of ESRS data points. A Q&A portal had been created and some questions might warrant new guidance (e.g. on transition plans). He noted that implementation guidance needed to be produced by each of the 27 EU member states to address local specificities, but consistency was important.

Audience Q&A on the application of materiality

In response to an IFASS participant's question on whether risks need to be monetised in order to be material, Sue Lloyd stated this was not the case. For instance, many metrics on climate-related risks were not monetised but still represented material information.

An IFASS participant asked whether the need to ascertain key matters before deciding material information, as mentioned in the management commentary practice statement exposure draft, was comparable to the IFRS S1 approach for determining materiality. Sue Lloyd confirmed it was similar. The ISSB Standards require companies to decide which of their sustainability-related risks and opportunities could be reasonably expected to affect the entity's prospects. The second step was to decide which information was material for investors. Kristian Koktvedgaard noted that the ESRS approach was focused on sustainability, complementing some of the information required in the accounting directive. Chiara Del Prete explained that the explicit reference to two separate steps in ESRS, which is also implicit in the ISSB Standards approach, had arisen out of the need for an anchor point with current practice on impact materiality (e.g., the GRI focused on prioritisation and setting a materiality threshold). Information materiality was another element of the same process by which the information to be reported was identified.

An IFASS participant asked about the considerations and implications of the SR information for users. Sue Lloyd noted that the IFRS Foundation had inherited the investor advisory group from the Value Reporting Foundation (VRF) and investors were demanding more quantitative, industry-specific information. Capacity building was tailored for investors and the ISSB had a certification programme while other organisations (e.g. CFA Institute) had investor initiatives that were important in terms of capacity building. Kristian Koktvedgaard observed that in Europe the importance of education extended beyond investors and financial users, and he noted that there could be consequences/counterproductive reactions arising from other readers (besides investors) of the sustainability reporting information. Jack Bisset stated that the XRB would be issuing guidance on reading climate statements to ensure that points were not misinterpreted. He pointed out that it was not always easy for investors to understand how to use information from climate resilience assessments or scenario analyses in their typical analytical decision-making (i.e., buy, sell and hold of investments decisions).

Item 13A. Financial reporting parallel stream - Understandability of Accounting Standards

Keith Kendall (AASB) presented the findings of research commissioned by the AASB on the understandability of accounting standards and conducted via two studies by University of Adelaide researchers. His presentation covered the following themes.

Scope and methodology of the studies: Keith Kendall noted that the first study analysed the readability of accounting standards using metrics such as word length and sentence complexity and thereafter interviewed Australian stakeholders. The second study was based on interviews of international stakeholders including national standard setters. Across the two studies, the findings from direct users of accounting standards (i.e., preparers, auditors, regulators, senior managers, and directors of entities) were differentiated from those from indirect users (i.e., analysts and institutional investors). The findings of the two studies were consistent.

Readability versus understandability: On the findings of the readability assessment, Keith Kendall noted that IFRS 6 *Exploration for and evaluation of mineral resources*, IFRS 14 *Regulatory Deferral Accounts* and IAS 14 *Segment Reporting* were deemed as the least readable IFRS Accounting Standards while IFRS 2 *Share-based Payment*, IAS 33 *Earnings per Share*, IAS 36 and IAS 39 were the most readable. He acknowledged there was a distinction between readability and understandability as pointed out by the interviewees. The interviewees had identified IFRS 9, IFRS 15, IFRS 16 and IFRS 17 as difficult-to-understand standards notwithstanding the favourable score these standards had on readability metrics.

Lack of in-depth technical expertise: Keith Kendall highlighted that interviewees suggested that not all users have a thorough understanding of the accounting standards, in particular indirect users, but also senior executives who are not necessarily accountants, as they are primarily interested in the output of standards, i.e., entities' reports. Moreover, he specified that varying levels of user proficiency had been observed, accompanied by their heavy reliance on a limited number of experts in accounting firms for in-depth technical expertise. In this respect, Keith Kendall also mentioned that interviewees had questioned whether AI would limit the above reliance.

Areas where understandability is difficult: The research identified three areas which hindered understandability. Namely, the identification and application of the scope of the standards, the application of particular paragraphs and the understanding of specific language, and the understanding of the rationale or underlying principles of a standard.

He highlighted that there was overlap between these areas with some interviewees considering that understanding the overall purpose of a standard would assist in the interpretation of specific paragraphs. In this respect, researchers had recommended that the rationale of a standard should be displayed prominently in an easily accessible location such as in the basis for conclusions. However, some interviewees had explicitly indicated that this information should be included within each standard itself.

Language-related issues hindering the understandability of accounting standards: Keith Kendall added that inconsistent language (e.g. shall versus must, significant versus material), sentence complexity, and translation issues had been identified as sources of complexity. Resource-constrained jurisdictions were often unable to develop IFRS material translated into their local languages. In addition, accounting standards terminology was often only taught at the postgraduate level in non-English speaking jurisdictions. This reduced the ability of practitioners with undergraduate qualifications to understand accounting standards, especially in the absence of official translations. Therefore, the research recommended increased access to material related to accounting standards. Another suggestion was the use of flowcharts to illustrate requirements especially when the respective requirements did not contain multiple options and/or exceptions.

Education and access: Keith Kendall noted that restricted access to materials (including Bases for Conclusions and translated materials), above mentioned language barriers as well as a lack of educational material contributes to the lack of understandability of accounting standards. In particular, educational material about the standard setting process and the use of principle-based accounting standards could contribute to the improvement of their understandability.

Increased engagement: The study identified the importance of early use engagement in understanding accounting standards. While interviewees acknowledged the IASB's efforts in this area, there was a perception that some users might undervalue the benefits of early engagement. Notably, users with fewer resources, particularly those from developing nations, reported feeling disadvantaged. They described a perceived knowledge gap between themselves and those with better resources. This, along with a fear of not being on equal footing with other users, hinders their engagement with the IASB or other standard-setters. This situation can be exacerbated by the language, education and access issues mentioned above. The researchers suggest that the IASB should explore ways to provide additional support for disadvantaged or less-resourced stakeholders.

<u>Audience Q&A on the understandability of accounting standards</u>

Collaboration with local accountant professional bodies and design of courses: An IFASS participant considered that local professional bodies could serve as a source of accountants familiar with the standards. He suggested that collaboration between these bodies and national standard setters would assist in the implementation of the standards, such as by designing courses (especially for jurisdictions at an early stage of implementation of IFRS Accounting Standards).

The use of accounting firms' publications instead of the standards for guidance: Some IFASS participants highlighted that practitioners often relied on accounting firms' publications to provide insights on the standards and supporting material. This was based on a lack of access to translations into local languages. Keith Kendall pointed out that this also affected jurisdictions with English as a main language given that firms and preparers without IASB subscriptions were also relying on these publications. In his view, reliance by stakeholders on accounting standards commentary (instead of direct reference to the standards) as a primary source of guidance could create problems.

Complexity of the underlying transactions covered by standards: An IFASS participant was of the view that newly introduced standards address complex underlying transactions. She considered this another reason for which accounting firms' material may be used more extensively by practitioners. This material could explain underlying transactions in more detail, via relevant examples and was not constrained by the principles-based language of the standards. In response, Keith Kendall remarked that principles-based language should foster understandability. He noted there was mixed feedback on the complexity of accounting firms' examples. Some interviewees considered them too simple while others preferred simpler examples that are not used as substitutes for the Standards' underlying principles.

Role of international accounting firms: One IFASS participant considered that the global presence of some accounting firms mitigates the issues signified, as their global compliance obligations lead them to develop similar technical and linguistic skillsets across professionals worldwide.

Item 13B. Financial reporting parallel stream - Accounting of Financial Instruments

In this session, Charan Jot Singh Nanda (The Institute of Chartered Accountants of India - ICAI) presented on the accounting for financial instruments whereby he outlined three issues: the effects of relevant laws or regulations, foreign currency convertible bonds (FCCB), and accounting of corporate guarantee contracts.

The effects of relevant laws and regulations

Charan Jot Singh Nanda disagreed with the proposals of the ED that, for classification, only those contract terms and conditions should be considered that are in addition to those created by relevant laws or regulations. He noted that these proposals are in conflict with the existing provisions of IAS 32 which stipulates that the classification of an instrument as a financial liability, a financial asset or an equity instrument should be in accordance with the substance of the contractual arrangement and with the Conceptual Framework which reads that all terms in a contract, whether explicit or implicit, are to be considered unless they have no substance, whereas implicit terms could include, for example, obligations imposed by statute. Therefore, in his view, rights and obligations created by relevant laws and regulations should also be considered, as ignoring them might not reflect the economic substance of the financial instrument, may give rise to different classifications in different jurisdictions and will not serve the interests of the investors making investor decisions.

Foreign currency convertible bonds (FCCB)

Charan Jot Singh Nanda mentioned the issue of applying fixed-for-fixed criteria for FCCB, i.e. an instrument issued in a currency other than the functional currency of the entity, containing both debt and equity features and redeemable at maturity, if not converted. He opined that conversion options under FCCB should be treated as equity rather than liability and the criteria for options should be changed to include options in currencies other than the functional currency.

Accounting of corporate guarantee contracts

Charan Jot Singh Nanda raised an issue of whether a corporate guarantee issued by investor in relation to obligations of its joint venture (JV) in favour of a third party (a bank which, in turn, provides a bank guarantee over a contractual obligation of the JV) should be accounted for as a financial guarantee contract in the separate financial statements of the investor, i.e. whether IFRS 9 (as for a financial guarantee), IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (as for any other guarantee) or IFRS 17 (as for an insurance contract) should be applied in this case. He mentioned that stakeholders' views on this question are diverse. In this context, two key issues are to be addressed in order to decide on the accounting treatment: the definition of the debt instrument as incorporated in the definition of the financial guarantee contract and whether the instrument in question gives rise to a performance risk or a financial risk.

Audience comments

An IFASS participant referred to fixed-for-fixed conditions as a very sensitive topic in Canada because there are many instruments in the market with either USD or CAD as a functional currency vs conversion ratio in the opposite currency.

An IFASS participant noted that the distinction between law and regulations and contractual provisions may turn out rather artificial because, eventually, many conditions coming from laws result from an agreement of two parties to the contract, while the law is about the enforceability of a given legal framework. He referred to Germany as an example of a jurisdiction where many laws and regulations could be overruled by individual shareholder agreements.

Item 13C. Financial reporting parallel stream - IFRS 19 *Subsidiaries without Public Accountability*

The session moderated by Carolyn Cordery (XRB) consisted of presentations by Seema Jamil-O'Neill (UKEB), Carolyn Cordery (XRB) and Helena Simkova (AASB) followed by break-out group discussions and a report back thereafter. The objective of the session was to highlight the status of implementing IFRS 19 in the UK, New Zealand and Australia and the effects on eligible entities, and to also obtain related perspectives from other jurisdictions. The breakout discussion focused on getting IFASS members' feedback on the challenges faced in their jurisdictions, the users, the scope, the initial implementation plan, and the appetite for multiple frameworks for companies without public accountability.

UKEB Presentation

Seema Jamil-O'Neill outlined UKEB's preliminary views on the endorsement of the forthcoming Standard IFRS 19. The UKEB was considering formal adoption of the Standard. She gave an overview of the UK corporate reporting framework.

The scope of the UK's existing reduced disclosure framework, FRS 101 *Reduced Disclosure Framework*, was not limited to subsidiaries without public accountability in the UK. For example, unlike for IFRS 19, parent entities were permitted to use the reduced disclosure framework for their separate financial statements.

In UKEB's view, the companies which would use IFRS 19 were UK subsidiaries of overseas-listed companies already using IFRS and UK groups with overseas subsidiaries. Some UK groups were likely to move their UK subsidiaries to IFRS 19 to have the same framework for all the subsidiaries. Regarding the expected benefits of IFRS 19 in the UK, the Standard would simplify the reporting process, ensure that subsidiaries' financial statements were focused on their users, and increase the application of IFRS Standards.

UKEB concluded that the costs of transition to IFRS 19 in the UK were dependent on the Accounting Standards used by an entity. 14,000 companies in the UK were not publicly listed but used IFRS; for these companies, transition costs would be low. Companies moving from FRS 101 might face moderate costs, especially as IFRS 19 requires more disclosure than that required by FRS 101. If private companies in the UK were to move from FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, the full UK reporting framework, there were likely to be significant costs arising from recognition and measurement differences. Overseas subsidiaries moving from other local GAAP were also likely to face potentially significant transition costs.

Stakeholders expected UKEB to formally adopt IFRS 19, but several potential issues were raised, notably in relation to interactions with the UK Companies Act. The Act exempted intermediary companies from preparing group accounts, regardless of whether their parent entity was situated in the UK or overseas. It was unclear whether these entities would be able to use IFRS 19. Finally, the UK Companies Act had its own definition of a public interest entity. The interaction of the UK PIE definition and public accountability definition in IFRS 19 would be a significant challenge. As the IFRS Standard was elective, change to the legislation was difficult to justify.

UKEB's endorsement framework was similar to the EU one. UKEB would begin addressing some of these issues, in particular the Company Act issue, and respond to the IASB on the catch-up ED. The aim was to adopt the Standard by the implementation date.

<u>XRB Presentation</u>

Carolyn Cordery explained that New Zealand already had a reduced disclosure framework that was like IFRS 19 but had different eligibility criteria. In New Zealand, publicly accountable for-profit entities were required to use IFRS. Large entities that were not publicly accountable were defined as Tier 2. They did not have recognition or measurement reductions, but they did have reductions in their disclosures.

There were several options available to the XRB to decide how to reduce disclosures considering that Tier 2 is broader than subsidiaries without public accountability and that has been based on IFRS for SMEs so far.

- First option: choose not to adopt IFRS 19, but to use it as input into decision-making on future disclosure concessions on Tier 2. This option would impact preparers the least, but it would leave New Zealand unaligned internationally.
- Second option: the XRB could adopt IFRS 19 only for subsidiaries, continuing to maintain its own Tier 2 system with a reduced disclosure regime. In this case, New Zealand would be internationally aligned but users might be confused and there would be a cost to maintaining two different frameworks.
- The third option: adopt IFRS 19 and expand the scope. Users would have to move to one Standard. This would leave New Zealand well aligned internationally except that they expand the scope. This option would be costly although IFRS 19 and Tier 2 are quite similar.

The XRB had decided to recommend replacing its reduced disclosure regime with IFRS 19 and extending the scope to be applicable for all Tier 2 entities (i.e., the third option). Constituents would need to be persuaded that a single checklist is the answer. It might be necessary to adapt the Standard for public sector entities.

AASB Presentation

Helena Simkova outlined the current reporting structure in Australia, which also has two tiers. Tier 1 entities reported under IFRS, while Tier 2 entities could choose to either report under full IFRS or under the domestic Standard, which included simplified disclosures. When the AASB had created its own Standard, AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*, IFRS for SMEs had been used as a baseline, but all recognition and measurement from full IFRS had been retained. The domestic Standard in Australia appeared to have fewer disclosures than IFRS 19. The AASB was still considering possible options for IFRS 19 adoption similar to the three options considered by New Zealand. The AASB was awaiting the completion of the IFRS for SMEs project and the post-implementation review of AASB 1060.

The main benefit of AASB 1060 is its broader scope. AASB 1060 applies to both not-for-profit and for-profit entities. It is a standalone Standard that includes recognition and measurement in a consistent manner with full IFRS. It also provides comparability of Tier 2 entities' financial statements. If IFRS 19 were to be adopted on a voluntary basis alongside AASB 1060, comparability would be impaired. AASB's stakeholders showed little appetite for two Standards for Tier 2 entities, it would become too complex and costly for small entities. AASB 1060 was viewed as being simpler and more user-friendly.

However, technical accountants from global firms prioritised global alignment with other jurisdictions, so they favoured the adoption of IFRS 19.

Breakout discussions

There were three breakout discussion groups led by Helena Simkova, Seema Jamil-O'Neill and Carolyn Cordery that covered the following themes.

Challenges and implementation support

Helena Simkova led the discussion and presented the feedback from the group *discussing the biggest challenge faced by jurisdictions in adopting IFRS 19 and the plan to support the initial implementation as companies transition to IFRS 19*. She highlighted the following challenges:

- Some jurisdictions without a reduced disclosure framework would lose information by moving away from full IFRS, for example, social activists, who were focused on disclosures on related parties.
- In some jurisdictions, audit firms were already accustomed to using multiple frameworks without issue. Preparers might only need to become accustomed to using the new format of IFRS 19. One challenge was to be able to explain the reason for changing from a domestic Standard that provided similar results to IFRS 19.

On the plan to support the initial implementation of IFRS 19, Helena Simkova stated that, if IFRS 19 existed alongside domestic Standards, it would be necessary to issue guidance to help preparers understand which Standard best fitted the entities. One jurisdiction also considered it appropriate to explain the reasons for this Standard so that users and preparers do not misinterpret it.

Who are the users? What is the related outreach plan?

Seema Jamil-O'Neill presented the feedback from the group discussion *on who were the users and the plan to obtain feedback from these users*. She highlighted the following views expressed:

- There were differences across jurisdictions on who were considered the users of these accounts. In Japan, subsidiaries could not apply IFRS at all; in Korea, entities were using IFRS, but the current expectation was that subsidiaries would not wish to use IFRS 19. In France, IFRS was not permitted for unlisted companies, but the interest aroused by IFRS 19 in a growing number of European jurisdictions is prompting further reflection on the subject. The tax authorities would be a significant stakeholder, as local GAAP requirements were directly linked to tax regulation. In Italy, listed companies already applied IFRS, and many other companies, especially subsidiaries, were applying IFRS voluntarily, approximately 2700 companies altogether. Italy was considering the definition of PIEs and the requirements in the accounting directive on minimum disclosures for subsidiaries. In Canada, standalone companies did not produce accounts unless required by lenders.
- The main users of these accounts were likely to be creditors.
- Overall, companies might want to apply IFRS 19 to escape rigorous requirements under local GAAP.

<u>Appetite for multiple frameworks? If IFRS 19 scope change has been considered</u>

Carolyn Cordery presented the feedback from the discussion focusing on the question of *whether there was an appetite for multiple frameworks for companies without public accountability. And whether they (jurisdictional national standard setters) are considering changing the scope of IFRS 19 and the associated challenges of doing so*. She highlighted the following views expressed:

- There were significant jurisdictional differences in the views on these questions. New Zealand did not have local GAAP, but many countries had local GAAP similar to IFRS. In Canada, there was little appetite for multiple frameworks.
- Regarding public accountability and PIEs, it had been noted that, if the scope of IFRS 19 was limited, it was still possible to comply with IFRS. On the other hand, if the scope of IFRS 19 was broadened, it would be impossible to claim that IFRS was being used.

<u>Reactions to breakout feedback</u>

Carolyn Cordery indicated that she was intrigued that the report back from Helena and Seema referred to concerns about a loss of information and she asked why a shift from full IFRS to IFRS 19 would lead to that situation. She assumed that if companies did not have public accountability, they should not be using full IFRS unless as part of a consolidation pack for parent entities. In response, Helena Simkova noted that some public entities had recently begun using domestic Standards. Seema Jamil-O'Neill stated that, in other jurisdictions, lenders or tax authorities relied on GAAP to make calculations. In the UK, where there was a reduced disclosure framework the tax authorities referred to and then added to local requirements. Lenders could also request further information.

An IFASS participant remarked that there should not be any challenges with adoption in jurisdictions where there is a legal framework for applying IFRS. As IFRS 19 had fewer disclosure requirements, it might make IFRS more attractive for preparers. However, if the adoption of IFRS 19 impacted the jurisdictional legal frameworks, then that is a separate matter unrelated to the technical content of the Standard.

Regarding the scope, he observed that entities may face a shift in their legal setup and it would have been preferable if the IASB had used a neutral label defining the characteristics of a group. As the scope is defined, it gives rise to unnecessary discussion on the topic. In effect, there are two debates: a technical one but also a political one about the Standard's attractiveness and scope.

Item 13D. Sustainability reporting parallel stream - ISSB update on agenda and workplan

In this session, Sue Lloyd (ISSB) gave an overview of the outcomes of the 2023 ISSB agenda consultation as well as an update on the ISSB workplan.

Feedback received on future ISSB workplan: Sue Lloyd summarised the ISSB's recent activities and strategic priorities. In 2023, to help shape the ISSB's future workplan, the ISSB requested feedback on its strategic direction, prioritisation criteria, and potential new projects. The ISSB feedback included 70 responses from investors. Key themes in the feedback included the need for more information on ISSB Standards, the importance of interoperability, and balancing timelines for new projects versus supporting existing standards.

Discussions at the Joint ISSB - IASB meeting: In January 2024, the ISSB and IASB held their first joint meeting and discussed the 'integration in reporting' project. While many board members agreed on the importance of integrating financial statements and sustainability reporting, the consensus was that a focus on standard setting for sustainability topics takes precedence. However, the chairs of the IASB and the ISSB are still encouraging companies to use the integrated reporting framework to communicate with investors.

At the joint meeting, the two Boards also discussed connectivity. The goal was to note the distinction between integration in reporting, a specific project, and connectivity, a more general concept underpinning the work of the ISSB and IASB. Even if the ISSB decided not to pursue the 'integration in reporting' project, connectivity would continue to be important and was embedded into the work of the two Boards.

ISSB decisions on its future work plan: In February 2024, the ISSB reviewed and agreed on the criteria for selecting new projects, and they emphasised the need for interoperability with standards from EFRAG and GRI as a criterion. In March 2024, the ISSB decided to focus on supporting the implementation of IFRS S1 and IFRS S2, enhancing the SASB Standards, and initiating new research projects on biodiversity, ecosystems and ecosystem services (BEES) and human capital.

Enhancing and maintaining the SASB standards: The ISSB prioritised updating the SASB Standards to meet investor needs for detailed sustainability information. This update aimed to improve the relevance and utility of these industry-specific standards, which had not been updated for several years.

In the next few months, the ISSB is considering which industry-specific disclosures are relevant to the themes of its two upcoming projects (BEES and human capital), as well as whether particular industries or sectors should be prioritised. When deciding which industry-based standards to enhance, there are three sources of input: projects inherited from the SASB that are already at an advanced stage (such as alternative products in the food sector, content governance in internet media, and single-use plastics in the chemicals industry); priority industries identified through stakeholder consultations; and projects arising from the need to facilitate interoperability with other frameworks.

First priority-implementation and adoption of IFRS S1 and IFRS S2: Supporting the implementation of IFRS S1 and IFRS S2 was identified as the ISSB's primary goal for 2024. This included producing educational materials and updating the SASB taxonomy. A transition implementation group was established to address technical matters and ensure consistent global reporting. In addition, there is an initiative to consider the adoption of ISSB Standards both from a regulatory and market perspective. The adoption of IFRS S1 and IFRS S2 would help companies attract capital. Even those using ESRS might choose to use ISSB Standards to communicate to investors and facilitate international comparability.

Interoperability: The ISSB emphasised the importance of interoperability with other frameworks and the development of a navigation tool to align ESRS and ISSB Standards. They also highlighted the alignment of emissions disclosures between GRI Standards and ISSB Standards. Educational materials were being prepared to support various aspects of climate and sustainability reporting.

Audience *Q&A* on ISSB update on agenda and workplan

An IFASS participant asked about the flexibility in building upon IFRS S1 and IFRS S2. Sue Lloyd noted that jurisdictions would introduce the standards in a way that takes into account jurisdictional considerations.

An IFASS participant inquired about the practicability of calculating quantitative metrics at the value-chain level. Sue Lloyd responded that material information should be faithfully captured without the need for exhaustive details. Comprehensive consultations would address practical challenges.

An IFASS participant asked about the coverage of human rights issues in the standards. Sue Lloyd clarified that the focus would be on relevant aspects of human capital and human rights, such as workforce diversity, engagement with Indigenous communities, and supply chain protections.

Concerns were raised about reporting on sensitive political issues. Sue Lloyd stated that reporting should only include situations affecting an entity's prospects and influencing investment decisions, dependent on the entity's circumstances.

An IFASS participant asked about EFRAG's use of SASB Standards in developing its sector-specific standards. Chiara Del Prete confirmed that SASB Standards are a key reference point, supplemented by GRI Standards and industry best practices. She agreed that collaboration with the ISSB would be beneficial.

Item 13E. Sustainability reporting parallel stream - Nature disclosures

The presentations were moderated by Chiara Del Prete (EFRAG), and the presenters were Alessandra Melis (TNFD), Jong Dae Kim (Inha University and SDG institute) and Patricia Moles (CINIF). The following thematic areas were addressed.

The TNFD recommendations and additional guidance

Alessandra Melis set the scene on the need for a framework on nature-related issues. She emphasised that risks that extend beyond climate change are becoming central financial risk management concerns.

Alessandra Melis presented the diverse tools and frameworks that companies could use to assess nature-related risks. She explained that the TNFD aimed to support a shift in global financial flows towards nature-positive outcomes. The TNFD had developed disclosure recommendations and guidance to encourage the identification, assessment, management, and reporting of nature-related issues. The TNFD framework is built on the work of the TCFD, ensuring consistency of tools and standards due to important partnerships and interoperability.

Alessandra Melis presented the flexible materiality approach of TNFD, meaning that the framework could be applied by companies using a financial materiality approach or a double materiality approach. In September 2023, TNFD published its final set of recommendations and additional guidance, Including, among others, the LEAP approach, scenario analysis and sector guidance.

The final set of TNFD recommendations build on the TCFD's four disclosure pillars and embeds the 11 disclosure recommendations with a nature lens. There are three additional, nature-specific disclosure recommendations, fully aligned with Target 15 of the global biodiversity framework. TNFD also requires disclosing some core, sector-agnostic, metrics indicators to be disclosed on a 'comply or explain' basis.

Alessandra Melis detailed the LEAP approach, a guidance on the identification and management of reporting nature-related issues and a practical approach also referenced in ESRS. In January 2024, the first list of TNFD adopters was announced: 320 companies, financial institutions, and market service providers.

Alessandra Melis presented the priorities of TNFD for 2024 which were to publish finalised guidance for eight sectors; a joint publication with EFRAG on a correspondence table and mapping between the TNFD and ESRS, and a joint mapping and additional guidance on impact materiality with GRI. Technical deliverables for 2024 also included capacity building, nature transition plans and targets, and the launch of new data initiatives.

<u>Biodiversity Disclosure Landscape in Korea</u>

Jong Dae Kim presented the preliminary findings of a research project on the biodiversity disclosure landscape in Korea. He noted that many Korean companies lacked awareness of biodiversity issues and that biodiversity reporting is likely to be required globally in the near future. The study aimed to provide both quantitative and qualitative analysis so that the KSSB could understand the readiness of domestic companies and find a way to best support them.

Objective and scope of study: Jong Dae Kim addressed the objective and scope of the study consisting of a quantitative analysis and qualitative analysis.

- *Quantitative Analysis:* The quantitative analysis was done on the sustainability reports of large companies in Korea (169 companies), focusing on biodiversity and nature-related disclosures, with a focus on companies with total assets of over 2 trillion Korean won. Jong Dae Kim observed that Korean companies have been slow to adopt the TNFD and only five Korean companies are among the TNFD early adopters

- The quantitative analysis included biodiversity-related keywords (biodiversity, natural capital, ecosystem and marine), activities, standards frameworks, and initiatives. Biodiversity-related activities include environmental impact assessments, ecosystem monitoring, habitat restoration and protection, and nature-related R&D. The study also analysed whether the activities mentioned in the sustainability reports were value-chain or philanthropic activities, whether the LEAP approach had been applied and reporting standards related to biodiversity.
- *Qualitative Analysis*: This would focus on leading Korean companies that are impacted by biodiversity issues.

Findings of the study: Jong Dae Kim presented the following findings of the keyword analysis in the quantitative analysis of companies:

- 144 companies mentioned biodiversity; 21 mentioned natural capital; 129 mentioned the ecosystem; 72 mentioned marine.
- 45 out of 169 mentioned performing an environmental impact analysis; 63 monitored nature-related performance; 123 mentioned habitat restoration and protection; and 11 mentioned nature-related R&D activities. Eight of 20 companies applying the TNFD framework were applying the LEAP approach, with only two having substantial sustainability reports that followed the TNFD framework.
- Only 20% of companies engaged in value-chain activities such as monitoring marine life and aquatic ecosystems.

Jong Dae Kim also addressed the approach to be taken for the qualitative analysis. Interviews would focus on the application of TNFD recommendations, current disclosure practices, plans to enhance disclosure readiness, the commitment of executives and boards, awareness of the potential business impact of biodiversity-related issues, and barriers to biodiversity disclosures.

Overall, the findings suggested that companies were reactive rather than proactive primarily due to uncertainty. Companies underestimate the importance of biodiversity and need external expertise.

In response to the presentation, Chiara Del Prete noted that, as opposed to climate, biodiversity was a more sector-dependent issue. Jong Dae Kim agreed that a sectoral approach was more appropriate, focusing on the industries with the most significant impact on nature.

Nature-related disclosures: Mexican Sustainability Reporting Strategy For SMEs

Patricia Moles presented the sustainability reporting strategy for SMEs in Mexico. CINIF's objective is to align with IFRS Standards, albeit with adaptations to specific local needs. She highlighted that Mexico is vulnerable to impacts on ecosystem services and the economy is dependent on goods extracted from natural capital, and these have been made scarcer and volatile due to environmental degradation. She explained that the cost of depletion and environmental degradation in 2022 is 4.1% of the Mexican GDP. Natural capital was at risk in nine Mexican states, with a high probability of reaching unsustainable levels. 11 states had almost exhausted their natural capital.

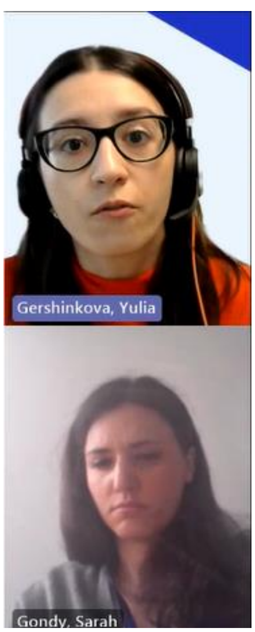
Patricia Moles presented the Bank of Mexico's report analysis about the dependencies and impacts of the Mexican banking sector. The report identified industries with a high exposure and dependency on ecosystem services. She underscored the necessity of helping economic entities understand their level of exposure to these risks and the extent to which their business continuity was under threat. She noted that, currently, there is a low level of sustainability disclosure among Mexican companies and little understanding of biodiversity. Investors have limited information about the company locations and activities, causing little capacity to undertake materiality assessments. CINIF has focused on understanding exposure to water stress and the proximity of entities to biodiversity-sensitive areas.

She gave details of the CINIF standard which divided Mexican companies into public interest entities (PIEs), which required extensive disclosures of material sustainability risks, and non-public interest companies requiring reduced disclosures. CINIF's strategy was to begin with the metrics for PIEs to report. Once companies begin reporting, they would be able to make materiality assessments. There would be a set of sustainability reporting standards for PIEs, pending confirmation from regulators on the reporting obligations of listed companies and financial institutions. For non-PIEs, CINIF will begin working on limited climate disclosures in 2026, followed by disclosures on topics such as water or environmental services. She highlighted that CINIF's approach is consistent with the IFRS S1 and S2 and by providing core indicators, CINIF enables non-PIEs to understand their biodiversity impact, dependencies, and how to maintain operational viability.

Item 13F. Sustainability reporting parallel stream - Social disclosures

This session consisted of a presentation by Sarah Gondy and Yulia Gershinkova (International Labour Organisation- ILO) and thereafter Fredre Ferreira (EFRAG) moderated a panel discussion involving Charles-Antoine St-Jean (Canadian Sustainability Standards Board-CSSB) and Professor Bong Chul Kim (Hankuk University of Foreign Studies-Korea).

<u>ILO Presentation- Responsible business conduct for a just transition</u>



To contextualise the problem and make the case for a just transition, Sarah Gondy shared several poignant statistics highlighting the associated potential threats including a possible loss of 80 million jobs by 2030 due to heat stress; workers facing increased injury, diseases, and death; and up to 260 million people that could migrate by 2050 due to the planetary crisis.

Sarah Gondy presented the ILO Just Transition Guidelines that put forward policy entry points to promote a just transition. The ILO refers to Just transition as *the promotion of environmentally sustainable economies in a way that is fair and inclusive to everyone concerned and that by creating decent work opportunities, no one is left behind. This applies to all countries, levels of development and economic sectors, and needs tailoring to the specificities and complexities of each country*. The ILO Just Transition Guidelines were endorsed in 2023 by the governments, employers and workers representatives of the 187 Member States of the ILO and constitute the main international framework on the topic. The guidelines inter alia reaffirm the role of the private sector when promoting a Just Transition and call for the development of sustainable transition plans at the enterprise level.

Yulia Gershinkova presented the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (the MNE Declaration), which provides guidance to governments, employers' and workers' organizations as well as enterprises on social policy and inclusive, responsible, sustainable workplace practices. The MNE Declaration promotes policy coherence and calls on all parties to promote respect for the fundamental principles and rights at work and puts social dialogue at the centre of policy and decision-making.

Yulia Gershinkova detailed the content of the MNE Declaration and its relevance in a just transition context. She unpacked how the guidance of the MNE Declaration covering general policies, employment, training, occupational safety and health at work, and industrial relations, can help to maximise the social and economic opportunities of climate action, while minimizing and carefully managing any challenges.

She also highlighted the ILO's increasing work to provide guidance for companies on Just Transition (e.g., through the ILO Helpdesk). Notably, the ILO has developed tools for the financial sector on financial strategies, methodologies, and toolkits to achieve the Just Transition, and to ensure that Just Transition considerations are integrated into financial and investment decisions.

Panel discussion on social disclosures: Perspectives from Canada and Korea

Fredré Ferreira asked Charles-Antoine St-Jean about the Canadian experience on Just Transition, Indigenous Peoples and the exposure drafts of their sustainability reporting standards, available for public consultation until June 2024.

Charles-Antoine St-Jean noted that unfortunately, indigenous peoples in Canada have been left behind in the country's development. He explained that after the truth and reconciliation mission of the last decade, the Canadian approach has changed to ensure that the indigenous people are included in the transition and part of the solution. He stressed that this is both the right thing to do and important from an economic perspective in Canada, where major infrastructure projects can no longer be developed without including indigenous people in the decision-making.

Charles-Antoine St-Jean noted that the energy sector in Canada employs roughly 600,000 people out of a 20 million people workforce and that it is projected that 50-75% of the current jobs will disappear with the transition. He explained that this will be a complex challenge especially due to new employment opportunities being created in different geographical regions to where the jobs are located now. He highlighted that this extends to the effort to retrain employees for new jobs, and makes it more complex to work in the energy sector. He explained that companies must disclose how they will deal with the issue of displacement of employment in Canada and relocate employees to new energy forms and geographically.

Charles-Antoine St-Jean stated that SMEs will play a role in future standard setting. This will be discussed with the Canadian stakeholders in the coming months. Since 98% of the Canadian economy is SME-based, stakeholders are anxious to see the approach since they fear being left behind if they cannot comply with the requirements of large companies. An additional challenge is that multiple governments are asking for SMEs to disclose on different topics resulting in a multiplicity of demand for information and added bureaucracy that can put their business at risk. Charles-Antoine St-Jean concluded that the CSSB will investigate how they can work to ensure that SMEs are part of the supply chain instead of drowning under it. He mentioned that CSSB will review the exposure drafts of the voluntary SME standard of Europe in the working process.

Fredré Ferreira asked Bong-Chul Kim for the Korean perspective on Just Transition.

Bong-Chul Kim explained how sustainability reporting and public policy in Korea are influenced by trading partners. He stated that Korea has a long way to go in terms of Just Transition and that the Korean government had focused on nature, climate change and Greenhouse gas (GHG) emissions rather than social sustainability, which is an area that demands future work.

Bong-Chul Kim mentioned that the Korean government signed a Free Trade Agreement (FTA) with the EU in 2010 which includes a commitment on trade and sustainability, and it is the first of its kind for Korea. In the 2010s, Korea viewed the agreement as a 'soft' rule and while the Korean government had promised the EU to join certain ILO agreements, they failed to do so until 2021, after the EU had taken legal action. He explained that the EU's agreements with different countries are now based on the rules included in the Korea and EU FTA, making it a textbook for trade partners. Professor Bong-Chul Kim argued that the FTA should provide Korean society with the inspiration to fulfil certain requirements but concluded that there is still a long way to go.

Regarding Korean examples of dealing with sustainability reporting, Professor Bong-Chul Kim noted that 85% of the Korean economy is dependent on trade, so when the international society sets a good standard, Korean companies are dependent on following suit. However, while big companies can manage to follow, it poses a challenge for SMEs. Professor Bong-Chul Kim concluded by stating his hope that Korean companies will be able to face the challenge.

Day 3: 19 April 2024

Item 14. Introduction and Way Forward

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

To contextualise the way forward, Chiara Del Prete presented the survey results related to the September 2023 meeting. Respondents to the survey agreed that, for that meeting, there had been a balanced participation of jurisdictions, a balanced agenda and good use of the facilities and technology but stated that improvements were needed to minimise speakers that had been at both WSS and IFASS. Additionally, the papers had been sent late and more interactive sessions were needed.

Chiara Del Prete noted that in response to the feedback, the April 2024 IFASS meeting had implemented a balance between SR and FR topics. Moreover, portions of different days were dedicated to either SR or FR and parallel sessions were introduced. To maximise IFASS participant interaction, she pointed to the continued use of polling questions, and a systematic Q&A after every presentation. Chiara Del Prete also suggested ways in which the IASB and ISSB representatives could optimally contribute to the breakout discussions of IFASS participants without necessarily taking centre stage.

Through the use of polling questions, Chiara Del Prete got IFASS participants' preferences for the structure of future meetings. She gathered views on the following aspects:

- *On the question of the appropriate balance between FR and SR*, 56% of attendees were in favour of a 50/50 split, but a significant proportion (44%) wanted a prevalence of FR topics. An IFASS participant suggested that there could be a different number of topics for SR and FR and that the urgency of issues should dictate the balance. Based on the feedback, Chiara Del Prete indicated that the meetings will continue to be planned based on a 50/50 split and she acknowledged that many participants would have preferred a greater focus on FR topics.

- *Top five FR priority topics for the next two meetings*: These were intangible assets, power purchase agreements, pollutant pricing mechanisms, amortised cost measurement and statement of cash flows and related matters.
- *Top five SR priority topics for the next two meetings*: These were a jurisdictional guide to adopt ISSB and interoperability, implementing climate disclosure of IFRS S2, social topical standards, and nature topical standards.
- *Top three cross-cutting priority topics*: These were connectivity between FR and SR, digital reporting, and integrated reporting.
- *Joint projects:* Promoting joint projects and cooperation between IFASS participants was considered important. Chiara Del Prete encouraged members to reach out to the IFASS Secretariat to facilitate joint projects and cooperation between IFASS members.
- *NSS versus IASB-ISSB topics*: 86% of participants agreed that there was a good balance in the current IFASS agenda between national standard setter topics of interest and IASB-ISSB topics.
- *Detailed technical discussions versus high-level updates:* 54% of participants advocated for a more detailed technical update and discussions of topics in the sessions, but 46% preferred the high-level update and discussions which mostly took place currently.

Item 15. PIR IFRS 16 *Leases* - Jurisdictional perspectives

A panel discussion sharing jurisdictional perspectives in preparation for the PIR of IFRS 16 ("the Standard") was moderated by Katharine Christopoulos (AcSB) and the panellists were Huaxin Xu (CASC); Nami Yamaguchi from the Accounting Standards Board of Japan (ASBJ); and Pierre Martin (ANC). Responses to polling questions during the session can be accessed here.

Q1: What is your overall assessment of IFRS 16? Do you consider that it is working as intended and has achieved its objective? Has the Standard improved the relevance of the information provided about lease transactions?

Huaxin Xu stated that Chinese accounting standards had been continuously and fully converged with IFRS Accounting Standards since 2006. Stakeholders' feedback, i.e., mainly from retailers and airline companies, conveyed that IFRS 16 provided more useful and transparent information, improved internal controls and enhanced the cooperation between accounting and business functions among entities. The criticisms of the previous accounting model for leases (e.g., the distinction between operating and finance leases for lessees) were mostly addressed, and IFRS 16 generally achieved its intended objective. However, the implementation cost for fulfilling certain requirements under IFRS 16 was high, especially due to the high level of judgment required for identifying a lease contract, determining the lease term and the discount rate, and accounting for contract modifications.

Nami Yamaguchi stated that the ASBJ is currently undertaking a project[8] to revise its existing accounting standard under Japanese GAAP in order to align it with IFRS 16. The ASBJ generally agreed that IFRS 16 improved the relevance of the information about lease transactions, but there was room for improvement, and this led the ASBJ to consider some alternative treatments under Japanese GAAP.

Pierre Martin reported that in the preliminary feedback received so far, French constituents highlighted the following aspects: the high level of sophistication of the Standard that was challenging for some entities with limited technical expertise, the high cost of implementation and maintenance, and questions about the relevance of aspects of the Standard that are detailed later in this report. In addition, although the IFRS 16 objective to reduce the structuring opportunities of lease contracts had largely been achieved; some stakeholders observed that the debate had shifted from the distinction between operating and finance leases to that between leases and service contracts.

Katharine Christopoulos stated that from the feedback the AcSB had gotten so far, IFRS 16 provided more relevant information about lease transactions. Some challenges remained such as whether IFRS 16 faithfully represented lease transactions in certain circumstances. Positive feedback had also been received on illustrative examples, particularly about the assessment between a service and a lease contract.

Q2: What are the preliminary application challenges in your jurisdiction, including any challenges regarding applying IFRS 16 with other IFRS Accounting Standards? Any suggested solutions for these issues?

The panellists presented the following IFRS 16 application challenges:

- *Determining the lease term*: Preparers in the panellists' jurisdictions had expressed concerns about the application of the reasonably certain threshold in IFRS 16**.** Nami Yamaguchi noted that suggested solutions varied from ignoring the period covered by the extension option to providing application guidance or illustrative examples that would help companies assess whether exercising their option was reasonably certain.
- *Requirements for sale and leaseback transactions*: These requirements were considered complex, and questions were raised about their consistency with IFRS 15. There was a question of whether the initial transfer of an asset by the seller-lessee meets the definition of a sale under IFRS 15. Furthermore, from the seller-lessee's perspective, the initial measurement of the right-of-use (ROU) asset, the timing of the recognition of gain or loss, and the treatment of variable lease payments differ from the IFRS 16 general model and other IFRS Accounting Standards.

  Nami Yamaguchi suggested a clarification that the requirements for sale and leaseback transactions did not apply when the seller-lessee provided a construction service to the buyer-lessor and recognised revenue over time. This was because the sold asset was not the same as the leased back asset.
- *Principal versus agent (PA) consideration*: Lack of related guidance in IFRS 16 had led some stakeholders to apply the IFRS 15 PA-related guidance by analogy. Nami Yamaguchi noted

[8] Topic 842 under US GAAP had been considered. An exposure draft (ED) had been issued in 2023.

that for some pass-through lease contracts, in the ASBJ's view, the IASB should consider developing related requirements.

- *Distinction between lease and in-substance purchase of assets*: When drafting IFRS 16, the IASB decided to not include specific related guidance. However, it was noted that the need for this distinction might still arise for a lease contract whose term covered the entirety of the useful life of the asset.
- *Lack of guidance on non-monetary considerations:* This arises, for example, when the lessee makes few (or none) payments over the term of the lease for a land where the lessee constructed a building, which will be then transferred to the lessor once construction is completed.
- *Recognition exemption for low-value asset leases*: Some stakeholders would prefer removing the reference to a specific threshold ($5,000) and leaving the assessment to the discretion of the entity.
- *Unit of account*: In the context of lease modifications, it is unclear whether either a 'contract as a whole' or multiple lease components have to be considered (e.g. when an entity is renting multiple office spaces or floors within the same building).
- *Determining the incremental borrowing rate (*or IBR): Feedback received suggested the IASB should reconsider the cost-benefit arising from the application of such a discount rate since it might not be helpful from a user's perspective.
- *Determination of the appropriate ROU asset depreciation period:* This issue arose when the lease payments included both fixed and variable payments, with the latter not included in the initial measurement of the ROU. If the ROU is depreciated over the whole lease term (i.e., including the period on which lease payments are only variable) then the depreciation method would not reflect the pattern in which the asset's future economic benefits were expected to be consumed by the lessee.
- *Accounting for expenditures incurred before the leased assets became operational:* There is a lack of clarity on the accounting for these expenditures.
- *Accounting for leases with non-consecutive lease periods*: when the lessee has the right to use an identified asset for some non-consecutive shorter periods within a longer contract period there is a lack of clarity on the determination of the lease term, the depreciation period of the ROU asset and the period over which the interest expenses on lease liability should be recognised. Applying the longer contract period rather than the accumulated period of non-consecutive use may not faithfully represent the actual period for which the lessee has the right to use the leased asset.
- *Lessor accounting issues*: Huaxin Xu pointed to the following lessor application issues flagged by Chinese stakeholders a) the lessor treatment of finance income (when net investment is credit impaired) can be inconsistent with IFRS 9's impairment requirements; and b) there is a lack of clarity on the accounting for any subsequent changes in future cash flows resulting from a change of an index or a rate.
- *Interaction with other IFRS Standards*: The panellists highlighted the following application issues arising from the interaction between IFRS 16 and other IFRS Accounting Standards (i.e. IAS 36, IAS 37, IAS 40 *Investment Property*, IFRS 9, and IFRS 15).

Q3: Are there particular industries that are affected by applying IFRS 16 and are there any specific issues that the IASB needs to consider?

Nami Yamaguchi stated that in Japan the most affected industries are the real estate and retail industries which have a significant volume of property lease arrangements and for which the majority of the highlighted application issues relate. For example, a lot of discussions were needed to determine the lease term for the land lease arrangements for flagship stores which are located in a prime area in Tokyo. There were also challenges in determining how to apply sale and leaseback requirements, and the principle versus agent consideration as well, to transactions where the seller-lessee provides construction service to the buyer-lessor and recognizes its revenue overtime and then the seller-lessee leases the completed building back.

Huaxin Xu noted that stakeholder feedback in his jurisdiction showed that lease transactions are very common in the airline, retailer, transport, travel and telecommunications industries. Entities in those industries had been significantly affected by IFRS 16 and the new Chinese accounting standard as well. Stakeholder operating in the retail industry expressed several concerns about current IFRS 16 requirements including their high complexity, the increased associated accounting and auditing costs, impact on credit rating, front-loading of expenses in a manner that misrepresents profitability margins, distortions in cash outflows from operating and financing activities, and a divergence with tax accounting.

<u>Q4: What is the view of users of financial statements in your jurisdiction? Has the information about lease transactions improved overall? What information do users find most useful and how does that help their analysis? Has the introduction of IFRS 16 hindered users' analysis in some way and is there any information about lease transactions that could be improved?</u>

Pierre Martin shared the feedback collected from the French Society of Financial Analysts (SFAF) and the French Society of Appraisers (SFEV) where the users conveyed the following a) IFRS 16 was too sophisticated and difficult to understand; b) it contributed to the lack of comparability in entities' performance and this was mainly due to the application of different discount rates; and c) there was reduced relevance of some indicators (e.g., earnings before interest, taxes, depreciation and amortisation - EBITDA), and increased difficulty in assessing entities' debt levels.

Katharine Christopoulos echoed the French users' concerns. She observed that Canadian users considered that IFRS 16 did not faithfully represent lease transactions in certain circumstances. For example, for office-based leases, if the entity does not want to buy a floor or the entire building, showing rent expenses would better reflect the economics of that transaction. Users would desire some operating costs to be reflected in EBITDA to reflect the regular running of the business. Canadian users had also expressed difficulty in coming up with a similar base when calculating EBITDA and they suggested the IASB should reinstate the commitment disclosure note to reflect the pure rent expenses. In the view of Canadian users, there is a difference between renting office space and renting an aeroplane.

Both Pierre Martin and Katharine Christopoulos indicated that users struggle to reconcile or compare IFRS and US GAAP adopters' financial statements.

In addition, even if an increased amount of sub-leasing had been seen with employees working from home during and after the pandemic, Canadian users questioned the limited use or absence of impairment losses under IAS 36.

<u>Q5: Are alternative performance measures to adjust for/unwind the impact of IFRS 16 in the financial statements (statement of financial position, statement of financial performance or statement of cash flows) common in your jurisdiction? If so, which industries? Do these adjusted measures provide users with more useful information? Are there types of users that find these adjusted measures more useful than other types of users?</u>

Pierre Martin presented an analysis based on data gathered from an Autorité des Marchés Financiers (AMF) review of CAC40 entities' 2023 financial statements. This analysis showed how IFRS 16 impacts were incorporated into the calculation of some alternative performance measures (APMs) such as Free Cash Flow. And a mixed picture about the effects of IFRS 16 on APMs emerged showing that it depends on the sector and extent of use of leases.

Specifically, the findings showed that 20 out of 40 issuers calculated free operating cash flow on a post-IFRS 16 basis (i.e. Free Cash Flow excluding principal lease payments), 12 out of 40 issuers calculated free operating cash flow on a pre-IFRS 16 basis (i.e. Free Cash Flow reduced by principal and interest lease payments), 1 issuer (from the retail sector) calculated this APM under both Pre- and post-IFRS 16 basis and the remaining issuers (mainly financial institutions) did not use this APM.

Furthermore, analysing the issuers' industry the study showed that those entities heavily relying on leases applied a pre-IFRS 16 basis (e.g., luxury, building construction & retail and communication, media & advertising). Conversely, more capital-intensive industries (e.g., aerospace & defence, energy, oil & gas and automotive) tend to calculate Free Cash Flow on a post-IFRS 16 basis.

Audience Q&A on PIR IFRS 16

An IFASS participant observed that an issue that arose in the Netherlands was around renewable energy investments that may contain leases, but the lease payments were often dependent on wind or solar energy being produced. These were technically variable lease payments, even though it was almost guaranteed that the energy would be generated. This participant asked the panellists whether any research was done in their jurisdictions on this type of 'variable lease' payments and whether, in their view, the current accounting model worked properly.

Pierre Martin and Nami Yamaguchi noted that in their respective jurisdictions, the issue raised had also been discussed in the context of Power Purchase Agreement contracts. Indeed, these contracts would often involve several application issues, such as the identification of a lease within the PPA contract and the distinction between an in-substance purchase of an asset and a lease contract. Katharine Christopoulos observed that in non-capital-intensive industries users would prefer having those flows through an entity's operating income and EBITDA. However, as EBITDA was a highly used metric the comparability was challenging and led to issues from a user perspective.

An IFASS participant noted that for the last three years, the UK Financial Reporting Council had been working on updating the UK local GAAP (i.e., FRS 102 *Financial Instruments*) requirements and aligning these requirements with the principles of IFRS 16. The amendments would be effective in 2026. Almost all stakeholders had agreed that operating leases should be on the balance sheet, but several concerns had centred around how difficult the model would be to apply and how to make it proportionate for preparers, especially for small entities. To achieve a more effective cost-benefit balance, the FRC tried to simplify the requirements for all the main application issues discussed before; for example, the amendments did not mention any threshold for low-value assets leases and introduced an easier alternative for determining the discount rate ("obtainable borrowing rate").

An IFASS participant asked panellists to provide more information on the discount rate issue in their jurisdictions. Panellists highlighted that determining the IBR was highly subjective, complex and costly (e.g., cost to update rates on a regular basis). Feedback from stakeholders highlighted the difficult-to-explain volatility that came as a result of periodic updates.

An IFASS participant asked if national standard setters were doing any other work or providing guidance to preparers to determine the incremental borrowing rate (IBR). All the panellists stated that there is not additional guidance at the local level. Pierre Martin stated that in France the only guidance available were those issued by large accounting firms.

An IFASS participant asked if feedback had been received from banks and creditors about how useful they found the information around IFRS 16. Katharine Christopoulos stated that the user feedback she had earlier shared also pertained to financial institutions.

Item 16. Connectivity and Boundaries within Annual Report (case study, net-zero commitment disclosures)

The session consisted of two presentations by Ao Li (AASB) and Vincent Papa (EFRAG) on connectivity and the boundaries of different Annual Report sections. This was followed by breakout group discussions on whether disclosures on net-zero commitments should be included in the financial statements, and a report back was done thereafter.

<u>AASB presentation</u>

AASB research on climate-related disclosures in the financial statements: Ao Li presented the findings of a paper in which the AASB reviewed[9] the climate-related risk disclosures in the financial statements (for 2022) of the top 75 Australian Securities Exchange (ASX)-listed entities. She detailed one such example, whereby an entity had identified climate-related risks, including emissions management, in its management report. The entity had also reported the potential cost required to achieve net-zero, indicating that it had been factored into impairment test assumptions, but without providing additional information.

User feedback on the location of information: Ao Li noted that the AASB had engaged with users, on whether more detailed information on climate-related risks in the financial statements would enhance their decision-making. Users had indicated that they were location-agnostic and that they found a navigation system across the annual report (e.g. content index) useful.

Preparer feedback on challenges encountered in preparing information on climate-related risks: Ao Li explained that the AASB had also conducted outreach to preparers, regarding the challenges they face related to this type of information. Preparers' feedback centred around concerns of information overload leading to an obscuring of material information and their difficulty in conducting a qualitative materiality assessment. Preparers further highlighted their reluctance to provide forward-looking information in the financial statements as it could challenge the true and fair view of the financial statements (as per the Conceptual Framework) and give rise to litigation concerns.

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

Feedback on proposals in AASB Exposure Draft[10] on Climate-related financial disclosures: Ao Li noted that the AASB published an Exposure Draft (ED) on climate-related financial disclosures in October 2023. To address stakeholders' considerations highlighted above, the ED proposed that if an entity determines that there are no material climate-related risks and opportunities that could reasonably expected to affect the entity's prospects, the entity shall disclose the fact and how it comes to that conclusion. Moreover, the ED proposes to require entities to apply judgment in providing information in a manner that enables users to locate its climate-related financial disclosures in the GPFR. The preliminary feedback received on the ED indicated that it would promote the integration of different annual report sections, facilitate navigation across them, and enhance transparency. Concurrently, preparing information to explain the absence of climate-related effects was deemed costly.

Boundaries between annual report sections: Ao Li cited some dimensions of financial and sustainability reporting that contribute to the respective reporting boundaries[11]. These consisted of the notion of entities' performance and whether it should be expanded to capture non-financial performance, and the definition of the reporting entity according to financial or operational control, for which mixed feedback had been received by stakeholders. She further referred to the distinction between entities' direct and indirect impact (i.e., that of their value chains), and the longer-term time horizon incorporated in sustainability reporting.

EFRAG presentation

Vincent Papa highlighted that a version of EFRAG's paper[12] on 'Connectivity considerations and boundaries of the different Annual Report sections' had been shared with IFASS participants. This paper was part of EFRAG's research project on the connectivity between financial and sustainability reporting.

Boundaries and connectivity: Vincent Papa noted that boundaries (i.e., what is included or excluded in different Annual Report sections) in part arose from the respective reports' differing levels of maturity, objectives and audiences, as well as from their materiality considerations. At the same time, existing boundaries underscore the need for the connectivity of information across reports.

Benefits of applying connectivity concepts: Vincent Papa noted the application of connectivity concepts would improve the quality of information in the annual report as it would create information conforming to qualitative characteristics of useful information in the Conceptual Framework for Financial Reporting including the understandability, relevance, comparability, faithful representation and verifiability of information. In addition, it would ensure the coherence and consistency of information across the annual report, as well as prevent greenwashing. Furthermore, Vincent Papa highlighted that connectivity contributes to the effective communication of an entity's value-creation story.

Limits of applying connectivity concepts for financial statements information: Vincent Papa noted the limitations in applying connecting techniques (cross-referencing) on financial

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[10] ED SR1 Disclosure of Climate-related financial information.

[11] Bayne, L. (2021) Understanding reporting boundaries in annual reports: a conceptual framework*, Accounting, Auditing & Accountability Journal*, DOI 10.1108/AAAJ-01-2020-4387

[12] https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2312131345449245%2F08-02-EFRAG%20connectivity%20project%20-%20Draft%20Interim%20Deliverable%20-%20Connectivity%20concepts%20and%20AR%20boundaries-%20EFRAG%20FR%20TEG%20and%20FRB%20meeting-%2015-05-%202024.pdf

statements information including a) the legal risk posed by incorporating forward-looking information by cross-referencing into the financial statements; and b) possible disclosure overload and obscuring of other material information. He also touched upon the need for reports to be self-sufficient as per their stated objective albeit this may be deemed to be (potentially contradictory) with the need to avoid unnecessary duplication.

Dynamic dimension of connectivity: Vincent Papa highlighted the dynamic dimension of connectivity whereby items could migrate across different parts of the annual report over different reporting periods.

Should disclosures of net-zero commitments be included in the financial statements: In setting the scene for the breakout discussions, Vincent Papa referred to the November 2023 IFRIC tentative agenda decision on net-zero commitments. He underscored that in the discussions within EFRAG, stakeholders (including members of the EFRAG Technical Expert Groups and Boards and the EFRAG Connectivity Advisory Panel) agreed with IFRIC's clarification on the criteria for the recognition of provisions in the financial statements and the conclusion made by IFRIC that no provision could be recognised before a past event/obligating event and a transfer of economic resources had occurred. He, however, pointed out there was an expectation from some stakeholders that any information gaps would be addressed through disclosures rather than by changing the criteria for the recognition of provisions.

He highlighted the following suggested disclosures from entities making such commitments: a) management's key assumptions; b) information about capital expenditure projects required to fulfil climate-related commitments and capital already committed to purchasing assets to fulfil those commitments; c) time series of likely costs, even if provisions were not recognised; d) more clarity on when items migrate from the sustainability statement to the financial statements (i.e., which are the triggers for recognising provisions or disclosing contingent liabilities); and Incorporation by reference of sustainability reporting information into the notes to the financial statements.

Vincent Papa presented arguments for and against including these disclosures in the financial statements.

<u>Breakout discussion on whether net-zero disclosures should be included in the financial statements</u>

Four breakout groups were led by Carolyn Cordery (NZ XRB), Cecilia Kwei (HKICPA), Gerhard Prachner (Austrian Financial Reporting Advisory Committee – AFRAC) and Katharine Christopoulos (AcSB). Below are the main takeaways from the breakout discussions.

<u>What disclosures related to net zero commitments would be expected in the financial statements?</u>

The IFASS participants considered it could very well be that there are no financial implications (future financial statement effects) arising from the net zero commitments when there are no disclosures in the financial statements. At the same time, there was the risk of greenwashing in the front half of the Annual Report. There was a question of why entities paint a rosy picture by disclosing these commitments in the front half of the Annual Report if there are no financial effects.

IFASS participants considered it useful to have information that provides more context about what these commitments are. Nonetheless, they opined that the need for such information in respect of net zero commitments can be extended to other risks (cyber risks, other business risks, onshoring and offshoring risks). Net zero targets are just one of the areas of an entity's strategic focus and that is why this information is in the front half of the Annual Report (and not in the financial statements). Some participants expressed the view these disclosures could be in the risk report. Moreover, they pointed out the difficulties in disaggregating climate risk from other strategic risks (e.g., geopolitical risks). However, they observed that as we move closer to some net-zero target dates (e.g., 2030), more definitive actions taken by entities can be reflected in the financial statements.

Overall, there was an acknowledgement that there may be a need for a fundamental rethink of what financial statements are meant to be as well as what is the purpose of an annual report. At the same time, there was a clear view that the existing accounting requirements are sufficient and do not need revision.

<u>If/when can IAS 1.31 requirements be applied to justify including the expected disclosures on net-zero commitments in the financial statements?</u>

The IFASS participants' discussion brought to the fore the difficulties of applying IAS 1.31 (catch-all requirements to disclose material information that may not be specified in the standard-specific disclosure requirements). There was an observation that this paragraph is rarely used in practice. Moreover, questions could arise from preparers why a change from past practice was needed with no change in their business model. In effect, there was a view that any additional disclosures should be explicitly addressed through standard setting rather than by relying on IAS 1.31.

A view was also expressed that IAS 1.31 ought to be only invoked in specific circumstances where an entity is misinterpreting the essence of the specific disclosure requirements rather than it being seen as a substitute/alternative to specific disclosure requirements and a way of capturing broad topics. If IAS 1.31 can capture broad topics, what is the purpose of having specific standards for specific topics?

<u>Views on incorporation by cross-reference into the financial statements of the disclosures of net zero commitments in sustainability reporting</u>

The discussion by IFASS participants touched on the challenges of incorporating information into the financial statements by cross-reference. These included the differences in timing of the publication of different reports, differing levels of assurance (e.g., in Europe, limited assurance is allowed for the first two years of ESRS), and different teams being responsible for preparing financial and sustainability information. The impaired understandability of information and location considerations that varied across jurisdictions were referred to as well. On location considerations, it was pointed out that in Europe it was clear which information was to be provided in the sustainability statement, but this was less so in other jurisdictions.

<u>If/when should information disclosed on anticipated financial effects of transition plans (i.e., potential liabilities) in sustainability statements/disclosures be also disclosed in the financial statements (i.e., what should be the triggers for financial statement disclosures)?</u>

Disclosures are key to understanding the business model: There is a need to understand what kind of influence climate transition plans have on the business model, their potential impact on the financial statements and if these are not impacting the financial statements, what mitigations are in place. At the same time, entities may be constrained in disclosing commercially sensitive information. Moreover, the time horizon of net zero commitments could be lengthy (26+ years) and beyond what is typically disclosed in the financial statements.

Triggers for disclosures in the financial statements- The key question is when does an entity enter into a commitment that they can no longer back away from? And is that the point in time that users want to see something in the financial statements? It was noted that triggers may vary across jurisdictions and over time as well.

User education needed: User education is needed, for instance, on what is a constructive obligation. Where can they find information in relation to constructive obligations in the financial statements? What information can be found in the financial versus the sustainability report?

User outreach needed: There is a need to talk to investors about what information they need for their capital allocation decisions, and this could be done by presenting a package of reporting based on mandated SR and FR requirements and having the users identify what/if any are information gaps.

Diversity in user expectations: It was observed that user expectations differ across jurisdictions (e.g., between Canadian users versus those in Europe).

Reference to IFRS materiality practice statement: IFASS participants emphasised the need to look at the IFRS materiality practice statement in terms of what investors expect to see versus what the company might not be producing today, and for considering what should be potentially disclosed.

Item 17. IFRS 18 *Presentation and Disclosure in Financial Statements*

Andreas Barckow (IASB) and Nick Barlow (IASB) led an education session on IFRS 18, where they presented the new standard's proposals. Andreas Barckow outlined the objectives of the standard. He remarked that the new standard represents a balanced compromise to accommodate all types of stakeholders.

Thereafter, Nick Barlow presented the following aspects of IFRS 18 requirements:

- Categories and defined subtotals in the statement of profit or loss;
- Disclosures about management-defined performance measures (MPMs);
- Enhanced requirements for the grouping of information, including aggregation and disaggregation requirements.

Specifically, Nick Barlow elaborated on the newly defined categories in the statement of profit or loss: operating, investing, and financing. Further, he noted that IFRS 18 defines two new required subtotals to be presented in the statement of profit or loss. These requirements are intended to enhance the comparability of financial statements across different companies and facilitate the analysis of financial performance. Below are the details highlighted by Nick Barlow.

- *Operating category:* The operating category includes all income and expenses in the statement of profit or loss that are not classified in the investing, financing, income taxes or discontinued operations categories. The operating category is a default category that comprises all income and expenses arising from a company's operations, regardless of whether they are volatile or unusual in some way. This category includes, but is not limited to, income and expenses from a company's main business activity. Income and expenses from other business activities, such as income and expenses from additional activities, are also classified in the operating category if those income and expenses do not meet the requirements to be classified in any of the other categories.
- *Investing category*: The investing category includes income and expenses from assets that generate returns largely independent of other resources held by an entity. It also includes income and expenses from investments in associates, joint ventures and unconsolidated subsidiaries as well as from cash and cash equivalents.
- *Financing category*: The financing category comprises income and expenses from liabilities arising from transactions that involve only the raising of finance and interest income and expenses and the effects of changes in interest rates from liabilities arising from transactions that do not involve only the raising of finance.

Nick Barlow highlighted that the companies will follow the same classification requirements, with some modifications for companies that invest in assets as a main business activity (such as investment entities, investment property companies and insurers) and companies that provide financing to customers as a main business activity (such as banks).

Moreover, IFRS 18 introduces two new required subtotals: operating profit and profit before financing and income taxes. In addition to presenting required totals and subtotals, a company is required to present additional subtotals in the statement of profit or loss when such presentations are necessary to provide a useful structured summary of the company's income and expenses.

Nick Barlow noted that investors find Management-defined performance measures (MPMs) useful but often lacking transparency. As a response to investors' needs, IFRS 18 introduces requirements for disclosing these measures in a single note, providing a description of the aspects of financial performance that it communicates, a description of how the MPM is calculated, a reconciliation between the MPM and the most directly comparable subtotal listed in IFRS 18 or total or subtotal required by IFRS Accounting Standards and some other disclosure requirements.

As a third key element of the new IFRS 18 requirements, Nick Barlow (IASB) presented the principles for grouping (aggregation and disaggregation) of information. Specifically, IFRS 18 requires companies to ensure that: items are aggregated based on shared characteristics and disaggregated based on characteristics that are not shared; items are aggregated or disaggregated such that the primary financial statements and the notes fulfil their roles; and the aggregation and disaggregation of items does not obscure material information.

Nick Barlow further highlighted that IFRS 18 introduced some limited changes to the cash flow statement. He also discussed the likely effects of IFRS 18 on digital reporting, noting that reduced diversity in reporting practices should enhance comparability and facilitate information collection.

As an overall remark on IFRS 18, Nick Barlow highlighted that, even though IFRS 18 is only related to the presentation and disclosure, entities should not underestimate the time and effort to comply with some of the new requirements. for example, presenting expenses by nature when reporting by function. Some requirements of the new standard might require changes in the company's IT system.

Audience Q&A on IFRS 18

An IFASS participant wanted to have additional insights into the IASB's assessment of the classification of the income and expenses from associates and joint ventures accounted for using the equity method in the investing category, as it was a long-discussed topic throughout the project, especially by the insurance industry. In response, Nick Barlow noted that research by the IASB had shown that it was a particular concern for certain entities but was not widespread as most of the equity investments linked to the insurance contracts are accounted for at fair value. However, additional transition guidance was provided allowing entities to reassess their election of the accounting method for those investments, where appropriate.

An IFASS participant questioned whether the cost-mitigating relief provided by the IASB for the tax impact calculation in the reconciliation of MPMs would be useful to the users in its simplified form. Nick Barlow explained that the simplification avoids the preparers having to perform the full IAS 12 calculation however the users would still benefit from the information which is more detailed than a user would otherwise find.

An IFASS participant sought clarification on the classification of interest income and expense. Nick Barlow specified that the interest income on qualified assets should be presented in the investing category and interest expense on qualified liabilities should be presented in the financing category. If an interest income or expense item does not fulfil the requirements to be presented in either the investing or financing category it should be presented in the operating category, which is a default category.

An IFASS participant asked about the IAS 1 requirements and whether IFRS 18 fully replaces IAS 1. Nick Barlow confirmed that IFRS 18 replaces IAS 1 and therefore requirements of IAS 1 were brought into IFRS 18 with limited or no change and some IAS 1 requirements were integrated into IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Item 18. SR - Jurisdictional updates

A panel discussion was held on the progress of sustainability reporting in different jurisdictions. The panel was moderated by Chiara Del Prete (IFASS Chair) and the panellists were Ana Tércia (Conselho Federal de Contabilidade -CFC Brazil), Carolyn Cordery (XRB), Doris Yi-Hsin Wang (ARDF), Keith Kendall (AASB), Paul Munter (US Securities and Exchange Commission-SEC) (through video) and Woung-hee Lee (Korean Sustainability Standards Board-KSSB). After introducing the panel, Chiara Del Prete led the discussion addressing the status of sustainability reporting in different jurisdictions. Responses to polling questions posed during this session can be found here.

Brazil (CFC)

Ana Tércia outlined the adoption of sustainability reporting standards in Brazil and the resolutions that had been passed. She highlighted two Conselho Federal de Contabilidade (CFC) resolutions. The first (CFC Resolution 1.710/23) was a regulatory milestone, related to the disclosure of sustainability information that would be incorporated into the structure of Brazilian Standards and it reinforced the commitment to transparency and corporate responsibility and ensure that accounting professionals are prepared to face the challenges and opportunities that sustainability presents. The second (CFC Resolution 1.640/21) relates to sustainability assurance engagements and designates the accounting professional as the technically responsible professional for the assurance of sustainability reports under the CFC requirements.

Ana Tércia The Brazilian standard setter is consulting on IFRS S1 and S2 as Brazilian standards with an effective mandatory date of 1 January 2026 (with voluntary adoption from calendar year 2024).

New Zealand (XRB)

Carolyn Cordery noted that New Zealand introduced mandatory climate standards (also referred to as Aotearoa climate Standards) in December 2022 that were effective from 2023. Companies required to report under these climate standards are large, listed equity and debt issuers with a market capitalisation exceeding NZ$60 million, and large financial organisations including banks, insurers and managers of investment schemes with total assets of more than NZ$1 billion. The standards were issued before the release of the ISSB Standards and are aligned to the TCFD recommendations.

The XRB does not regulate companies but only issues the reporting standards. The regulator is the financial Markets authority which has informed the market to take a broadly constructive and educative approach in the first years of the reporting under these standards. The regulator will also issue high-level guidance on compliance expectations.

Other activities of the XRB include the development of a broader voluntary non-financial reporting framework based on an indigenous perspective. The motivation for this was to develop an intergenerational impact framework. It is meant as a pathway to respect and integrate the knowledge that the New Zealand indigenous people have to ensure that reporting practices across the country can contribute to the well-being of future generations. The XRB hopes that their work with the Maori people on non-financial reporting can inspire other countries and standard setters to work with their indigenous peoples to involve them in standard setting.

Carolyn Cordery also addressed the guidance developed for their climate standards. In particular the scenario analysis and development of scope 3 data. The XRB developed some methodologies to deal with the uncertainties surrounding these areas and to use scenario analysis as part of the formulation of an entity's strategic direction and not a "tick the box" approach. Entities have a chance to learn by doing and adopt common association assumptions across their sector and the guidance informs them how to do that. Around 12 sectors have done that so far. The guidance helps entities to step up from their scenario analysis, along with the information they have received from their scope 3 emissions level and make decisions about their future strategic direction.

The XRB is also undertaking research to investigate the effectiveness of the climate standards as well as an early post-implementation review.

The XRB is also considering providing stability to entities – not changing reporting continuously – but the main aim of the reporting is achieving a change in behaviour by entities.

Chiara Del Prete asked whether involving the indigenous community in standard setting could be interpreted as similar to what was being done with double materiality under ESRS where engaging with affected communities and having civil society sitting at the standard-setting table were expected.

Carolyn Cordery clarified that the aim was to help indigenous organisations think about how their business operations aligned with their own principles on issues like intergenerational equity and long-term wellbeing. This entailed a more comprehensive view than captured by the words “impact” or “double materiality”. She mentioned that the voluntary framework was currently being trialled by six entities. They do not need to produce a reporting but are encouraged to report their insights to their tribe and the people they are involved with.

Chiara Del Prete asked where the XRB was in relation to the adoption of the IFRS standards. Carolyn Cordery remarked that the XRB had its own climate risk disclosure standards. Entities were currently only reporting against the XRB standards but had been informed that a post-implementation review was to occur. No decision had yet been made on what the XRB would do with regard to the ISSB’s standards.

Chiara Del Prete asked if New Zealand’s climate standards significantly deviated from IFRS S2. Carolyn Cordery noted that their standards had come out before IFRS S1 and IFRS S2. Comparisons were ongoing against the European standards and what might come out in Australia. The XRB was aware that reporters needed to report to different markets for dual-listed entities.

Korea (KSSB)

Woung-hee Lee explained that the KSSB had set three principles in establishing its sustainability reporting standards: useful information for users, keeping international alignment, and the acceptability of the standards by domestic companies. The KSSB was using the ISSB standards as a starting reference for developing its own standards. It was important that the new standards would not be an excessive burden on South Korean companies, so analysis of disclosure capacity and preparer needs was ongoing.

At the time of the meeting, the KSSB was finalising the exposure draft, and it was likely to be completed by the end of April 2024. The exposure draft was developed after the KSSB’s extensive outreach activities with domestic stakeholders. Multiple meetings had taken place with consultative advisory bodies. An in-person public consultation had been held with 200 listed companies, and 21 in-person meetings had taken place. They also consulted business federations and governmental agencies.

The exposure draft would be included as part of a package, which would include two mandatory standards, Korea Sustainability Disclosure Standards (KSDS) 1, which outlined the general requirements, and KSDS 2, which focused on climate-related disclosures. A non-mandatory standard, KSDS 101 would also be included. After the standards were issued, the KSSB would perform another public consultation for two months, similar to the previous outreach activities with domestic stakeholders. They are also planning the release of guidance on materiality assessment, value chain, and measurement of greenhouse gas emissions.

A full adoption of ISSB standards in Korea was seen as difficult given the domestic capacity and lack of infrastructure to do so.

While a growing number of companies were voluntarily publishing their sustainability approach, the associated costs for establishing a data collection system to apply for ISSB standards and improving disclosure capacity were expected to be significant and sufficient time was needed. The domestic disclosure standards also needed to take the national rules into account, some of which were not included in the ISSB standards, such as the location of information and timing of the reporting.

The KSSB had opted to allow some requirements of the ISSB standards to be optional and also provided additional relief. The approach taken would ensure that companies complied with the ISSB standards if they chose to disclose information on all requirements.

The KSSB was in the process of working with the South Korean government to include regulations that were already used in the ISSB standards in the mandatory disclosure system. Companies disclosing according to the ISSB standards would meet the obligation of the application of KSSB standards.

Mandatory disclosures would be discussed with the South Korean government and relevant organisations. Talks were ongoing with the Financial Services Commission about the creation of a roadmap. The KSSB standards were expected to be applied on a mandatory basis in the disclosure system, following a phased approach based on the company's size. The start of these mandatory disclosures was under heavy discussion, with the business community pushing to postpone till 203X.

Chiara Del Prete asked if climate and other topics would be covered by the standards. Woung-hee Lee explained that a climate-first approach would take place meaning that sustainability matters beyond climate could be optional.

Chiara Del Prete asked Woung-hee Lee if the South Korean standards significantly deviated from the ISSB Standards. Woung-hee Lee stated that KSDS 1 was highly aligned to IFRS S1 with minor deviations. On KSDS 2, the disclosure of Scope 3 emissions was a discussion for all stakeholders in Korea including the government as it was viewed as a public policy agenda. IFRS S2 currently allowed the estimation of Scope 3 emissions, which was complicated. Based on the KSSB's outreach activities, business communities needed more time to prepare their systems. The internal carbon price was another deviation in KSDS 2 as it allowed companies to provide that price but if they used that carbon price for any purpose, they had to provide that fact, inputs and assumptions to calculate the prices. KSDS 2 was also asking for additional climate-related information and had incorporated industry-based metrics.

Taiwan (ARDF)

Doris Yi-Hsin Wang stated that on 17 August 2023, Taiwan's Financial Supervisory Commission (FSC) announced the full adoption of IFRS S1 and IFRS S2 due to its comparability, transparency and consistency. And this was underpinned by Taiwan wanting to attract more foreign investors. A taskforce had been formed that consisted of four workgroups focusing on the adoption of ISSB standards, the implementation of ISSB standards, judgments of local regulations and laws, and promotion and education of ISSB materials.

In 2024, the FSC amended the regulations around annual reports with all Taiwan-listed companies needing to disclose sustainability-related financial information and it presented the roadmap for alignment of ISSB standards. Subject to size, listed companies would have to report on the IFRS standards using a phase-in approach.

Australia (AASB)

Dr Keith Kendall stated that in October 2023, the AASB released Exposure Draft ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information* ("ED SR1") to propose climate-related financial disclosure requirements for Australian entities based on IFRS S1 and IFRS S2. The public consultation was completed on 1 March 2024, and stakeholder feedback is being analysed. Subject to passage of legislation in Australia, mandatory adoption would be done through a phased approach, with the effective date of 1 January 2025 for group one[13] entities, 1 July 2026 for group two entities, and 1 July 2027 for group three entities. AASB has an aspirational timeline to finalise the Australian Sustainability Reporting Standards in August 2024.

ED SR1 focused on climate-related matters only because the Australian legislative environment is only looking to mandate climate-related financial disclosures and does not propose mandating other sustainability-related financial disclosures. Consultation feedback was received via in-person roundtables, written submissions, and a survey. It was likely that the final standard would be more aligned with the IFRS S2 than ED SR1 had been.

Chiara Del Prete asked Keith Kendall if Australia's climate standard requirements significantly deviated from IFRS S2. Keith Kendall noted that one of the more significant differences had been to add wording to the standards that made it sector-neutral. IFRS S1 and IFRS S2 were only designed for the for-profit sector, but the AASB intended to have standards that could also apply to the not-for-profit sector and the public sector.

ED SR1 had also removed references to conceptual frameworks, as there had initially been a stakeholder concern that incorporating elements of the voluntary conceptual frameworks into mandatory standards would inadvertently make those elements mandatory.

Australian stakeholders raised concerns about the industry-based requirements proposed in [draft] IFRS S1 and IFRS S2. Therefore, the AASB made the preliminary decision not to publish the industry-based guidance accompanying IFRS S2. However, the AASB acknowledged this decision would be revisited. On greenhouse gas emissions, ED SR1 proposed that entities shall use the domestic measurement methodologies, or use the Greenhouse Gas Protocol in cases where it is impracticable to use the domestic measurement methodologies. ED SR1 also proposed requiring entities to report on at least two scenarios in their risk disclosures, and that one of these scenarios must be consistent with the most ambitious global temperature goal set out in the Paris Agreement (i.e. 1.5 degrees Celsius above the pre-industrial levels).

<u>USA (SEC) final climate rules</u>

Via video recording, Paul Munter gave an overview of the SEC climate rules published on 6 March 2024 that were designed to enhance and provide standardised climate-related disclosures by public companies and in public offering documents. The final rules were a continuation of the SEC's efforts to respond to investor needs for more consistent, comparable and reliable information about the financial effects of climate-related risk on a registrant's business, as well as information about how the registrant managed those risks.

The final rules would create a new subpart, subpart 1500, in Regulation S-K, which would require a registrant to disclose, in either their registration statement or annual reports, any climate-related

[13] Group one entities needed meet two of three size criterion: over 500 employees, assets of $1 billion AUD or more, and/or revenue of $500 million AUD per year.

target or goal if such target or goal had materially affected or was reasonably likely to materially affect the registrant's business, results of operations, or financial condition over the short or long term. Below are the key requirements:

- A registrant will need to disclose whether the risk was a physical or transition risk and provide information necessary for an understanding of the nature of the risk presented and the extent of the registrant's exposure to the risk.
- A registrant will need to describe the actual and potential material impacts of any climate-related risks identified to the registrant's strategy, business model, and outlook.
- A registrant will need to quantitatively and qualitatively describe the material expenditures incurred and material impacts on financial estimates and assumptions that, in management's assessment, directly resulted from mitigation and adaptation activities. Activities around mitigating or adapting to a material climate-related risk would be documented, including the use of any transition plans, scenario analysis or internal carbon prices.
- A registrant will need to describe any processes they had for identifying, assessing, and managing material climate-related risks, and, if the registrant was managing those risks, when and how any such processes were integrated into the registrant's overall risk management system or processes.
- A registrant will need to disclose any climate-related target or goal if such target or goal had materially affected or was reasonably likely to materially affect the registrant's business, results of operations, or financial condition. A registrant needed to update that disclosure in each fiscal year by describing the actions taken during the year to achieve its targets or goals.
- A registrant will need to disclose their Scope 1 emissions and/or Scope 2 emissions separately, each expressed in the aggregate, in terms of CO_2e. In addition, if any constituent gas of the disclosed emissions was individually material, the registrant would need to disclose such constituent gas disaggregated from the other gases. A registrant could use reasonable estimates when disclosing its greenhouse gas emissions if it also described the underlying assumptions and its reasons for using the estimates.
- The GHG emissions attestation provider was required to be independent of the registrant and meet certain expertise requirements. The attestation report needed to follow the form and content of the requirements that had been set by the attestation standard used by the attestation provider. The registrant was also required to disclose certain information outside of the attestation report regarding the oversight inspection programme that the provider or engagement was subject to.
- Additionally, amendments to Regulation S-X required disclosure of climate-related risks that had had or were reasonably likely to have a material impact on business strategy, results of operations or financial condition; assessment, management, board oversight and mitigation of those risks; Scope 1 and 2 GHG emissions for large accelerated filers and accelerated filers if those emissions were material, including an independent attestation report; and financial statement disclosures, such as costs and losses, related to the effects of severe weather events and other natural conditions, as well as those associated with carbon offsets and renewable energy credits if material to a company's plans to achieve climate-related targets or goals.
- Registrants would also need to disclose where on the balance sheet and income statement their capitalised costs, expenditures expensed, and charges and losses appeared. Registrants would need to disclose expenditures expensed as incurred and losses that

exceeded 1% of the absolute value of income or loss before income tax expense or benefit and capitalised costs and charges that exceeded 1% of the absolute value of stockholders' equity or deficit.

- The final rules did not require registrants to determine if a severe weather event or other natural condition was climate-related; instead, registrants needed to determine what constituted a severe weather event or other natural condition. That determination was company-specific and needed to take into consideration the registrant's location and historical experience and the financial impact of the event on the registrant.

Disclosure requirements would be required on a prospective basis. The final rules would be phased in for all registrants, with the compliance date being dependent on the registrant's filer status and on the content of the disclosures.

Panel discussion

Alignment with ISSB: Chiara Del Prete asked Ana Tércia whether Brazil had committed to apply and/or issue standards aligned with ISSB standards with an effective date from 2026. Ana Tércia confirmed this was the case. Ana Tércia added that the CFC is working together with the Brazilian SEC on stability and the convergence process. Integration with the entities was very specific.

SEC Climate rule: Chiara Del Prete asked how the different jurisdictions dealt with referencing the US SEC climate rule. Woung-hee Lee noted that South Korea was adopting a follower strategy instead of being a pioneer. The decision made by the US and the current uncertainty around SEC regulation negatively impacted the discussion around announcing mandatory disclosures, including the timing of such disclosures.

Assurance: Chiara Del Prete asked how assurance of the disclosures was being provided in the different jurisdictions. Doris Yi-Hsin Wang highlighted that Taiwan required the parent company of high carbon emission companies to disclose Scope 1 and Scope 2 emissions in their assurance report. They would expand that to include other companies using a phasing-in approach.

Carolyn Cordery explained that the 200 New Zealand entities that were using the climate risk disclosure standards would be assured in the second year with mandatory assurance implemented on 24 October 2024. The Auditing and Assurance Standards Board had developed a temporary and professional discipline-agnostic assurance standard to that effect.

Keith Kendall noted that assurance was not the AASB's responsibility, but a parallel board dealt with auditing and assurance matters. The current policy was similar to reporting with a phased introduction of requirements, with limited assurance over Scope 1 and Scope 2 emissions for group one entities when the reporting regime commences, which is expected to be 1 January 2025. The expectation was that full assurance on all climate-related disclosures would be in place by 1 July 2030.

Woung-hee Lee stated that assurance was not within the KSSB's remit. South Korea was discussing the issue as part of its mandatory disclosure system and was considering limited assurance for the initial years with gradual progress towards reasonable assurance, but the level of assurance was undecided. South Korea was considering requiring assurance across the entire sustainability report, rather than just focusing on individual Scope 1 and Scope 2 requirements. It would also be vital to comprehensively determine which organisations were eligible to provide assurance, what certifications the individual must have, how the provision systems for those organisations should be structured, and what assurance standards should be followed. The wider challenge would be how to engage the involvement of sufficient experts in the field by the deadline date.

TNFD integration: Chiara Del Prete asked panellists what strategies their jurisdictions were taking to integrate the TNFD framework, and the challenges and opportunities. Doris Yi-Hsin Wang stated that Taiwan had 14 listed companies applying the TNFD framework. As an example, they shared projects with the National Museum of Marine Science and Technology, setting up projects such as coral protection, and 'birds or bears' protection.

Carolyn Cordery explained that New Zealand had several projects around native flora and fauna. Some private and public companies were trialling TNFD disclosures. As some entities were already doing a climate risk assessment in their scenario analysis it would not be too onerous to think about nature risks. However, there was a strong feeling that companies felt overwhelmed with the amount of work and projects that needed to be done. From a Māori perspective, there were also questions on how to report on nature respectfully, appropriately and carefully.

Item 19. Closing Remarks

Chiara Del Prete thanked all the speakers and participants for their attendance and active contribution. She thanked KAI's President Han Yi and all that were involved from KAI for the excellent hosting of the April 2024 meeting noting they had exceeded all expectations. Han Yi also presented Chiara Del Prete with an award for her leadership.


Chiara Del Prete and Han Yi gave special thanks to the KAI team involved in organising the meeting, dinners, and tours of the city. Chiara Del Prete also thanked the IFASS Secretariat for their support and reminded the IFASS participants that the next IFASS meeting would take place in September 2024 in London. She also called for any expressions of interest to host the March/April 2025 IFASS meeting and for participants to start considering candidates to be her successor after the March/April 2025 IFASS meeting. She then closed the meeting.

ACTION LIST

IFASS Chair/Secretariat
• To organise an in-person meeting with remote participation for 24-25 September 2024 which will take place in London, UK including sending the registration survey
All IFASS participants
• To advise the IFASS Secretariat of potential agenda items for the physical meeting in September 2024. • Registration for the September 2024 IFASS meeting (the deadline for in-person registration is 23 August 2024) is open. IFASS participants who intend to travel should register as soon as convenient. • IFASS Secretariat is seeking volunteers to participate in the IFASS informal advisory group.

POST- MEETING TOURS

APPENDIX: LIST OF IFASS PARTICIPANTS

IFASS participants that attended in person:

	Name	Organisation
1	Albert Chou	Accounting Research and Development Foundation (ARDF - Taiwan)
2	Andrew Fai	Accounting Research and Development Foundation (ARDF - Taiwan)
3	Doris Yi Hsin Wang	Accounting Research and Development Foundation (ARDF - Taiwan)
4	Hui Chen	Accounting Research and Development Foundation (ARDF - Taiwan)
5	Margaret Tsui	Accounting Research and Development Foundation (ARDF - Taiwan)
6	Po Shun Wang	Accounting Research and Development Foundation (ARDF - Taiwan)
7	Shao-Chun Chang	Accounting Research and Development Foundation (ARDF - Taiwan)
8	Dirgha Raj Mainali	Accounting Standards Board (ASB Nepal)
9	Prakash Jung Thapa	Accounting Standards Board (ASB Nepal)
10	Masashi Hayano	Accounting Standards Board of Japan (ASBJ - Japan)
11	Nami Yamaguchi	Accounting Standards Board of Japan (ASBJ - Japan)
12	Yoichi Denda	Accounting Standards Board of Japan (ASBJ - Japan)
13	Yuri Iino	Accounting Standards Board of Japan (ASBJ - Japan)
14	Georg Lanfermann	Accounting Standards Committee of Germany (ASCG – Germany)
15	Kristina Schwedler	Accounting Standards Committee of Germany (ASCG – Germany)
16	Sven Morich	Accounting Standards Committee of Germany (ASCG – Germany)
17	Ao Li	Australian Accounting Standards Board (AASB - Australia)
18	Helena Simkova	Australian Accounting Standards Board (AASB - Australia)
19	Keith Kendall	Australian Accounting Standards Board (AASB - Australia)
20	Gerhard Prachner	Austrian Financial Reporting and Auditing Committee (AFRAC - Austria)
21	Pierre Martin	Autorité des Normes Comptables (ANC - France)
22	Armand Capisciolto	Canadian Accounting Standards Board (AcSB - Canada)

23	Katharine Christopoulos	Canadian Accounting Standards Board (AcSB - Canada)
24	Charles Antoine St Jean	Canadian Sustainability Standards Board (CSSB - Canada)
25	Ana Tércia Lopes Rodrigues	CFC - Conselho Federal de Contabilidade (CFC - Brazil)
26	Huaxin Xu	China Accounting Standards Committee (CASC - China)
27	Xingyue Yang	China Accounting Standards Committee (CASC - China)
28	Sadi Podevijn	Commissie voor Boekhoudkundige Normen (CBN - Belgium)
29	Christine Barckow	Deloitte
30	Kristian Koktvedgaard	DSSC under Danish NFM
31	Gerard Van Santen	Dutch Accounting Standards Board (DASB - Netherlands)
32	Chiara Del Prete	EFRAG
33	Fredré Ferreira	EFRAG
34	Gemma Sanchez Danes	EFRAG
35	Ovidiu Spirescu	EFRAG
36	Patrick de Cambourg	EFRAG
37	Sapna Heeralall	EFRAG
38	Vincent Papa	EFRAG
39	Carlos Moreno Saiz	El Instituto de Contabilidad y Auditoría de Cuentas (ICAC -Spain)
40	María Dolores Urrea Sandoval	El Instituto de Contabilidad y Auditoría de Cuentas (ICAC -Spain)
41	Carolyn Cordery	External Reporting Board (XRB - New Zealand)
42	Gali Slyuzberg	External Reporting Board (XRB - New Zealand)
43	Jack Bisset	External Reporting Board (XRB - New Zealand)
44	Helen Debbeler	Financial Accounting Standards Board (FASB - USA)
45	Susan Cosper	Financial Accounting Standards Board (FASB - USA)
46	Jenny Carter	Financial Reporting Council (FRC - UK)
47	Sarah-Jayne Dominic	Financial Reporting Council (FRC - UK)
48	Stephen Maloney	Financial Reporting Council (FRC - UK)
49	Kwangil Kim	Financial Services Commission
50	Bong-Chul Kim	Hankuk University of Foreign Studies
51	Cecilia Kwei	Hong Kong Institute of Certified Public Accountants (HKICPA - Hong Kong)
52	Eky Liu	Hong Kong Institute of Certified Public Accountants (HKICPA - Hong Kong)

53	Andreas Barckow	IFRS Foundation
54	Elena Kostina	IFRS Foundation
55	Jialing Si	IFRS Foundation
56	Linda Mezon-Hutter	IFRS Foundation
57	Nick Barlow	IFRS Foundation
58	Samuel Prestidge	IFRS Foundation
59	Suzanne Lloyd	IFRS Foundation
60	Tae-Young Paik	IFRS Foundation
61	Oussama Tabbara	International Arab Society of Certified Accountants (IASCA)
62	Ross Smith	International Public Sector Accounting Standards Board (IPSASB)
63	Eun-Kyung Kim	Korea Accounting Institute (KAI - Korea)
64	Han Yi	Korea Accounting Institute (KAI - Korea)
65	Hyeonjae Bae	Korea Accounting Institute (KAI - Korea)
66	Il-Hong Park	Korea Accounting Institute (KAI - Korea)
67	Jae-Ho Kim	Korea Accounting Institute (KAI - Korea)
68	Jay Jeong-Hyeok Park	Korea Accounting Institute (KAI - Korea)
69	Jong Dae Kim	Korea Accounting Institute (KAI - Korea)
70	Nayoung Yoon	Korea Accounting Institute (KAI - Korea)
71	Subin Kim	Korea Accounting Institute (KAI - Korea)
72	Woung Hee Lee	Korea Accounting Institute (KAI - Korea)
73	Yong-Woo Kwon	Korea Accounting Institute (KAI - Korea)
74	Young Seo Jung	Korea Accounting Institute (KAI - Korea)
75	Afif Charara	Lebanese Association of Certified Public Accountants (LACPA - Lebanon)
76	Marwan Nicolas Bou Zayan	Lebanese Association of Certified Public Accountants (LACPA - Lebanon)
77	Tatsiana Rybak	Ministry of Finance of the Republic of Belarus
78	Simone Scettri	Organismo Italiano di Contabilità (OIC - Italy)
79	Tommaso Fabi	Organismo Italiano di Contabilità (OIC - Italy)
80	Abubakr Hummeida	Sudanese Council of Certified Accountants (SCCA - Sudan)
81	Kentaro Konishi	Sustainability Standards Board of Japan (SSBJ - Japan)
82	Naoko Yagishita	Sustainability Standards Board of Japan (SSBJ - Japan)
83	Tomoyuki Ogawa	Sustainability Standards Board of Japan (SSBJ - Japan)
84	Yasunobu Kawanishi	Sustainability Standards Board of Japan (SSBJ - Japan)

85	Yukari Sone	Sustainability Standards Board of Japan (SSBJ - Japan)
86	Reto Zemp	Swiss GAAP FER
87	Sabir Sheikh	Swiss GAAP FER
88	Anuj Goyal	The Institute of Chartered Accountants of India (ICAI - India)
89	Charan Jot Singh Nanda	The Institute of Chartered Accountants of India (ICAI - India)
90	Pauline Wallace	UK Endorsement Board (UKEB)
91	Seema Jamil-O'Neill	UK Endorsement Board (UKEB)

The following IFASS participants registered to join the meeting remotely:

	Name	**Organisation**
1	Chi-Cun Liu	Accounting Research and Development Foundation (ARDF - Taiwan)
2	Sushil Poudel	Accounting Standards Board (ASB Nepal)
3	Prabin Dhoj Joshi	Accounting Standards Board (ASB Nepal)
4	Hiroshi Matsushita	Accounting Standards Board of Japan (ASBJ - Japan)
5	Masaaki Yamada	Accounting Standards Board of Japan (ASBJ - Japan)
6	Mari Kimura	Accounting Standards Board of Japan (ASBJ - Japan)
7	Yasuyuki Natsume	Accounting Standards Board of Japan (ASBJ - Japan)
8	Satoe Yamamoto	Accounting Standards Board of Japan (ASBJ - Japan)
9	Shuji Ito	Accounting Standards Board of Japan (ASBJ - Japan)
10	Atsushi Itabashi	Accounting Standards Board of Japan (ASBJ - Japan)
11	Takao Kamiya	Accounting Standards Board of Japan (ASBJ - Japan)
12	Masaya Hiramoto	Accounting Standards Board of Japan (ASBJ - Japan)
13	Boon Siong Tan	Accounting Standards Committee (ASC)
14	Yat Hwa Guan	Accounting Standards Committee (ASC)
15	Fook Chuen Ow	Accounting Standards Committee (ASC)
16	Wee Khim Tan	Accounting Standards Committee (ASC)
17	Kangli Lau	Accounting Standards Committee (ASC)
18	Yun Leng Chua	Accounting Standards Committee (ASC)
19	Eddie Lim	Accounting Standards Committee (ASC)

20	Eric Lee	Australian Accounting Standards Board (AASB - Australia)
21	Sabine Schuhrer	Australian Accounting Standards Board (AASB - Australia)
22	Millicent Chang	Australian Accounting Standards Board (AASB - Australia)
23	Patricia Au	Australian Accounting Standards Board (AASB - Australia)
24	Jia Wei	Australian Accounting Standards Board (AASB - Australia)
25	Fridrich Housa	Australian Accounting Standards Board (AASB - Australia)
26	Maggie Man	Australian Accounting Standards Board (AASB - Australia)
27	Charis Halliday	Australian Accounting Standards Board (AASB - Australia)
28	Abigail Xu	Australian Accounting Standards Board (AASB - Australia)
29	Lachlan McDonald-Kerr	Australian Accounting Standards Board (AASB - Australia)
30	William Biese	Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera (CINIF - Mexico)
31	Elsa Beatriz García	Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera (CINIF - Mexico)
32	María Pineda	Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera (CINIF - Mexico)
33	Oscar Avila	Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera (CINIF - Mexico)
34	Jessica Magaña	Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera (CINIF - Mexico)
35	Patricia Moles	Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera (CINIF - Mexico)
36	Jan Peter Larsen	Danish Accounting Standards Committee (DASC - Denmark)
37	Richard Boessen	EFRAG
38	Ana Belén Muñoz Muñoz	El Instituto de Contabilidad y Auditoría de Cuentas (ICAC -Spain)
39	Ana Garrido Roma	El Instituto de Contabilidad y Auditoría de Cuentas (ICAC -Spain)
40	Ana Hernáiz Ballesteros	El Instituto de Contabilidad y Auditoría de Cuentas (ICAC -Spain)
41	Ana María Del Moral Ambite	El Instituto de Contabilidad y Auditoría de Cuentas (ICAC -Spain)

42	Elisa Noble	Financial Reporting Council (FRC - UK)
43	Iheanyi O. Anyahara	Financial Reporting Council of Nigeria (FRC Nigeria)
44	Sungmin Ahn	Financial Services Commission
45	Kim Jonghyun	Financial Services Commission
46	Heejung Yang	Financial Services Commission
47	Hyunkeung Oh	Financial Services Commission
48	Sungmin Ahn	Financial Services Commission
49	José Luiz Carvalho	Group of Latin American Accounting Standard Setters (GLASS)
50	Hernan Casinelli	Group of Latin American Accounting Standard Setters (GLASS)
51	Karen Sanderson	Chartered Institute of Public Finance and Accountancy (CIPFA)
52	Arnold Houser	IEAF
53	Roanne Hasegawa	IFRS Foundation
54	Nili Shah	IFRS Foundation
55	Tim Kasim	IFRS Foundation
56	Rafal Markowski	IFRS Foundation
57	Ann Tarca	IFRS Foundation
58	Richard Brown	IFRS Foundation
59	Vikash Kalidas	IFRS Foundation
60	Yukiko Hosoda	IFRS Foundation
61	Michelle Sansom	IFRS Foundation
62	Jan Carlo Pereras	IFRS Foundation
63	Yulia Feygina	IFRS Foundation
64	Nishan Fernando	Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)
65	Wiwied Widyastuti	Institute of Indonesia Chartered Accountants (IAI - Indonesia)
66	Dede Rusli	Institute of Indonesia Chartered Accountants (IAI - Indonesia)
67	Zuni Barokah	Institute of Indonesia Chartered Accountants (IAI - Indonesia)
68	Istini Siddharta	Institute of Indonesia Chartered Accountants (IAI - Indonesia)
69	Prabandari Moerti	Institute of Indonesia Chartered Accountants (IAI - Indonesia)
70	Yully Handajani	Institute of Indonesia Chartered Accountants (IAI - Indonesia)
71	Pera Yulianingsih	Institute of Indonesia Chartered Accountants (IAI - Indonesia)

72	Irfana Rahma	Institute of Indonesia Chartered Accountants (IAI - Indonesia)
73	Muhammad Ramadhan	Institute of Indonesia Chartered Accountants (IAI - Indonesia)
74	Sarah Gondy	International Labour Organization (ILO)
75	Yulia Gershinkova	International Labour Organization (ILO)
76	Gina Chammas	ISA Lebanon
77	Gwen Yu	Korea Accounting Institute (KAI - Korea)
78	Hyunseo Lim	Korea Accounting Institute (KAI - Korea)
79	Sungjoong Kim	Korea Accounting Institute (KAI - Korea)
80	Minyoung Oh	Korea Accounting Institute (KAI - Korea)
81	Subin Kim	Korea Accounting Institute (KAI - Korea)
82	Jungah Yang	Korea Accounting Institute (KAI - Korea)
83	Suin Sung	Korea Accounting Institute (KAI - Korea)
84	Jae Won Whang	Korea Accounting Institute (KAI - Korea)
85	Jieun Lee	Korea Accounting Institute (KAI - Korea)
86	Sinae Park	Korea Accounting Institute (KAI - Korea)
87	Min Kyung Kook	Korea Accounting Institute (KAI - Korea)
88	Bee Leng Tan	Malaysian Accounting Standards Board (MASB - Malaysia)
89	Nadiah Ismail	Malaysian Accounting Standards Board (MASB - Malaysia)
90	Idawaty Mohd Hasan	Malaysian Accounting Standards Board (MASB - Malaysia)
91	Cathrine Su	Malaysian Accounting Standards Board (MASB - Malaysia)
92	Signe Haakanes	Norwegian Accounting Standards Board (NASB - Norway)
93	Bjørn Einar Strandberg	Norwegian Accounting Standards Board (NASB - Norway)
94	Lebogang Senne	Pan African Federation of Accountants (PAFA)
95	Hassane Ferdaous	PwC
96	Faith Ngwenya	South African Institute of Professional Accountants (SAIPA - South Africa)
97	Leana Van der Merwe	South African Institute of Professional Accountants (SAIPA - South Africa)
98	Rashied Small	South African Institute of Professional Accountants (SAIPA - South Africa)
99	Hana Murayama	Sustainability Standards Board of Japan (SSBJ - Japan)
100	Waka Kirihara	Sustainability Standards Board of Japan (SSBJ - Japan)
101	Tomomi Eguchi	Sustainability Standards Board of Japan (SSBJ - Japan)

102	Kohei Yoshimura	Sustainability Standards Board of Japan (SSBJ - Japan)
103	Emi Chujo	Sustainability Standards Board of Japan (SSBJ - Japan)
104	Fredrik Walmeus	Swedish Accounting Standards Board (SASB - Sweden)
105	Alessandra Melis	The Taskforce on Nature-related Financial Disclosures (TNFD)
106	Tamba Momoh	TM Consulting
107	Yousouf Hansye	UK Endorsement Board (UKEB)
108	Margott Terblanche	UK Endorsement Board (UKEB)
109	Markus Leippold	University of Zurich
110	John Turner	XBRL International