

## Welcome to the December *IASB Update*

The IASB met in public from 15-16 December 2015 at the IASB offices in London, UK.

The topics for discussion were:

- Effective Date of Amendments to IFRS 10 and IAS 28—Due process
- Disclosure Initiative
- IFRS Implementation Issues
- IFRS 3 Business Combinations—Definition of a business
- Research programme
- Revenue from Contracts with Customers
- Discount rates research

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### Future IASB meetings

The IASB meets at least once a month for up to five days.

The next IASB meetings are:

18 to 22 January 2016  
12 to 19 February 2016  
11 to 18 March 2016

To see upcoming and past IASB meetings, [click here](#).

### Archive of *IASB Update* Newsletter

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**Sale or Contribution of Assets between an Investor and its Associates or Joint Ventures—Deferral of effective date (Agenda Paper 23)**

The IASB reviewed the due process steps that it has taken to date on *Effective Date of Amendments to IFRS 10 and IAS 28*, a narrow scope amendment to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Associates and Joint Ventures* that defers the effective date of *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. All 13 IASB members present confirmed that they are satisfied that the IASB has completed the necessary due process steps on the project to date and therefore instructed the staff to commence the balloting process for the amendment. No members of the IASB intend to dissent from publication of the amendment.

#### **Next steps**

The IASB intends to issue *Effective Date of Amendments to IFRS 10 and IAS 28* on 17 December 2015.

## **Disclosure Initiative (Agenda Paper 11)**

The IASB met on 15 December 2015 to discuss the project on the Standards-level Review of Disclosures and the Amendments to IAS 7 Statement of Cash Flows, both of which are part of its Disclosure Initiative.

#### ***Agenda Paper 11A: Standards-level Review of Disclosures project—Initial phase proposal***

The IASB discussed its project to review disclosures at a standards-level with a specific focus on:

- a. the scope, approach and timing of the initial phase of the project;
- b. the content, form and due process of a Drafting Guide for the IASB's internal use; and
- c. the various options the IASB could consider as the next steps, after the initial phase is complete.

The IASB noted that the initial phase does not involve a comprehensive review of existing disclosure requirements.

No decisions were made.

#### ***Agenda Paper 11B: Amendments to IAS 7—Sweep issues***

The IASB discussed a sweep issue arising from the balloting process for the Amendments to IAS 7. The IASB tentatively decided that information disclosed to meet the disclosure objective should be clearly distinguished from other information that an entity chooses to disclose.

12 out of the 13 IASB members agreed with this decision.

## **IFRS Implementation Issues (Agenda Paper 12)**

The IASB met on 15 December to discuss IFRS implementation issues.

**Agenda Paper 12A: IFRS 2 Share-based Payment—Classification and Measurement of Share-based Payment Transactions (Summary of due process followed)**

The IASB reviewed the due process steps that it has taken in developing the narrow-scope amendments to IFRS 2 *Share-based Payment* on the classification and measurement of share-based payment transactions. All 13 IASB members present confirmed that they are satisfied that the IASB has completed the necessary due process steps on the project to date and therefore instructed the staff to commence balloting process for the amendments. No IASB members indicated that they intend to dissent from the publication of the final amendments to IFRS 2.

In addition, the IASB tentatively decided that the effective date of the amendments should be 1 January 2018 and earlier application should be permitted. All 13 IASB members present agreed with this decision.

**Next steps**

The IASB plans to issue the final amendments to IFRS 2 in Q1 of 2016.

**Agenda Paper 12B: Classification of Liabilities**

The IASB considered a summary of feedback on the Exposure Draft *Classification of Liabilities (Proposed amendments to IAS 1)*. No decisions were made.

**Next steps**

In response to requests by IASB members, the staff expect to discuss at a future meeting analysis that:

- a. tests the proposals against a number of specific transaction types raised in the comment letters; and
- b. examines the guidance with respect to the transfer of equity as a means of settlement by using specific examples raised in the consultation.

**Agenda Paper 12C: Measurement of interests in associates and joint ventures that, in substance, form part of the net investment**

The IASB discussed a request from the Interpretations Committee for input on an issue relating to the measurement of long-term interests that, in substance, form part of the net investment in an associate or joint venture in accordance with IAS 28 *Investments in Associates and Joint Ventures*. Specifically, the IASB considered whether such long-term interests should be tested for impairment by applying IAS 28, IFRS 9 *Financial Instruments* or a combination of both. No decisions were made.

However, after the discussion, all 13 IASB members present supported the Interpretations Committee's continued discussion of the issue, and noted the possibility that the Interpretations Committee might develop an Interpretation to clarify the type of interests that are included in the net investment in an associate or joint venture.

**Next steps**

Feedback received from the IASB will be provided to the Interpretations Committee at a future meeting.

## **IFRS 3 Business Combinations—Definition of a business (Agenda Paper 13)**

The IASB met on 15 December 2015 to consider the IFRS Interpretations Committee's comments on the IASB's proposed amendments to IFRS 3. The proposed amendments would clarify the definition of a business and related application guidance.

### ***Agenda Paper 13: Analysis of the IFRS Interpretations Committee's comments on IASB proposals***

The IASB tentatively decided to:

- a. retain the 'substantially all' threshold and ask constituents whether they think that this practical approach is useful;
- b. clarify, in the illustrative examples of the proposed amendments that a building acquired and an in-place operating lease shall be considered a single asset for the evaluation of the 'substantially all' threshold;
- c. clarify, in the proposed amendments to the application guidance of IFRS 3 that the acquired outsourcing agreements may be considered to provide an organised workforce and that the acquirer should consider whether the acquired outsourcing agreements perform a substantive process;
- d. explain, in the Basis for Conclusions of the proposed amendments that where an entity acquires a supplier that then ceases generating revenues, because all output is consumed by the acquirer, the supplier would still be 'capable of' generating revenues, and so it might qualify as a business, if the other criteria are met; and
- e. add two illustrative examples on how to apply the proposed guidance in the financial sector and in the extractive industries sector.

All 13 IASB members present agreed with these decisions.

### ***Next steps***

The IASB expects to issue the Exposure Draft in the second quarter of 2016.

### ***Agenda Paper 13A: Due process considerations***

The IASB tentatively decided that the comment period for the Exposure Draft should be 120 days. All 13 IASB members present agreed with this decision.

In addition, the IASB reviewed the due process steps that it has taken in developing the proposed amendments. All 13 IASB members present confirmed that they are satisfied that the IASB has completed all of the necessary due process steps on the project to date and therefore instructed the staff to commence the balloting process for the Exposure Draft of the proposed amendments. No IASB members indicated an intention to dissent.

### ***Next steps***

The IASB expects to issue the Exposure Draft in the second quarter of 2016.

#### ***Agenda Paper 13B: IFRS 11 Joint Arrangements—Remeasurement of previously held interests***

On 15 December 2015, the IASB continued its discussions of the proposed amendments to IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*.

The IASB tentatively decided that:

- a. the proposed amendments should be applied to transactions occurring on or after the effective date with early application permitted.
- b. The comment period for the ED should be 120 days.

All 13 IASB members present agreed with these decisions.

In addition, the IASB reviewed the due process steps that it has taken in developing the proposed amendments. All 13 members present confirmed that they are satisfied that the IASB has completed all of the necessary due process steps on the project to date and therefore instructed the staff to commence the balloting process for the Exposure Draft of the proposed amendments. No IASB members indicated an intention to dissent.

## **Research programme (Agenda Paper 8)**

The IASB met on 15 December 2015 to receive a general update on the IASB's research programme. The update reflected developments since the last update, which had been provided in the IASB's September 2015 meeting. Information on the IASB's work plan, including its research programme, is available [here](#).

The IASB was not asked to make any decisions.

The staff expect to provide a further update on the research programme in around three or four months.

## **Revenue from Contracts with Customers (Agenda Paper 7)**

### **(IASB-only session)**

The IASB met on 15 December 2015 to continue its discussions on Exposure Draft *Clarifications to IFRS 15* (ED). In particular, the IASB:

- a. considered the feedback received on its ED.
- b. discussed the following topics related to the ED:

- i. identifying performance obligations (Agenda Paper 7B);
  - ii. licensing (Agenda Paper 7C);
  - iii. practical expedients on transition (Agenda Paper 7D); and
  - iv. other topics for which the IASB decided not to propose any amendments to IFRS 15 (Agenda Paper 7E).
- c. considered an issue relating to the application of requirements in IFRS 15 *Revenue from Contracts with Customers* to constrain estimates of variable consideration (Agenda Paper 7H).

#### ***Agenda Paper 7A: Summary of feedback on Exposure Draft Clarifications to IFRS 15***

The IASB considered the feedback from respondents on (a) the high hurdle set by the IASB when considering whether to amend IFRS 15; and (b) the status of convergence of IFRS 15 and the US equivalent Topic 606 *Revenue from Contracts with Customers*. The IASB were not asked to make any decisions.

#### ***Agenda Paper 7B: Identifying performance obligations—feedback on ED and redeliberations***

The IASB tentatively decided:

- a. to amend IFRS 15 to clarify the factors that indicate when two or more promises to transfer goods or services are not separately identifiable. The IASB instructed staff to work with FASB staff to try to achieve converged wording with the FASB's related amendments to Topic 606. Seven of the 13 IASB members present agreed with this decision.
- b. to confirm its previous decisions not to make amendments to IFRS 15 relating to:
  - i. promised goods or services that are immaterial in the context of the contract; and
  - ii. shipping and handling activities.

12 of the 13 IASB members present agreed with these decisions.

#### ***Agenda Paper 7C: Licensing—feedback on ED and redeliberations***

The IASB confirmed its previous decisions to clarify the application guidance in IFRS 15 relating to the following licensing issues, as proposed in the ED:

- a. determining the nature of an entity's promise in granting a licence of intellectual property; and
- b. the scope and applicability of the sales-based and usage-based royalties exception (the royalties constraint).

All 13 IASB members present agreed with these decisions.

The IASB also discussed some additional implementation questions relating to contractual restrictions in a licensing contract that were discussed by the Transition Resource Group for Revenue Recognition in November 2015. The IASB observed that the application guidance on licensing does not override the five-step revenue recognition model of IFRS 15. An entity is expected to apply the general requirements for identifying performance obligations to identify whether a contract includes one or multiple licences. Similarly, the entity would apply the contract modifications guidance when accounting for renewal of or modifications to a licensing contract. Consequently, the IASB decided to confirm its previous decision, proposed in the ED, not to amend the existing requirements of IFRS 15 relating to contractual restrictions. All 13 IASB members present agreed with this decision.

#### ***Agenda Paper 7D: Practical expedients on transition—feedback on ED and redeliberations***

The IASB confirmed its previous decision to amend the transition requirements in IFRS 15 as proposed in the ED. All 13 IASB members present agreed with this decision.

Furthermore, the IASB tentatively decided to amend IFRS 15:

- a. to permit an entity using the modified retrospective transition method and electing to apply the contract modifications practical expedient, to apply that expedient either:
  - i. at the beginning of the earliest period presented in the financial statements in which IFRS 15 is first applied; or
  - ii. at the date of initial application of IFRS 15.
- b. to permit an entity using the modified retrospective transition method to apply IFRS 15 either to all contracts or to contracts that are not completed contracts at the date of initial application.

All 13 IASB members present agreed with these decisions.

The IASB also confirmed its previous decision, made in September 2015, not to amend the definition of a completed contract. 12 of the 13 IASB members present agreed with this decision.

#### ***Agenda Paper 7E: Topics for which the IASB did not propose any clarifications—feedback on ED and redeliberations***

The IASB confirmed its previous decision not to amend the requirements in IFRS 15 in respect of collectability. 13 of the 13 IASB members present agreed with this decision.

The IASB also confirmed its previous decisions not to amend the requirements in IFRS 15 in respect of measuring non-cash consideration and presentation of sales taxes. All 13 IASB members present agreed with these decisions.

#### ***Agenda Paper 7H: Constraining estimates of variable consideration when the consideration varies based on a future market price***

The IASB considered whether the requirement in IFRS 15 to constrain estimates of variable consideration must be applied to variability arising solely from changes in market prices, such as a commodity price. The IASB agreed with the staff's analysis and conclusion that variability arising solely from changes in a market price would not be subject to the variable consideration constraint in IFRS 15. The IASB also noted that the discussion and the analysis of the question in paragraphs 13-20 of **Agenda Paper 7H** could help educate practice. 11 of the 13 IASB members present agreed with this decision.

#### **(Joint session with FASB)**

#### ***Agenda Papers 7F and 7G: Principal versus agent considerations—feedback on ED and redeliberations***

The IASB and the FASB (the Boards) met on 16 December 2015 to redeliberate amendments proposed to clarify the principal versus agent guidance in IFRS 15 and Topic 606, in the light of the feedback received on their respective Exposure Drafts—the IASB's Exposure Draft *Clarifications to IFRS 15* and the FASB's Proposed Accounting Standards Update, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. The Boards had proposed

the same amendments.

*Principle for determining whether an entity is a principal or an agent*

The Boards confirmed the principle in IFRS 15 and Topic 606 that an entity's promise is to provide a specified good or service to a customer (that is, the entity is a principal) when it controls the specified good or service before that good or service is transferred to the customer. In contrast, the entity's promise is to arrange for another party to provide that good or service (that is, the entity is an agent) when it does not control the specified good or service before it is transferred to the customer. All IASB and FASB members agreed with this decision.

*Unit of account for the principal versus agent evaluation*

The Boards confirmed the proposals to clarify that:

- a. an entity determines whether it is a principal or an agent for each specified good or service promised to the customer;
- b. a specified good or service is a distinct good or service (or distinct bundle of goods or services) to be provided to the customer; and
- c. depending on the circumstances, a specified good or service may be a right to an underlying good or service to be provided by another party.

All IASB and FASB members agreed with these decisions.

*Application of the control principle*

The Boards confirmed the proposals to clarify the application of the control principle in the context of services. All IASB and FASB members agreed with this decision.

*Control indicators*

The Boards confirmed the proposals to clarify the role of the indicators in paragraph B37 of IFRS 15 and paragraph 606-10-55-39 of Topic 606. In particular, those amendments will:

- a. clarify that the indicators assist in the evaluation of control, rather than override or replace the control evaluation;
- b. reframe the indicators to indicate when an entity is a principal, rather than when an entity is an agent;
- c. clarify how each indicator relates to the control principle; and
- d. clarify that one or more indicators may be more or less relevant to the control evaluation in different contracts.

All IASB and FASB members agreed with these decisions.

The Boards also decided to eliminate exposure to credit risk as an indicator (paragraph B37(e) of IFRS 15 and paragraph 606-10-55-39(e) of Topic 606) as to whether an entity controls a specified good or service before it is transferred to the customer. All IASB and FASB members agreed with this decision.

**Next steps**

At the January 2016 meeting, the IASB plans to consider the transition provisions and effective date of Clarifications to IFRS 15, as well as to review the due process steps that the IASB has taken to date.

## Discount rates research (Agenda Paper 17)

The IASB considered the staff's findings on the research project on present value measurements—discount rates.

The IASB was not asked to make any decisions.

### **Next steps**

The IASB will continue to consider the staff's findings at the next meeting.

## Work plan—projected targets as at 18 December 2015

The work plan reflecting decisions made at this meeting was updated on the IASB website on 18 December 2015. [View it here](#).

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