

IASB update

Q&A with the IASB Vice-Chair and
Executive Technical Director

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World
Standard-setters
Conference
2019

#WSS_2019



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National Standard-setters Times

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What has the Board done in the last year?

What has the Committee done in the last year?

What will happen in 2020?

Any other news to share?

Any helpful material to mention?



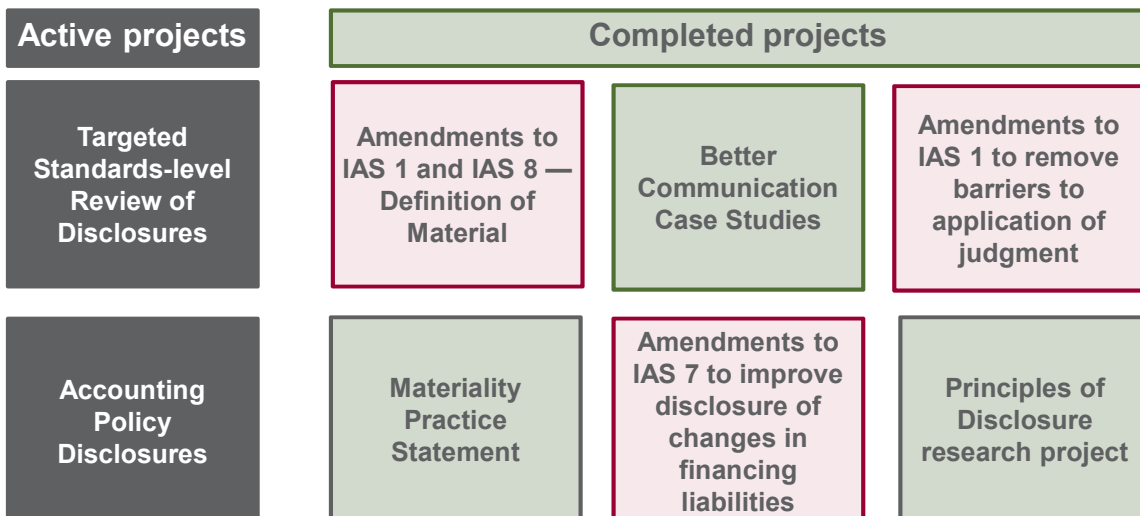
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What has the Board done in the last year?



Disclosure Initiative—overview of projects

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Disclosure Initiative—Accounting Policy Disclosures

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Users say that accounting policy disclosures today are often not useful
Stakeholders' views differ about 'significant' accounting policies required by IAS 1

Board's proposals

Clarify that not all accounting policies that relate to material transactions, other events or conditions are themselves material to the financial statements.

Amend IAS 1 *Presentation of Financial Statements* to require entities to disclose their **material accounting policies** rather than their significant accounting policies.

Add guidance and examples to the Materiality Practice Statement. These will explain how to apply the four-step materiality process to accounting policies.

Comment letter deadline: 29 November 2019



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Disclosure Initiative—Materiality Practice Statement Fact sheet

6

IFRS Practice Statement 2 *Making Materiality Judgements*



Gathers in one place all the requirements on materiality from IFRS Standards and adds practical guidance and examples

Objective



Provides reporting entities with guidance on making materiality judgements when preparing financial statements in accordance with IFRS Standards

Form of the guidance



The Practice Statement does not change any existing requirements nor introduce any new requirements; it is a non-mandatory document developed by the Board



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IBOR reform and financial reporting

7

The potential discontinuation of interest rate benchmarks (IBOR reform) could affect the usefulness of information provided in IFRS financial statements

Phase I: pre-replacement

- Exposure Draft: 3 May-17 June
- Proposed amendments to provide relief from IAS 39 and IFRS 9 (hedge accounting)
- Final amendment expected September 2019

Phase II: replacement

- The Board will consider whether further amendments are required to address the accounting effects of actual changes in benchmark interest rates



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IBOR Reform—Phase I highlights from the proposals

8

Phase I

Address concerns related to the uncertainties arising from IBOR reform by providing relief when applying the following qualifying criteria for hedge accounting required by IFRS 9 and IAS 39:

- highly probable
- prospective assessment
- separately identifiable risk components

That relief does not affect the actual economics of the transactions which should continue to be reflected in financial reporting



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IBOR Reform—Phase I redeliberations

9

- Remove IAS 39 requirement for retrospective assessment for affected hedges during the period of uncertainty
- Clarify that foreign currency hedges also in scope
- Extend relief for separately identifiable risk components so that only need to test once for a hedged item designated in a 'macro hedge'
- Clarify application for groups of hedged items
- Simplify the disclosure requirements

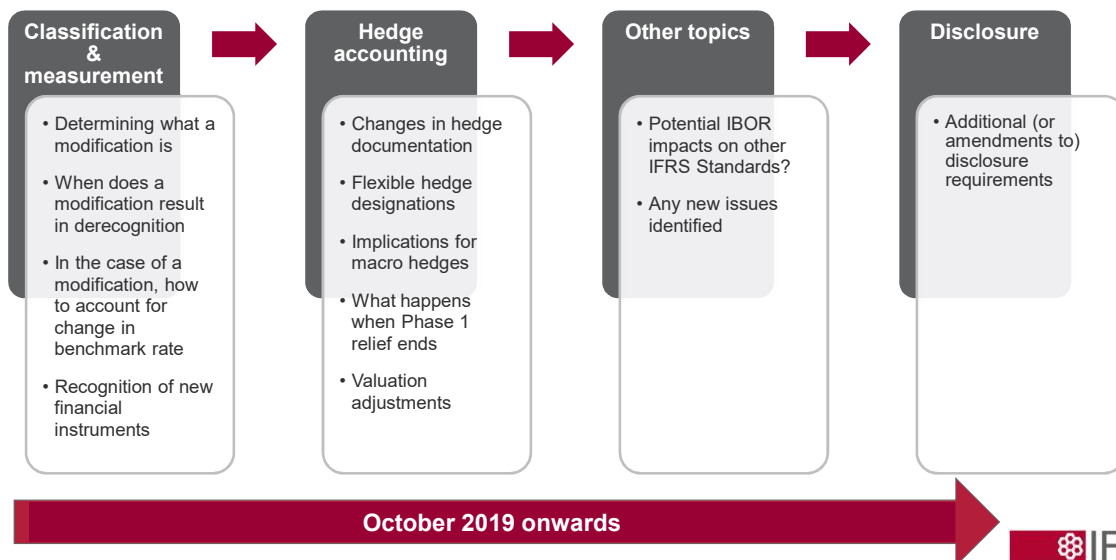
Next steps Publish amendments September 2019



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Phase II—replacement issues

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IASB support for IFRS 17 implementation

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A comprehensive programme of stakeholder engagement and implementation support

 <p>Webinars</p>	 <p>Articles and other materials</p>	 <p>Conferences</p>	 <p>Transition Resource Group (TRG)</p> <p>4 meetings</p> <p>127 implementation questions</p>
<p>Education for</p> <ul style="list-style-type: none"> investors regulators standard-setters preparers  <p>Over 100 meetings with investors</p>		<p>Informal technical discussion with</p> <ul style="list-style-type: none"> regulators standard-setters preparers auditors  <p>Over 300 meetings with stakeholders</p>	



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IFRS 17 Insurance Contracts: easing implementation

12

The Board proposes targeted amendments to IFRS 17 to respond to concerns and challenges raised by stakeholders as IFRS 17 is being implemented

Comment letter period closed 25 September 2019

<p>Deferral of effective date by one year</p> <p>IFRS 17 IFRS 9</p> <p>1</p>	<p>Additional scope exclusions</p> <p>Loans Credit cards</p> <p>2</p>	<p>Allocation of acquisition costs to expected contract renewals</p> <p>3</p>	<p>Attribution of profit to service relating to investment activities</p> <p>4</p>
<p>Extension of risk mitigation option</p> <p>5</p>	<p>Reduced accounting mismatches for reinsurance</p> <p>6</p>	<p>Simplified balance sheet presentation</p> <p>7</p>	<p>Additional transition reliefs</p> <p>Business combinations Risk mitigation from the transition date Risk mitigation and fair value approach</p> <p>8</p>



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What has the Committee done in the last year?



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Committee's work: Overview of 2019 activities*

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23 addressed by Committee through agenda decisions with explanatory material

2 Work in progress

* Three Committee meetings held in 2019 (to date)
(January, March and June)



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IASB – Narrow-scope standard setting arising from the Committee’s work

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Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)

- ED published in December 2018
- Board considered comments in May 2019



Requirements apply to all revenue contracts

Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12)

- ED out for comment until November 2019



Addresses deferred tax on leases and decommissioning obligations

Taxation in fair value measurements (Annual Improvements to IFRS Standards 2018 – 2020)

- ED closed for comment August 2019



Align the fair value measurement requirements with those in other IFRS 13



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Deferred tax related to assets and liabilities arising from a single transaction (IAS 12)

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Board proposes to amend IAS 12 *Income Taxes*

Board considered the purpose of the recognition exemption

Leases may give rise to **equal** and **offsetting** temporary differences

Exemption is not needed



Narrowing the scope of the recognition exemption

An entity recognises deferred tax **to the extent** that the transaction gives rise to **equal amounts** of deferred tax assets and liabilities



Reasons for the amendment

- Faithful representation
- Reduce diversity
- Narrow in scope



Share your views

- Exposure draft issued in July
- Open for comment for 120 days



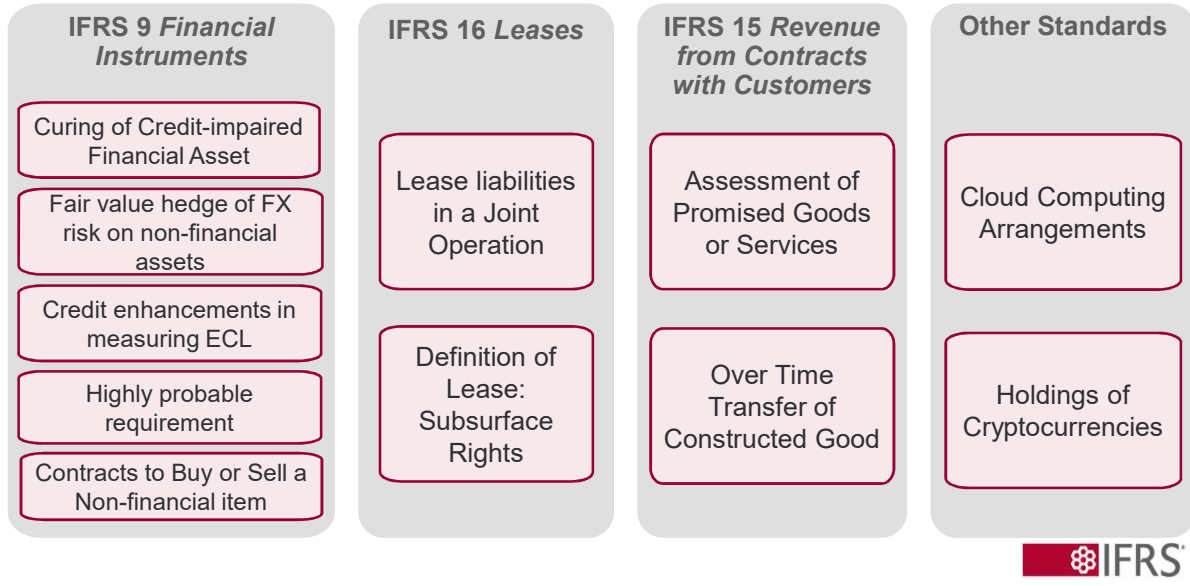
Comment letter deadline: 14 November 2019



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Sample of recently finalised agenda decisions

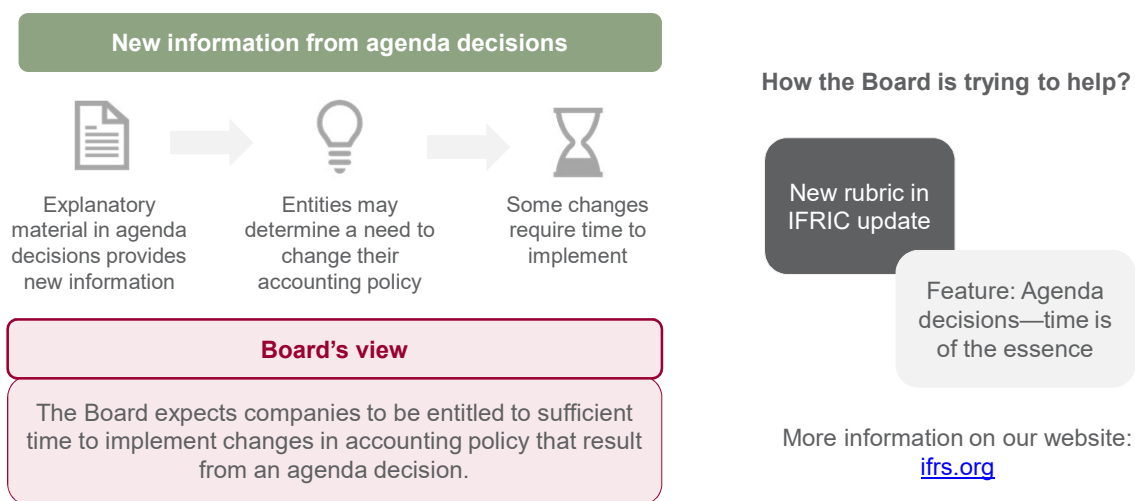
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Sufficient time for implementing agenda decisions

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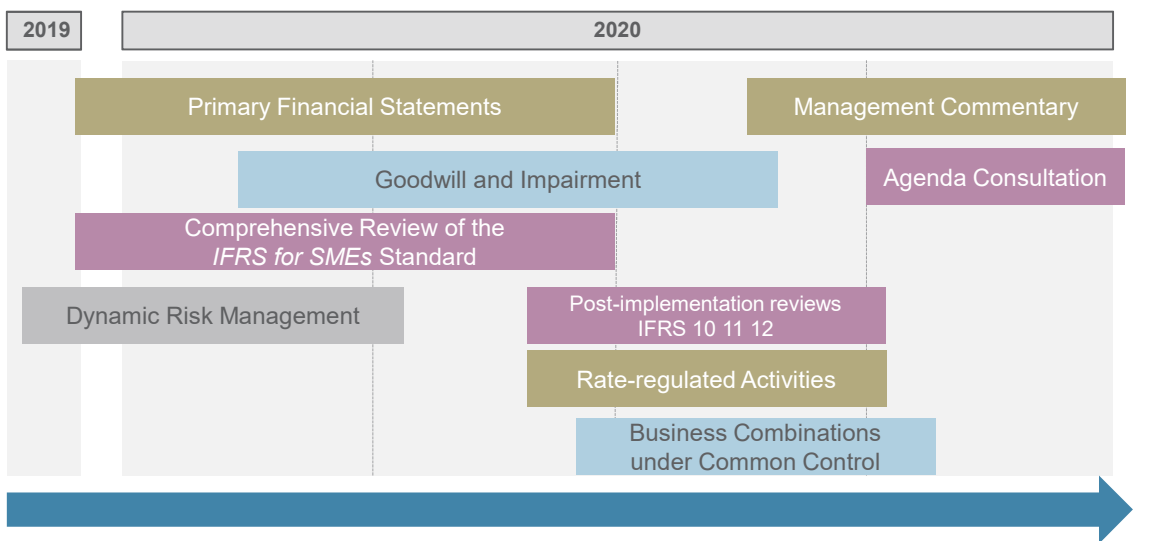
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What will happen in 2020?

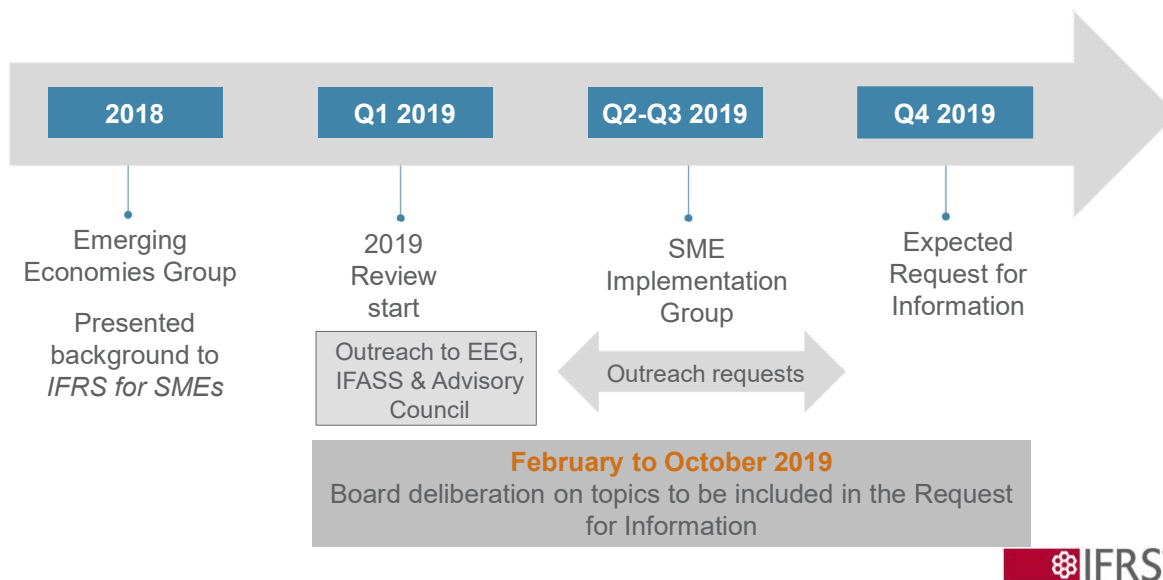


2020 major consultations



IFRS for SMEs 2019 Review – Phase 1

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Overview of the 2019 Review

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Phase I – Request for Information

Develop a Request for Information (RFI) setting out the Board's approach on whether and how to align the *IFRS for SMEs* Standard with new and amended IFRS Standards and IFRIC Interpretations

Phase II – Feedback analysis

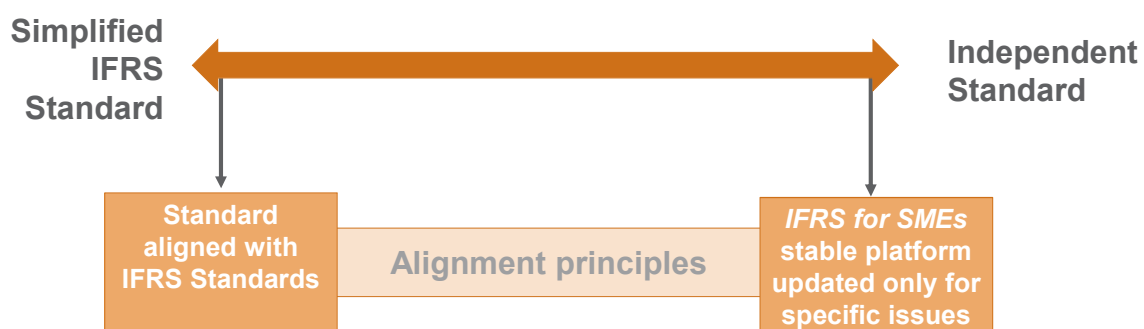
Decide if the Board should develop an Exposure Draft of amendments to the *IFRS for SMEs* Standard, and if so, what should be included

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IFRS for SMEs Standard and IFRS Standards

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- *IFRS for SMEs* Standard was developed based on principles of IFRS Standards
- Board discussed approach to 2019 Review:

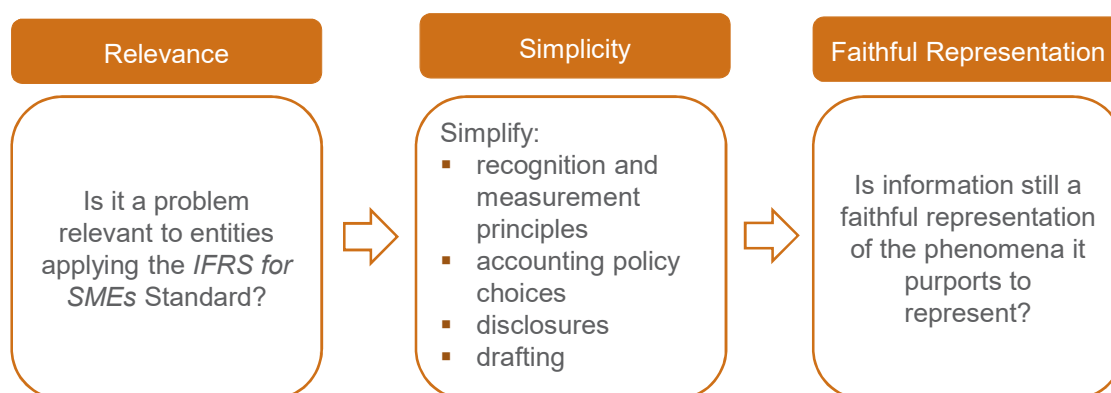


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Alignment principles

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- The purpose of the alignment principles is to help the Board determine whether and how to align the *IFRS for SMEs* Standard with new and amended IFRS Standards



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Feedback on Discussion Paper


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Classification	Presentation	Disclosure
<ul style="list-style-type: none"> Timing feature 	<ul style="list-style-type: none"> Separate presentation of financial liabilities 	<ul style="list-style-type: none"> Priority on liquidation
<ul style="list-style-type: none"> Amount feature 	<ul style="list-style-type: none"> Attribution within equity 	<ul style="list-style-type: none"> Maximum dilution of ordinary shares
<ul style="list-style-type: none"> Contractual terms 		<ul style="list-style-type: none"> Terms and conditions

Key

- Green: broadly agree with no or limited qualifications
- Amber: partially agree with some issues that need addressing or mixed views
- Red: broadly disagree and/or concerns raised

128 comment letters



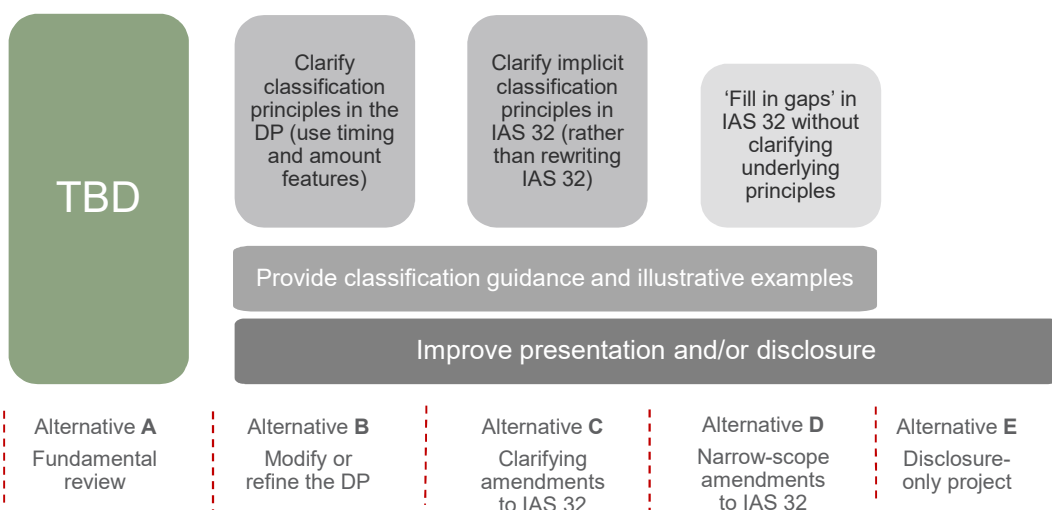
Next steps The Board will discuss the project's direction at a future meeting



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FICE project direction alternatives

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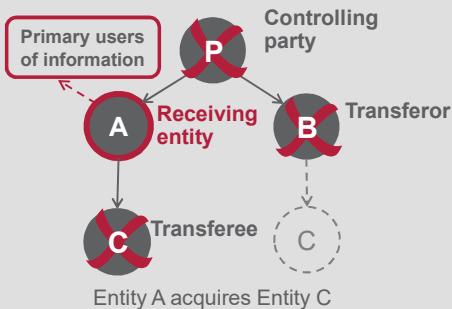
Business Combinations under Common Control

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Problem

Absence of IFRS requirements reduces comparability and understandability of financial information

Approach



The project addresses reporting by the receiving entity in a business combination under common control

In determining when and how a current value approach or a predecessor approach should be applied, consider:

- whether and how transactions in the scope of the project can be different from business combinations addressed in IFRS 3 *Business Combinations*;
- information needs of primary users; and
- costs of providing and using information.



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Business Combinations under Common Control

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No need to pursue a single approach for all transactions in the scope of the project

Board's Tentative Decisions

Transactions that affect non-controlling shareholders of the receiving entity

Transactions that do *not* affect non-controlling shareholders

Start with the acquisition method and consider whether and how to modify it

Consider requiring a different approach, such as a form of predecessor approach

Next steps

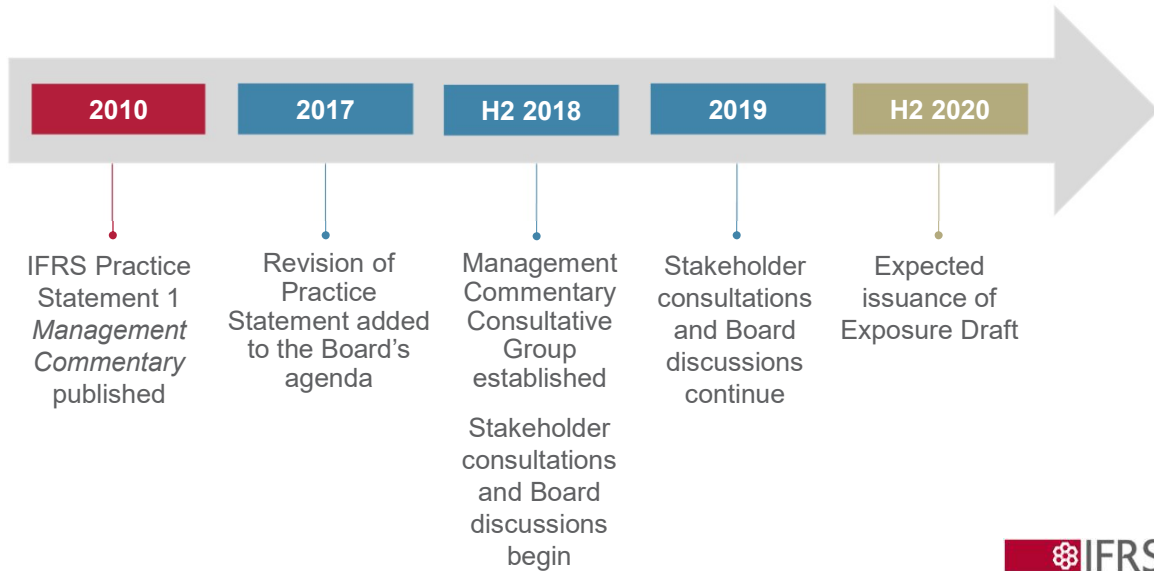
Discussion Paper is planned for the first half of 2020



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Management Commentary project

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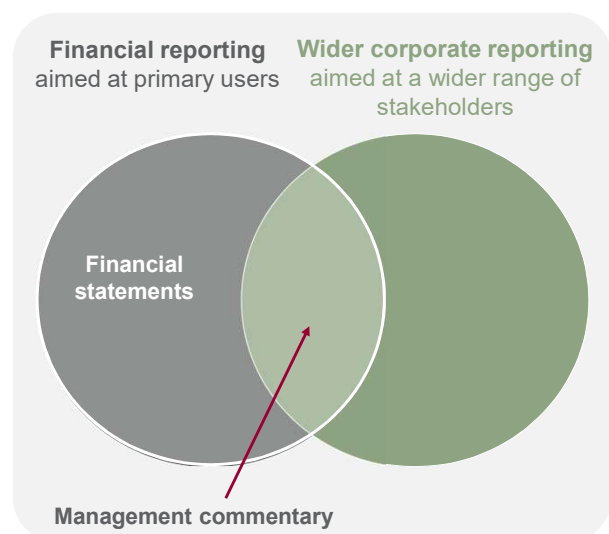
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What is management commentary?

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- A narrative report that gives context for the financial statements and additional insight into the company's long-term prospects
- Sits within the boundaries of financial reporting and is aimed at primary users of financial reports—existing and potential investors, lenders and other creditors

Environmental, social and governance (ESG) matters—normally part of wider corporate reporting—are discussed in management commentary if necessary for primary users to make economic decisions



IFRS

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Management commentary project focus

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Why revise?

Developments in narrative reporting



Gaps in current reporting practice



Increasing need for additional information



Focus of revision

Meet primary users' information needs

Retain a principles-based approach but expand the guidance to:

- consolidate innovations
- address gaps in reporting
- support rigorous application

Particular emphasis on:

- company-specific matters
- intangibles and ESG matters
- matters that underpin long-term success
- coherent discussion linked to strategy

Intended to be compatible with jurisdictional requirements and subject-matter frameworks (eg TCFD, SASB)



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Research projects—Early stage

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Provisions

Assess whether to make targeted improvements to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

Subsidiaries that are SMEs

Research whether subsidiaries that are SMEs could apply recognition & measurement requirements of IFRS Standards with disclosure requirements of the *IFRS for SMEs* Standard

Extractive Activities

Gather evidence to decide whether to start a project to replace IFRS 6 *Exploration for and Evaluation of Mineral Resources*

Pension Benefits that Depend on Asset Returns

Address inconsistency arising when amount of pension benefits depends on the return of a specified pool of assets, but pension liability is measured using a discount rate determined by reference to high quality corporate bond rates



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Research pipeline—Projects to start in the future

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Project	Comments
Equity Method	A number of queries over time. Topic to be investigated after starting PIR of IFRS 11 <i>Joint Arrangements</i>
Pollutant Pricing Mechanisms	Assess whether the Board should develop a proposal to address any diversity that may exist in accounting for pollutant pricing mechanisms.
High Inflation: Scope of IAS 29	Assess whether it is feasible to extend the scope of IAS 29 to cover economies subject to high, rather than hyper, inflation. No other work is planned on IAS 29.
Variable and Contingent Consideration	Cross-cutting issue raised in agenda consultation and in earlier deliberations of other topics. This work may also lead to follow on work on risk-sharing and collaborative arrangements.

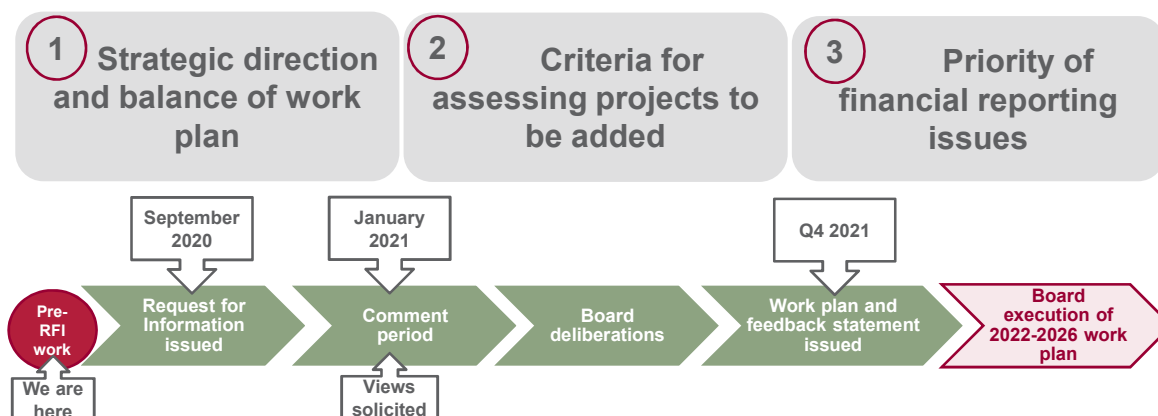


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2020 Agenda Consultation

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The purpose of an agenda consultation is to seek feedback on:

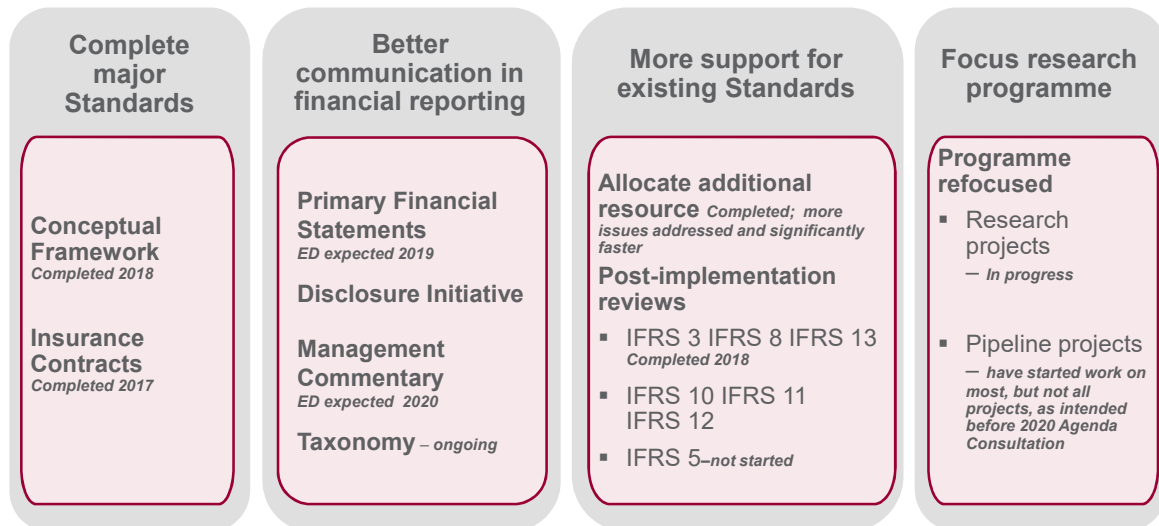


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Context for the 2020 Agenda Consultation

How we are doing against 2015 Agenda Consultation goals

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Context for the 2020 Agenda Consultation

Take-aways from 2015 Agenda Consultation

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- The **significant achievements** against the **2015 Agenda Consultation** goals demonstrate the benefits of a more focussed agenda and disciplined research process in order to make more timely progress.
- However, the Board may not meet all of its goals, in part, because it **added new projects** (IFRS17 amendments; IBOR reform; and update to management commentary, including aspects of environmental, social and governance developments) **subsequent to the 2015 Agenda Consultation**.
- As such, for the 2020 Agenda Consultation, **capacity to add new research and standard-setting projects** could potentially be limited:
 - A number of **projects are still in process**
 - Capacity should be retained for **issues arising after conclusion** of the 2020 Agenda Consultation
 - **Expansion of other activities** may limit capacity for research and standard-setting
 - **Expansion of research and standard-setting projects** could affect timeliness of those projects and of other activities (eg, processing of Interpretations Committee submissions)



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Why were IFRS 10,11 and 12 developed?

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IFRS 10

- A single consolidation (control) model
- Exemption for consolidation—investment entities

IFRS 11

- Classification of joint arrangements based on rights and obligations
- Elimination of accounting options

IFRS 12

- Combined and enhanced disclosure requirements



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Any other news to share?



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The IFRS Taxonomy

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The IFRS Taxonomy reflects the presentation and disclosure requirements of IFRS Standards and related common reporting practice in a timely and accurate manner



consists of 'elements' used by preparers to tag the information in IFRS financial statements



makes IFRS disclosures more accessible to users of tagged electronic data



facilitates communication between preparers and users



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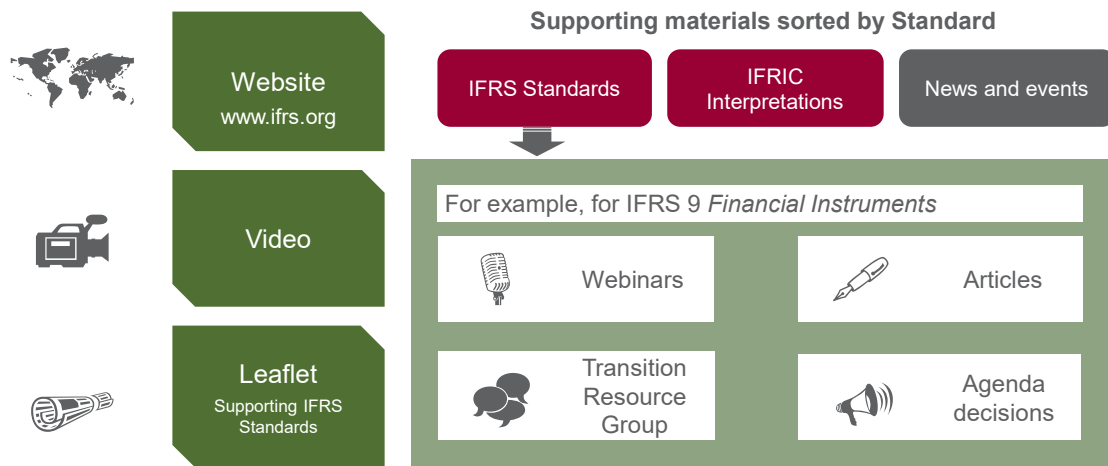
Any helpful material to mention?



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Resources available on our website

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www.ifrs.org/supporting-implementation/supporting-materials-by-ifrs-standard/ifrs-9/



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Get involved

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Questions

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Question 1

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The Board issued the Materiality Practice Statement in 2017 as part of its Disclosure Initiative. Is the MPS used in your jurisdiction?

- A. Yes – it's mandatory
- B. It is not mandatory, but some entities use the Practice Statement
- C. We use the Practice Statement to help develop similar requirements
- D. We do not use the Practice Statement

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Question 2

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Have you started to plan for outreach in your jurisdiction to respond to any of the major consultations due to take place in 2020?

- A. Yes
- B. No

Question 3

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Does your jurisdiction use the Management Commentary Practice Statement?

- A. Yes – it's mandatory
- B. It is not mandatory, but some entities use the Practice Statement
- C. We use the Practice Statement to help develop local requirements
- D. We do not use directly but some preparers use it as an example of good practice
- E. We do not use the Practice Statement

? Question 4

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Does your jurisdiction/region require the electronic tagging of data for some or all entities?

- A. Yes – we require electronic tagging of data using the IFRS Taxonomy
- B. Yes – we require electronic tagging of data but not the IFRS Taxonomy
- C. We do not require electronic tagging of data



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? Question 5

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From time to time the Board makes educational materials available, including Board members articles and webinars explaining specific aspects of IFRS Standards. Do you use these materials?

- A. Yes, regularly
- B. Yes, infrequently
- C. No, but will do so after the WSS conference



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Dynamic Risk Management



Dynamic Risk Management: Business Activity of Financial Institutions

The difference between **interest revenue** and **interest expense** represents **net interest income (NII)**.

$$\text{Interest Revenue} - (\text{Deposit Interest} + \text{Liability Interest}) = \text{NII}$$

Dynamic Risk Management is the process that involves understanding and managing how and when a change in interest rates can impact NII. As NII is the net of interest revenue and interest expense, a change in interest rates that has an equal impact on both would not impact NII.

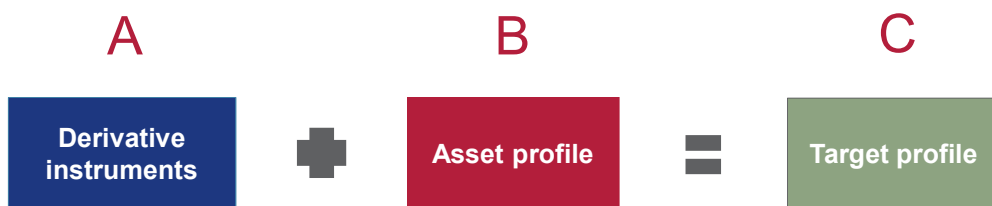
Consequently, one of the best ways to prevent NII from changing due to a change in interest rates is to “**match**” assets and liabilities, a common approach used by financial institutions.

Dynamic Risk Management: Outline of the model

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When derivatives (A) are successful in aligning the asset profile (B) with the target profile (C), changes in fair value of such derivatives are deferred in OCI and reclassified to the statement of profit or loss.

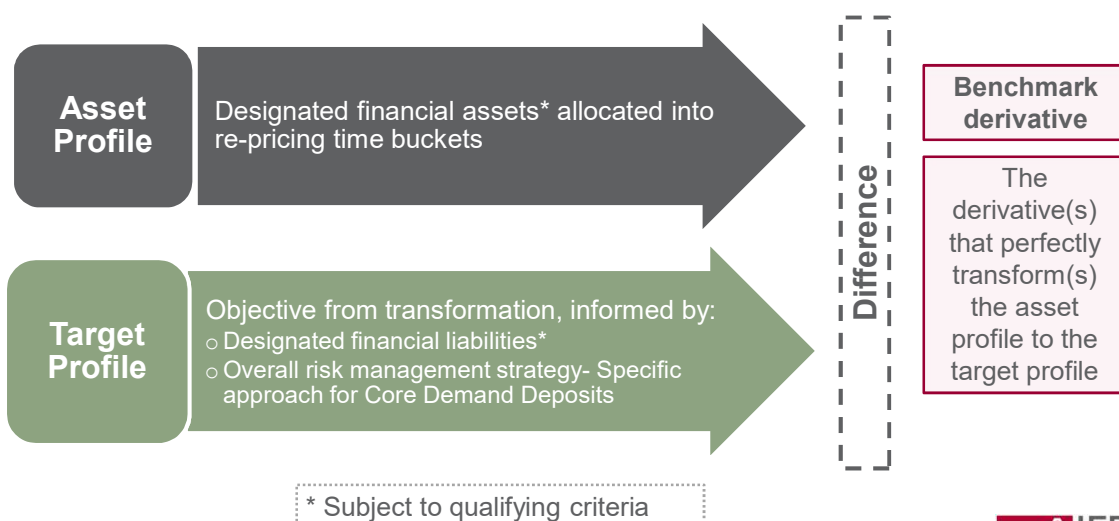
Assuming perfect alignment, the results reported in the statement of profit or loss should reflect the entity's target profile.



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Dynamic Risk Management: Overview

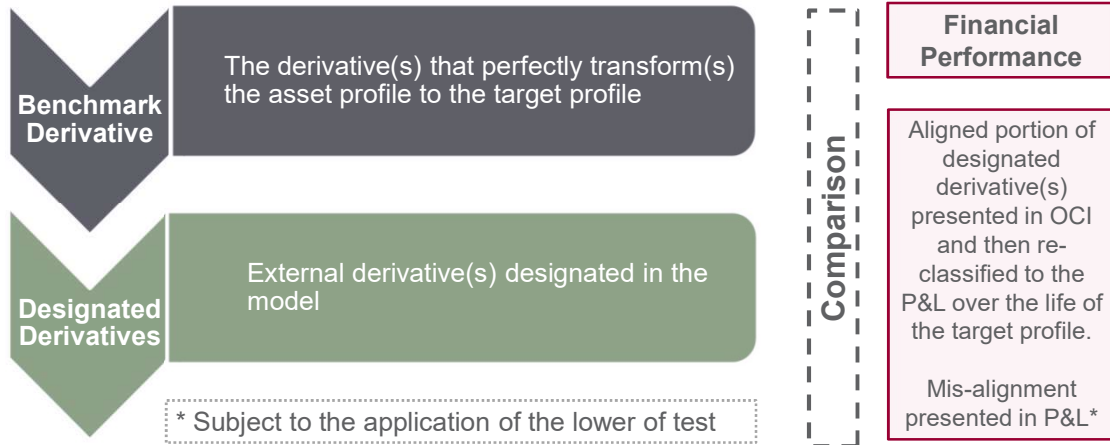
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Dynamic Risk Management: Overview (cont)

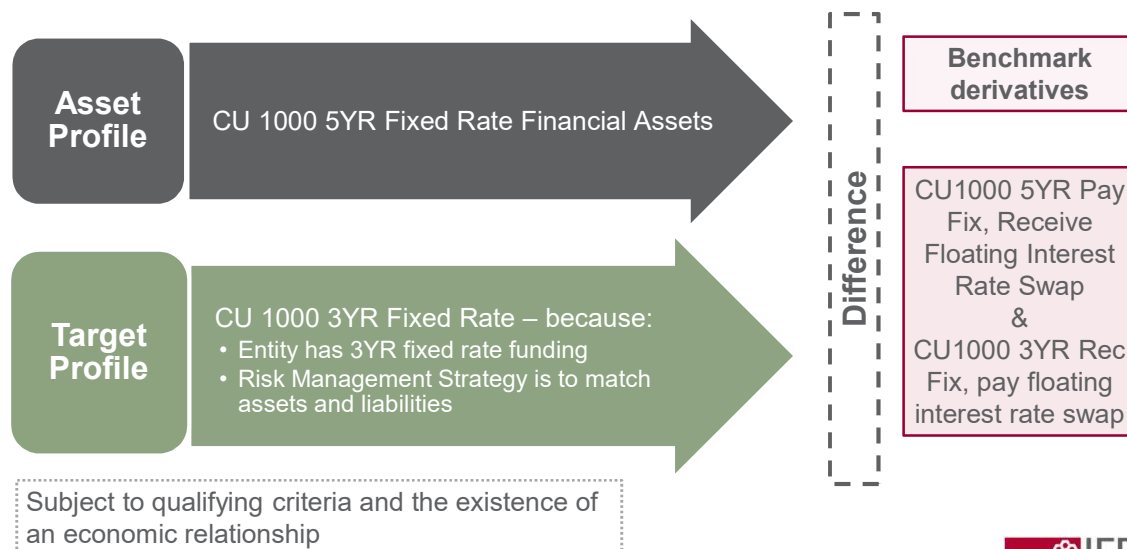
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Dynamic Risk Management: Example

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