IASB® Update

From the International Accounting Standards Board

April 2016

Welcome to the April IASB *Update*

The International Accounting Standards Board (the Board) met in public from 19 to 21 April 2016 at the IFRS Foundation's offices in London, UK.

The topics for discussion were:

- **IFRIC Update**
- **Agenda Consultation**
- **Insurance and IFRS 9**
- **Disclosure Initiative (Agenda Paper 11)**
- **Conceptual Framework**
- **Financial Instruments with Characteristics of Equity**
- **Business Combinations under Common Control**
- **Goodwill and Impairment**
- **Disclosure Initiative (Agenda Paper 25)**

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Future IASB meetings

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

Upcoming IASB meetings:

16 to 20 May 2016
20 to 24 June 2016
18 to 22 July 2016

To see upcoming and past IASB meetings, **click here**.

Archive of IASB *Updates*

For past issues of the IASB *Update* **click here**.

Podcast summaries

To listen to a short Board meeting audio summary (Podcast) of previous Board meetings, **click here**.

IFRIC Update (Agenda Paper 12)

The Board received an update from the March 2016 meeting of the IFRS Interpretations Committee.

Details of this meeting were published in the IFRIC Update, which is available [here].

Agenda Paper 12A: IFRS Implementation Issues: Classification of Liabilities

The Board was informed that the remaining redeliberations of the comments received on the exposure draft *Classification of Liabilities* (Proposed amendments to IAS 1) would be held back until after the Board has redeliberated the definitions of assets and liabilities in the *Conceptual Framework* exposure draft.

Agenda Consultation (Agenda Papers 8, 9, 17, 20, 21, 22, 24)

At its meeting on 19-21 April, the Board discussed the following topics related to its 2015 Agenda Consultation:

a. the effect that the feedback received in response to its Request for Views–2015 Agenda Consultation and outreach conducted should have on setting its future work plan (Agenda Paper 24B);
b. a summary of the feedback received from investors on the consultation (Agenda Paper 24C);
c. the results and demographic profile of an online survey conducted as part of the consultation (Agenda Paper 24D).
d. a general update on the Board's research activities (Agenda Paper 8);
e. project updates, including a summary of responses to the agenda consultation, on pollutant pricing mechanisms (Agenda Paper 20) and rate-regulated activities (Agenda Paper 9); and
f. summaries of feedback received on:
    i. present value measurements–discount rates (Agenda Paper 17);
    ii. primary financial statements (Agenda Paper 21);
    iii. whether to start a project to amend aspects of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The paper on this topic also discusses the implications of the feedback for the scope and

        timing of any such project (Agenda Paper 22); and

    iv. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (Agenda Paper 24E).

The papers did not include any staff recommendations and no decisions were made.

At the end of the April meeting, the staff presented an oral summary of the messages heard in the Board's discussions.

Next steps

The Board will continue its review of comments received on individual projects and their effect on the prioritisation of individual projects at the May Board meeting. At the May meeting, the staff will ask the Board to draw tentative conclusions on the Board's future work plan, for discussion with the IFRS

Advisory Council in June 2016.

In addition, the staff will also bring an outline of their proposed approach to research on primary financial statements to the May Board meeting.

Agenda Paper 24F: Agenda Consultation—New Project Suggestions

The Board discussed an analysis of the suggestions received through the agenda consultation for new projects to be added to the Board's agenda. The Board identified the following suggested projects for further consideration next month:

- IFRS reporting by subsidiaries
- General principles for separate financial statements
- General principles for combined financial statements
- Variable and contingent consideration for asset purchases
- Risk-sharing/collaborative arrangements
- Non-reciprocal transactions, including with governments
- Review of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*
- Digital currencies, including cryptocurrencies
- Relevance of referring to pronouncements of other standard-setting bodies in the hierarchy in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- Assessment of whether there is a need to withdraw IAS 26 *Accounting and Reporting by Retirement Benefit Plans*

Further details about these projects are available in Agenda Paper 24F.

Insurance and IFRS 9 (Agenda Paper 14)

The Board continued its deliberations on the proposals in the Exposure Draft *Applying IFRS 9* Financial Instruments (IFRS 9) *with IFRS 4* Insurance Contracts (IFRS 4) ('the ED').

Agenda Paper 14B: The Overlay Approach

The Board tentatively decided to confirm the ED proposals:

a. that a financial asset qualifies for the overlay approach if it is designated as relating to contracts that are within the scope of IFRS 4 and it is measured at fair value through profit or loss (FVPL) by applying IFRS 9 but would not have been measured at FVPL in its entirety if applying IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) [paragraph 35B of the ED].
b. that an entity that applies the overlay approach:
    i. may newly designate a previously recognised financial asset as relating to contracts

within the scope of IFRS 4 if and only if there is a change in the relationship between that financial asset and the contracts within the scope of IFRS 4. At the date of designation, the fair value of a financial asset newly designated as relating to contracts within the scope of IFRS 4 shall be its new amortised cost-carrying amount. The effective interest rate for such a financial asset is determined based on its fair value at the date of designation;

    ii. shall de-designate a previously recognised financial asset as relating to contracts within the scope of IFRS 4 only when there is a change in the relationship between that financial asset and the contracts within the scope of IFRS 4; and
    iii. shall reclassify to profit or loss any balance accumulated in other comprehensive income (OCI) relating to a previously designated financial asset if and when that financial asset no longer meets the qualifying criteria.

c. that an entity that applies the overlay approach is required to disclose sufficient information to enable users of financial statements to understand how the amount of the adjustment is calculated and the effect of the adjustment on the financial statements. In order to achieve this objective, an entity is required to disclose:
    i. the fact that it has applied the overlay approach in the reporting period and the carrying amount and classes of financial assets to which the reclassified amount relates;
    ii. its basis for determining assets to which the overlay approach is applied; and
    iii. an explanation of the amount of the adjustment and the effect on the financial statements of changes in designation of financial assets during the reporting period.
d. on the initial application of, and ceasing to apply, the overlay approach (paragraphs 35D, 35E(d), and 35F of the ED);
e. on applying the overlay adjustment to pre-tax profit or loss (paragraph BC 24 of the ED); and
f. on transition to the overlay approach (paragraph 41K of the ED).

The Board tentatively decided:

a. to clarify that qualifying financial assets could include surplus assets that an entity holds for the purposes of regulatory requirements or internal capital objectives. Consequently, surplus financial assets may be designated as relating to contracts within the scope of IFRS 4, as described in paragraph 35B of the ED;
b. to require an entity to explain, consistently with paragraph 37D(b) of the ED, the basis for designating financial assets held by one legal entity as relating to contracts within the scope of IFRS 4 that are issued by a different legal entity within the same reporting entity; and
c. to amend the ED proposals in paragraphs 35C and 37D(e) concerning the presentation of gains and losses for financial assets to which the overlay approach is applied to require an entity:
    i. to present:
        1. in the statement of profit or loss, information that reflects the application of IFRS 9, with a single, separate line item for the overlay adjustment;
        2. in OCI, the overlay adjustment separate from other components of OCI consistently with IAS 1 *Presentation of Financial Statements* (IAS 1); and
    ii. to disclose the effect of the overlay approach on individual line items in the notes to the financial statements.

12 Board members agreed with these decisions, 1 Board member disagreed and 1 Board member was absent.

Agenda Paper 14C: Temporary Exemption from IFRS 9—Qualifying criteria

The Board tentatively decided that an entity should be permitted to apply the temporary exemption **only** if:

a. the entity has not previously applied any version of IFRS 9 (except for the 'own credit' requirements in isolation); and
b. the entity's activities are predominantly 'related to insurance', where such activities comprise:
    i. issuing contracts within the scope of IFRS 4 and these contracts give rise to liabilities whose carrying amount is significant compared to the total carrying amount of the entity's liabilities; and
    ii. issuing investment contracts that are measured at FVPL by applying IAS 39.

The Board tentatively decided:

a. to define the 'predominance ratio' as follows:
    i. Numerator: the sum of the carrying amounts of:
        1. liabilities arising from activities related to insurance; and
        2. 'other' liabilities that are connected to those activities, and to provide examples of such 'other' connected liabilities.
    ii. Denominator: the total carrying amount of the entity's liabilities (including all the liabilities included in the numerator).
b. that an entity's activities are deemed to be predominantly related to insurance **only** if:
    i. the predominance ratio is greater than 90 per cent; or
    ii. the predominance ratio is less than or equal to 90 per cent but greater than 80 per cent and the entity can provide evidence that it does **not** have a significant activity that is unrelated to insurance.
c. that an entity should be required to compute the predominance ratio by using the carrying amounts of the liabilities reported on the entity's balance sheet, in accordance with IFRS Standards, at the annual reporting date between the 1 April 2015 and 31 March 2016 (ie the assessment date).

The Board tentatively decided to:

a. confirm the proposed disclosure in paragraphs 37A(a) and (b) of the ED that an entity must disclose:
    i. the fact that it is applying the temporary exemption; and
    ii. how it concluded that it is eligible for the temporary exemption; and
b. require that:
    i. if the carrying amount of liabilities arising from contracts within the scope of IFRS 4 is **not** greater than 90 per cent of total liabilities, an entity should disclose any liabilities, other than those arising from contracts within the scope of IFRS 4, that were added to the numerator of the predominance ratio; and
    ii. an entity must disclose the information used to determine that the entity's activities are predominantly related to insurance if the predominance ratio is less than or equal to 90 per cent but greater than 80 per cent.

12 Board members agreed with these decisions, 1 Board member disagreed and 1 Board member was absent.

Agenda Paper 14D: Disclosures for the Temporary Exemption

The Board tentatively decided to confirm the disclosures for entities that apply the temporary exemption, proposed in paragraph 37A(c)-(d) of the ED, with the following changes:

a. amend the disclosure proposed in paragraph 37A(c) to require an entity to disclose the fair value at the end of the reporting period and the fair value change during the reporting period separately for:
    i. the financial assets specified in 37A(c); ie those assets with contractual cash flows that are not solely principal and interest (SPPI); and
    ii. all other financial assets; ie those assets with contractual cash flows that are SPPI. For the purpose of this disclosure, an asset's carrying amount measured in accordance with IAS 39 is a reasonable approximation of its fair value if the entity is not required to disclose its fair value in accordance with paragraph 29(a) of IFRS 7 *Financial Instruments: Disclosures* (eg short-term trade receivables);
b. add to the disclosure proposed in paragraph 37A(c) to require an entity to present the information with a sufficient level of detail to enable users of financial statements to understand the nature and the characteristics of the financial assets.
c. add to the disclosure proposed in paragraph 37A(d) to require that for the financial assets within the scope of that disclosure that do not have low credit risk, in accordance with IFRS 9, at the end of the reporting period, an entity should disclose the fair value and the "gross" carrying amount (ie in the case of amortised cost assets, before adjusting for any impairment allowances) measured in accordance with IAS 39; and
d. add a disclosure to require an entity to refer to any IFRS 9 information in the individual financial statements that is not provided in the consolidated financial statements but is publicly available for the relevant reporting period.

11 Board members agreed with this decision, 2 Board members disagreed and 1 Board member was absent.

Next steps

The remaining technical issues will be discussed in the May meeting. The Board aims to issue the amendments to IFRS 4 in September 2016.

Disclosure Initiative (Agenda Paper 11)

The Board met on 20 April 2016 to discuss the Materiality project and disclosures about restrictions on cash and about liquidity.

Agenda Paper 11A: Feedback Summary on Exposure Draft: IFRS Practice Statement Application

of Materiality to Financial Statements

The Board discussed an overview of the comments received on the Exposure Draft of the IFRS Practice Statement: *Application of Materiality to Financial Statements*.

No decisions were made.

Agenda Paper 11B: Disclosures about restrictions on cash and about liquidity

The Board discussed the background information included in the Agenda Paper on disclosures about restrictions on cash and about liquidity.

No decisions were made.

Next steps

At a future meeting, the staff plan to:

a. provide a more detailed analysis of the feedback received on the Exposure Draft *IFRS Practice Statement Application of materiality to financial statements* and seek the Board's view on specific issues raised by respondents.
b. ask the Board to consider adding a project on cash restrictions or liquidity to its agenda.

Conceptual Framework (Agenda Paper 10)

On 20 April 2016 the Board discussed the purpose and status of the *Conceptual Framework* and the strategy for redeliberations. In particular, the Board discussed specific approaches for the redeliberations of the following sections of the *Conceptual Framework*:

a. Measurement;
b. Reporting financial performance; and
c. Concepts for liabilities and equity

***Agenda Paper 10A: Purpose and status of the* Conceptual Framework**

The Board discussed the purpose of, status of, and departures from aspects of the *Conceptual Framework* as well as the approach to future revisions of the *Conceptual Framework*.

The Board tentatively decided to confirm the proposal in the ED that the purpose of the *Conceptual Framework* is to:

a. assist the Board to develop IFRS Standards that are based on consistent concepts;
b. assist preparers to develop consistent accounting policies when no IFRS Standard applies to a particular transaction or event, or when an IFRS Standard allows a choice of accounting policy; and
c. assist all parties to understand and interpret IFRS Standards.

All fourteen Board members agreed.

The Board tentatively decided to retain the existing status of the *Conceptual Framework*, and to confirm the proposal in the ED to explain any departures from aspects of the *Conceptual Framework* in the Basis for Conclusions accompanying the Standard in question.

All fourteen Board members agreed.

The Board tentatively decided to confirm the proposal in the ED that the *Conceptual Framework* should state that it may be revised from time to time.

Eight Board members agreed, and six Board members disagreed.

The Board tentatively decided not to include in the Basis for Conclusions on the *Conceptual Framework* examples of events and circumstances that could trigger a revision of the *Conceptual Framework*.

Thirteen Board members agreed and one Board member disagreed.

Agenda Paper 10B: Approach to redeliberations

The Board decided that it would redeliberate the topics that have proved controversial or those for which new information has become available. On other topics, the Board would confirm the proposals in the Exposure Draft but would not undertake significant additional analysis.

The Board decided that, in analysing the effects of the *Conceptual Framework*, the staff:

a. would not be asked to perform a comprehensive analysis of:

    i. the effects of the revised *Conceptual Framework* on future Standard-setting; or
    ii. inconsistencies between the revised *Conceptual Framework* and Standards.

b. would be asked to:

    i. perform a more extensive analysis of the effects that the proposed definitions of assets and liabilities—and the concepts supporting those definitions—could have for current projects;
    ii. analyse additional inconsistencies between the revised *Conceptual Framework* and Standards that have been claimed to exist by respondents; and
    iii. perform a more detailed analysis of the effects of the revised *Conceptual Framework*

for preparers.

Twelve Board members agreed with these decisions and two Board members disagreed.

Agenda Paper 10C: Approach to redeliberations—Measurement

The Board tentatively rejected the idea of publishing the *Conceptual Framework* without a chapter on measurement, and undertaking a research project to develop material that could be added to the *Conceptual Framework* at a later date.

The Board directed the staff to improve the discussion on measurement in the light of responses to the Exposure Draft.

Agenda Paper 10D: Approach to redeliberations—Reporting financial performance

The Board tentatively decided to provide high-level guidance on reporting financial performance in the *Conceptual Framework*. Such guidance will be based on the proposals in the Exposure Draft, modified in the light of the feedback received on the Exposure Draft.

Ten Board members agreed, three Board members disagreed and one Board member was absent.

Agenda Paper 10E: Approach to redeliberations—Concepts for liabilities and equity

The Board tentatively decided, consistently with the proposal in the Exposure Draft:

a. not to develop concepts to address challenges that arise in classifying financial instruments with characteristics of both liabilities and equity as part of the *Conceptual Framework* project;
b. instead, to continue to develop concepts to address those challenges in the Financial Instruments with Characteristics of Equity research project, acknowledging that one outcome of that project might be a need to make further amendments to the revised *Conceptual Framework*; and
c. to explain this approach, and highlight the possibility of further amendments to the *Conceptual Framework*, in the Basis for Conclusions accompanying the revised *Conceptual Framework*.

All fourteen Board members agreed.

The Board tentatively decided:

a. to continue to develop concepts to address other problems in identifying liabilities (such as the concepts describing a ‘present obligation’ in paragraphs 4.31-4.39 of the Exposure Draft), and add those concepts to the *Conceptual Framework*, as part of the *Conceptual Framework* project; and
b. in developing those concepts, to consider refinements to the proposals in the Exposure Draft to

reduce the risk of adding to the *Conceptual Framework* new concepts that the Board may need to revisit as a result of future decisions on the classification of financial instruments.

Thirteen Board members agreed, and one Board member disagreed.

Next steps

At the May Board meeting, the Board will discuss possible amendments to Chapter 1—*The objective of general purpose financial reporting* and Chapter 2—*Qualitative characteristics of useful financial information* of the *Conceptual Framework* Exposure Draft.

Financial Instruments with Characteristics of Equity (Agenda Paper 5)

The Board met on 20 April 2016 to discuss the research project on Financial Instruments with Characteristics of Equity.

In this meeting, the Board continued its discussion of the potential separate presentation requirements for subclasses of liabilities and of equity. The Board focussed its discussion on the Gamma approach.

The Board also discussed the feedback received on the project through its 2015 Agenda Consultation (Agenda Paper 5C, which was presented for information only).

Agenda Paper 5A: Scope of separate presentation requirements for liabilities that depend on the residual amount

In February 2016, the Board discussed separate presentation requirements for liabilities that depend on the residual amount. At that meeting, the Board limited its discussion to ordinary shares that are redeemable on demand for an amount of cash equal to fair value. Those shares would be classified as a liability under the Gamma approach because of the obligation to transfer economic resources.

In this meeting the Board indicated that it would improve comparability to apply the separate presentation requirements to stand-alone and embedded derivatives that depend on the residual amount. However, the Board noted that IFRS 9 permits entities to classify financial liabilities that include embedded derivatives in their entirety as measured at fair value through profit or loss. Consequently, the future Discussion Paper will include an analysis of the interaction of the separate presentation requirements with the requirements for embedded derivatives in IFRS 9.

Agenda Paper 5B: Attribution of profit or loss and other comprehensive income to classes of equity claims other than ordinary shares

The Board discussed the specific requirements for determining the amount to be attributed to classes of equity other than ordinary shares.

For non-derivative equity claims other than ordinary shares (such as non-cumulative preference shares), the Board indicated that it would be useful, and impose little additional cost, to attribute amounts based on the existing requirements for such instruments in IAS 33 *Earnings per Share*. IAS 33 includes requirements for the adjustment of the numerator of the earnings per share calculation for the effect of distributions and participation features of such instruments.

For derivative equity claims (such as warrants) the Board discussed three approaches to the attribution of profit or loss and other comprehensive income:

a. Approach A would not attribute any amount.
b. Approach B would attribute an amount equal to changes in the fair value of the derivative.
c. Approach C would attribute an amount weighted by the relative fair value of the derivative to the fair value of other classes of equity.

The Board was not asked for decisions at this meeting.

Next steps

At a future meeting the Board will discuss:

a. additional details of the definition of the residual amount for non-derivative and derivative obligations;
b. whether the separate presentation should apply only within profit or loss, or should use the distinction between profit or loss and other comprehensive income;
c. the approaches to attribution for derivative equity claims; and
d. possible improvements to disclosures about classes of equity claims other than ordinary shares.

Business Combinations under Common Control (Agenda Paper 23)

Agenda Paper 23-23B

The Board discussed the results of research and outreach on business combinations under common control, in particular:

- the methods that are applied in practice to account for these transactions, and the methods that interested parties think should be applied; and
- how the so-called predecessor method is applied in practice, and how interested parties think it should be applied.

The Board also discussed the feedback received on this topic in the 2015 Agenda Consultation.

The papers did not include any staff recommendations and no decisions were made.

Next steps

The Board will discuss at future meetings the advantages and disadvantages of different alternatives for accounting for these transactions and consider which alternative(s) would provide the most useful information, and why.

Goodwill and Impairment (Agenda Paper 18)

The Board met on 21 April 2016 to discuss its Goodwill and Impairment project. This project responds to some of the findings from the Board's Post-implementation Review of IFRS 3 *Business Combinations*.

At this meeting the Board continued its discussion from its March meeting about a possible modification to the impairment test to address investors' concerns about the late recognition of impairment losses and the overstatement of goodwill.

No decisions were made.

Next steps

The Board will continue its discussions of this project at future meetings. Those discussions are expected to include consideration of quantitative information about the amounts and trends of reported goodwill, impairment and intangible assets over recent years, gathered in conjunction with staff at the Accounting Standards Board of Japan (ASBJ), the European Financial Reporting Advisory Group (EFRAG) and the US Financial Accounting Standards Board (FASB). The Board also expects to discuss this project again with the FASB during Quarter 2 of 2016.

At its next meeting the Board will discuss the feedback from the 2015 Agenda Consultation on this project.

Disclosure Initiative (Agenda Paper 25)

As part of its Disclosure Initiative, the Board met on 21 April to discuss changes in accounting policies and changes in accounting estimates. The papers for this discussion were prepared jointly by the IASB staff and the staff of the Italian standard-setter, Organismo Italiano di Contabilità.

Agenda Paper 25A: distinction between changes in accounting policies and changes in accounting estimates

The Board tentatively decided to amend the definitions of accounting policies and changes in accounting estimates in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in order to:

a. clarify the definitions of accounting policies and of changes in accounting estimates with the objective of making them more concise and distinctive;
b. clarify how accounting policies and estimates relate to each other;
c. add guidance about whether changes in valuation techniques and in estimation techniques are changes in accounting estimates; and
d. update examples of estimates provided in IAS 8.

Thirteen of the fourteen IASB members agreed with this decision. The Board also tentatively decided that the proposed amendments should be published as a separate Exposure Draft and not in an Exposure Draft of Annual Improvements. All IASB members agreed with this decision.

The Board will discuss transition for the proposed amendments to IAS 8 at a future meeting.

Agenda Paper 25B: changes in accounting estimates: disclosure

The Board tentatively decided that it would not amend the requirement, in paragraph 39 of IAS 8, to disclose the nature and amount of a change in an accounting estimate. Twelve of the fourteen IASB members agreed with this decision.

Work plan—projected targets as at 22 April 2016

The work plan reflecting decisions made at this meeting was updated on the IASB website on 22 April 2016. **View it here**.

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