IASB® *Update*
From the International Accounting Standards Board

July 2016

Welcome to the July IASB *Update*

The International Accounting Standards Board (the Board) met in public from 18 to 19 July 2016 at the IFRS® Foundation's offices in London, UK.

The topics for discussion were:

- **Amendments to IFRS 4—*Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts**
- **IFRS Standards Implementation**
- ***Conceptual Framework—Definition of an asset, recognition and factors to consider when selecting a measurement basis***
- **Financial Instruments with Characteristics of Equity**
- **Research Update**
- ***2015 Agenda Consultation***

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Future IASB meetings

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

The next IASB meetings are:

No meeting in August
19 to 23 September 2016
17 to 21 October 2016

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

Archive of IASB *Update* Newsletter

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

Podcast summaries

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

Amendments to IFRS 4—*Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts (Agenda Paper 14)

The Board met on 18 July 2016 to consider a narrow-scope sweep issue that has arisen in its initial review of the Amendments to IFRS 4—*Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts.

Agenda Paper 14: Sweep issue—Quantitative disclosures applicable for entities applying the temporary

exemption from IFRS 9

The Board tentatively decided to simplify the disclosures applicable to entities applying the temporary exemption from IFRS 9 *Financial Instruments*, to align the scope of the fair value disclosures with the scope of the credit-risk disclosures. Accordingly, an entity should disclose the fair value at the end of the reporting period and the change in the fair value during the reporting period for the following two groups of financial assets separately (*text in italics highlights the changes to the groups*):

a. Financial assets with contractual cash flows that are solely principal and interest (SPPI), *excluding financial assets held for trading or managed on a fair value basis*.
b. All financial assets excluding those described in a. That is, any financial assets:
    i. *with contractual cash flows that are not solely principal and interest; or*
    ii. *that are held for trading or managed on a fair value basis.*

Eleven Board members agreed with this decision and one Board member was absent.

Next steps

The staff will reflect the Board's decision in the next draft of the Amendments. The Board expects to issue the final amendments to IFRS 4 in September 2016.

IFRS Standards Implementation (Agenda Paper 12)

The Board met on 18 July 2016 to discuss IFRS Standards implementation projects.

Narrow-scope amendment—IAS 40 Investment Property—Transfers of Investment Property (Agenda Papers 12A and 12B)

Agenda Paper 12A: Comment letter analysis

The Board considered an analysis of comments on the Exposure Draft *Transfers of Investment Property* (proposed amendments to IAS 40 *Investment Property*). The Board tentatively decided to proceed with finalising the proposed amendments to IAS 40, subject to the following revisions:

a. clarifying that a change in management's intentions, in isolation, provides no evidence of a change in use;
b. amending two of the examples in paragraph 57 of IAS 40 so they could refer to property under construction or development as well as to completed property;
c. emphasising in the Basis of Conclusions that an entity should use judgement in assessing whether a property meets, or has ceased to meet, the definition of investment property;
d. allowing an entity to apply either of the following transition approaches:
    i. a retrospective approach applying IAS 8, including the requirements in paragraph 53 of IAS 8 on the use of hindsight; or
    ii. an approach in which the entity:
        - reassesses the classification of property at the date of initial application of the amendments to

    IAS 40 and, if applicable, reclassifies property to reflect its use at that date; and
    - applies the amendments to changes in use that occur after the date of initial application of the amendments to IAS 40; and

e. requiring entities to disclose information about any reclassification of property as a result of applying the transition approach in d.ii above.

All 11 Board members present agreed with these decisions.

Agenda Paper 12B: Due Process

All 12 Board members confirmed they are satisfied that the Board has completed the necessary due process for the project. Therefore, the Board instructed the staff to begin the balloting process for issuing these amendments to IAS 40. No Board members indicated they would dissent from the decision to issue these narrow-scope amendments.

The Board also tentatively decided that the effective date of the amendments to IAS 40 should be 1 January 2018, with earlier application permitted.

Next steps

The Board expects to issue the proposed amendments to IAS 40 in the fourth quarter of 2016.

Annual Improvements to IFRS Standards 2014–2016 Cycle **(Agenda Papers 12C, 12D, 12E and 12F)**

The Board considered an analysis of comments on the following proposed amendments and tentatively decided to finalise them in *Annual Improvements to IFRS Standards 2014–2016 Cycle*:

- Agenda Paper 12C: IFRS 1 *First-time Adoption of International Financial Reporting Standards*—Deletion of short-term exemptions for first-time adopters. Eleven Board members agreed to finalise this amendment, one Board member was absent.
- Agenda Paper 12D: IFRS 12 *Disclosure of Interests in Other Entities*—Clarification of the scope of the disclosure requirements in IFRS 12. All 12 Board members agreed to finalise this amendment. In finalising this amendment, the Board tentatively decided not to provide transition relief. Eleven Board members agreed with this decision and one Board member disagreed.
- Agenda Paper 12E: IAS 28 *Investments in Associates and Joint Ventures*—Measuring investees at fair value through profit or loss on an investment-by-investment basis. All 12 Board members agreed to finalise this amendment.

In addition the Board tentatively decided that the effective date of the amendments to IFRS 1 and IAS 28 should be 1 January 2018, with earlier adoption permitted. The Board also tentatively decided that the effective date of the amendments to IFRS 12 should be 1 January 2017. Eleven Board members agreed with these decisions and one Board member disagreed.

Agenda Paper 12F Annual Improvements to IFRS Standards 2014–2016 Cycle— Due Process Steps

All 12 Board members confirmed they are satisfied that the Board has completed the necessary due process for the project. Therefore the Board instructed the staff to begin the balloting process for issuing *Annual Improvements to IFRS Standards 2014–2016 Cycle*. No Board members indicated they would dissent from the decision to issue *Annual Improvements to IFRS Standards 2014–2016 Cycle*.

Next steps

The Board expects to issue *Annual Improvements to IFRS Standards 2014–2016 Cycle* in the fourth quarter of 2016.

***Annual Improvements to IFRS Standards 2015–2017 Cycle*—due process steps (Agenda Paper 12G)**

At previous meetings, the Board tentatively decided to include in *Annual Improvements to IFRS Standards 2015–2017 Cycle* amendments to IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*. At this meeting, the Board considered the comment period for the Exposure Draft and reviewed the due process on the project.

The Board also tentatively decided that the comment period on the Exposure Draft should be no less than 90 days.

All 12 Board members confirmed they are satisfied that the Board has completed the necessary due process for the Exposure Draft of *Annual Improvements to IFRS Standards 2014–2016 Cycle*. No Board members indicated they would dissent from the publication of the Exposure Draft.

Next steps

The Board expects the Exposure Draft of *Annual Improvements to IFRS Standards 2015–2017 Cycle* to be ready for publication in the fourth quarter of 2016. However, the Board expects to publish the Exposure Draft together with other proposed narrow scope amendments.

Conceptual Framework—Definition of an asset, recognition and factors to consider when selecting a measurement basis (Agenda Paper 10)

On 18 July 2016 the Board continued its discussion of its *Conceptual Framework* project. In particular, the Board discussed aspects of the definitions of an asset, a liability and an economic resource and some of the concepts supporting those definitions. Further, it discussed recognition and factors to consider when selecting a measurement basis as well as the description of current cost.

Agenda Paper 10B: Asset definition and supporting concepts

In the light of the comments received on some aspects of the proposed definitions of an asset and a liability, the Board tentatively confirmed the proposals in the Exposure Draft that:

a. the requirements for ‘expected’ inflows or outflows of economic benefits should be removed from the definitions of an asset and a liability; and
b. the revised *Conceptual Framework* should instead specify that:
    i. to meet the definition of an economic resource and, hence, an asset, a right should have the ‘potential to produce’ economic benefits; and
    ii. to meet the definition of a liability, an obligation should have the ‘potential to require’ the entity to transfer an economic resource.

The Board also tentatively decided not to make any major changes to the concepts proposed in the Exposure Draft to explain the phrase ‘controlled by the entity’ in the definition of an asset.

Further, the Board tentatively decided that:

a. consistent with the proposals in the Exposure Draft, the revised *Conceptual Framework* should define an economic resource as a ‘right’, not as a ‘right or other source of value’.
b. the revised *Conceptual Framework* should state that a freely available right of access to public goods (such as roads) would typically not meet the definition of an asset. The Basis for Conclusions should explain that there may be different reasons why such rights would fail to satisfy the definition: one reason could be that a right of access to public goods does not give the entity the potential to receive economic benefits beyond those available to all other parties. An alternative, or additional reason could be that the entity does not control the right of access.
c. the revised *Conceptual Framework* should not contain any more discussion of particular types of rights than was proposed in the Exposure Draft.

All twelve Board members agreed with these decisions.

Agenda Paper 10C: Recognition

In the light of the comments received on the proposed concepts for recognition, the Board tentatively confirmed the approach to recognition proposed in the Exposure Draft. This approach requires recognition decisions to be made by reference to the qualitative characteristics of useful financial information.

The Board further tentatively decided that:

a. consistent with this approach, the revised *Conceptual Framework* should not prescribe a ‘probability criterion’, ie it should not prohibit the recognition of assets or liabilities with a low probability of an inflow or outflow of economic benefits;
b. the concepts proposed in the Exposure Draft should be enhanced to provide more direction on the recognition of assets and liabilities with a low probability of inflows or outflows of economic benefits; and
c. the revised *Conceptual Framework* should identify only two criteria for recognition—relevance and faithful representation. The need for benefits that exceed the costs should not be identified as a third distinct recognition criterion. Instead, the revised *Conceptual Framework* should explain that, as with all other areas of financial reporting, cost constrains recognition decisions and the benefits of the information provided to users of financial statements by recognition of an asset or a liability (and any related income, expenses or changes in

equity) must be sufficient to justify the costs of providing that information.

All twelve Board members agreed with these decisions.

Agenda Paper 10D: Measurement

The Board tentatively decided that, consistent with the proposals in the Exposure Draft, a revised *Conceptual Framework* should include a description of the information provided by the current cost and a discussion of the advantages and disadvantages of current cost, but that this should be placed under the heading of current value rather than historical cost.

The Board directed the staff to present at a future Board meeting, a revised discussion about how selecting a measurement basis might be influenced by:

a. the characteristics of an asset or a liability (including variability of cash flows and sensitivity of the value of the item to changes in market or other factors); and
b. how an asset or a liability contributes to future cash flows. In particular, the staff will consider a distinction between items that contribute directly and indirectly to cash flows, and the rationale for the classification and measurement requirements in IFRS 9 *Financial Instruments*.

The Board also tentatively decided to retain the proposed discussion of faithful representation and the enhancing qualitative characteristics, but not to attempt to provide examples of their implications in specific cases.

All twelve Board members agreed with these decisions.

Next steps

At the September Board meeting, the Board will discuss concepts related to:

a. the reporting entity and going concern;
b. the definition of equity;
c. derecognition;
d. presentation and disclosure;
e. capital maintenance;
f. materiality; and
g. business activities and long-term investment.

The Board will also discuss whether and how the revised *Conceptual Framework* should acknowledge that asymmetric treatment of gains (or assets) and losses (or liabilities) could be selected.

Financial Instruments with Characteristics of Equity (Agenda Paper 5)

The Board met on 19 July 2016 to discuss the research project on Financial Instruments with Characteristics of Equity.

At this meeting, the Board continued its discussion of potential approaches to classifying derivatives on ‘own equity’. The Board focussed its discussion on the Gamma approach.

The Board was also provided with a summary of discussions to date for information only (Agenda Paper 5A).

Agenda Paper 5B—Derivatives on ‘own equity’

At this meeting, the Board discussed the application of the Gamma approach to different types of derivatives. The Board also discussed whether derivatives should be split into components for classification.

The Board tentatively decided that entities should:

a. not classify all derivatives as assets or liabilities; and
b. classify derivatives on ‘own equity’ in their entirety rather than splitting them into components.

Eleven Board members agreed with these decisions and one Board member was absent.

Agenda Paper 5C—Applying Gamma to asset/equity exchange derivatives

The Board discussed the application of the Gamma approach to derivatives that result in the receipt of cash or other financial assets in exchange for the delivery of equity instruments.

Under the Gamma approach, an entity would classify derivatives for the receipt of cash or other financial assets in exchange for the delivery of equity instruments as equity if:

a. they are settled by the exchange of a fixed amount of cash or other financial assets for a fixed number of the entity’s equity instruments (fixed for fixed); and
b. they are either physically settled or net-share settled.

This is because such derivatives would require no transfer of economic resources other than at liquidation and they would be claims for an amount that solely depends on the residual amount.

All other derivatives for the receipt of cash or other financial assets in exchange for the delivery of equity instruments would be classified as liabilities. This is because such derivatives would either require a transfer of economic resources prior to liquidation, or they would be claims for an amount that would be wholly, or partly, independent of the entity’s economic resources.

The Board tentatively agreed with the staff analysis of the application of the Gamma approach as outlined above, including that all derivatives for the receipt of variable amount of cash or other financial assets in exchange for the delivery of a fixed number of equity instruments will be classified as liabilities under the Gamma approach.

Eleven Board members agreed with this decision and one Board member was absent.

Agenda Paper 5D—Applying Gamma to liability/equity exchange derivatives

The Board discussed the application of the Gamma approach to derivatives on ‘own equity’ that could result in an exchange of liabilities and equity instruments. The Board observed that because these types of derivatives exchange an existing liability (or equity instrument), for a new equity instrument (or a new liability), it is possible to structure arrangements with the same liability and equity outcomes in different ways.

The Board tentatively decided in the Gamma approach an entity should:

a. classify fixed-for-fixed derivatives that result in the exchange of a liability for equity instruments as equity, because such derivatives would be claims for an amount that solely depends on the residual amount.
b. apply a requirement similar to the existing redemption obligation requirement in paragraph 23 of IAS 32 to ensure that arrangements with the same liability and equity outcomes are classified consistently regardless of how they are structured; and
c. reconcile the interaction of the redemption obligation requirement in (b) with the requirement in (a) that only fixed-for-fixed derivatives that exchange a liability for equity instruments are classified as equity.

Eleven Board members agreed with this decision and one Board member was absent.

Next steps

At a future meeting the Board will discuss:

a. presentation requirements for different classes of liabilities, in particular, derivatives on ‘own equity’ classified as liabilities;
b. classification of instruments meeting the existing puttables exception;
c. additional details of the definition of the residual amount for non-derivative and derivative obligations;
d. accounting for conditional alternative settlement outcomes;
e. approaches to attribution of profit or loss and other comprehensive income to classes of equity instruments on recognition, derecognition and reclassification of such instruments; and
f. possible improvements to disclosures about classes of equity claims other than ordinary shares.

Research Update (Agenda Paper 8)

The Board discussed an update on its research programme, which reflects decisions made by the Board after its recent Agenda Consultation.

The Board also reviewed the following summary of its research process:

a. The Board does not start a standard-setting project before carrying out research to gather sufficient evidence that an accounting problem exists, that the problem is sufficiently important that standard-setting is required and that a feasible solution can be found.
b. The objective of a research project is to gather evidence to establish whether standard-setting is required. In contrast, the objective of a standard-setting project is to develop or amend a Standard.
c. Research projects do not automatically have a lower priority than standard-setting projects.

d. The research pipeline lists all the research projects on which the Board expects to carry out work before the next Agenda Consultation, which is expected to start around 2021. If circumstances change, for example if significant new issues emerge, the Board may need to add to the pipeline.
e. In 2015, the Board introduced a distinction between assessment-stage research projects and development-stage research projects. Introducing that distinction highlighted some important questions, but the distinction has proved too rigid to be useful for classifying research projects.
f. To avoid placing unnecessary burdens on stakeholders, the Board is unlikely to seek public feedback on research findings of all projects. The Board will seek such feedback only if it is needed.
g. The evidence obtained from research projects will be summarised concisely and visibly, and will be made readily retrievable.
h. A project resulting from a Post-implementation Review (PIR) may, depending on the nature of the topic and the extent of the evidence provided by the PIR, be a standard-setting project, a research project or a maintenance project.

The Board was not asked to make any decisions.

Next steps

The staff expect to update the Board on the research programme again in about three months.

2015 Agenda Consultation (Agenda Paper 24)

Draft work plan: IFRS Advisory Council Feedback (Agenda Paper 24)

The Board discussed the draft work plan as laid out in Agenda Paper 24. As part of that discussion, the Board considered advice received from the IFRS Advisory Council at its June 2016 meeting, and from the Accounting Standards Advisory Forum at its July 2016 meeting.

The Board confirmed its tentative decision, made originally in May 2016, that the focus of its activities should now move from transaction-specific standards-level projects to reflect a greater emphasis on:

a. supporting the implementation of IFRS Standards and their consistent application;
b. standard-setting that enhances consistency between individual Standards and the *Conceptual Framework*, and builds on the revised Conceptual Framework;
c. promoting better communication in financial reporting; and
d. keeping the research programme realistic and achievable.

The Board also confirmed its tentative decision, made originally at its May 2016 meeting, not to include in its work plan and research pipeline any of the areas identified on pages 8–10 of the Report and Feedback Statement *Post-implementation Review of IFRS 3 Business Combinations*, other than work on its projects relating to Goodwill and Impairment and the Definition of a Business.

On the basis of the above decisions, all 11 members of the Board present approved the work plan presented in Agenda Paper 24.

Next steps

At its September 2016 meeting, the Board will discuss draft material for inclusion in a Feedback Statement on the *2015 Agenda Consultation*. The Board expects to approve the Feedback Statement in October 2016, following consideration by the Trustees of the IFRS Foundation.

Work plan—projected targets as at 20 July 2016

The work plan has been revised to reflect the Board's response to messages received in its *2015 Agenda Consultation*. The Report and Feedback Statement on the *2015 Agenda Consultation* is expected to be approved by the Board in October 2016, following consideration by the Trustees of the IFRS Foundation.

The work plan reflecting decisions made at this meeting was updated on the IASB website on 20 July 2016. **View it here**.