AGENDA PAPER

IFRS Foundation Trustee Meeting—Due Process Oversight Committee

Sydney	8–10 April 2014	Agenda Paper 3B
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Technical Activities—Update

Overview

1. Since the Technical Update to the Trustees and the Monitoring Board in January 2014 we have been focused on:
   - finalisation of the impairment model for IFRS 9 *Financial Instruments* together with the classification and measurement amendments to the Standard;
   - completing the Discussion Paper on *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging;*
   - considering the comments that have been received on Conceptual Framework; and
   - progressing the Insurance Contracts and Leases projects following feedback on the Exposure Drafts published in 2013.

2. In this time period we have also issued our interim Standard, IFRS 14 *Rate-regulated Activities.* We had anticipated issuing IFRS 15 *Revenue from Contracts with Customers* in this quarter, but we have been held back in issuing this Standard because of finalisation procedures. We hope to issue the Standard in April 2014.

3. We have also published:
   - Request for Information: Post-implementation Review: *IFRS 3 Business Combinations*;
   - Exposure Draft: Disclosure Initiative *Proposed amendments to IAS 1;* and
   - the 2013 *IFRS Taxonomy.*

4. A copy of the work plan as at 25 March 2014 is attached as Appendix A. As requested we have indicated changes to the projected timings for the publication of a due process document since our previous report.

Due Process

5. A list of the papers that were posted less than five working days before the posting deadline is at Appendix B of this paper.

Financial Instruments

IFRS 9—Classification and Measurement (limited amendments)

6. As discussed in previous meetings, in November 2012 the IASB published an Exposure Draft *Classification and Measurement: Limited Amendments to IFRS 9* (*Proposed amendments to IFRS 9 (2010)*). This ED proposed limited amendments to the classification and measurement requirements for financial instruments already contained in IFRS 9. The main changes proposed in the ED were to clarify the notion of principal and interest, to propose the introduction of a 'fair value through OCI' category, and to propose clarifications to the concept of 'holding to collect' contractual cash flows.

7. As noted above, in this quarter we have focused on the finalisation of these amendments. In February 2014 the IASB considered the due process steps and, having concluded that it had completed all of the necessary due process steps required to date, it instructed the staff to proceed to drafting and balloting. At present one member of the IASB has indicated an intention to dissent from the classification and measurement requirements and a further member is considering his position. A life-cycle review of the project is at Agenda Paper 3C (iii).

Impairment

8. The objective of the Impairment project is to improve the timeliness of recognition of expected credit losses and to increase the usefulness of financial statements by improving the transparency of information about the credit quality of financial assets subject to impairment.

9. In March 2013 the IASB published an Exposure Draft *Financial Instruments: Expected Credit Losses*. The proposals in that document were based on the model that the IASB had been developing jointly with the FASB. The proposals would have resulted in expected credit losses always being recognised (from when a financial instrument is first purchased or originated) with full lifetime expected credit losses being recognised when a financial instrument suffers a significant deterioration in credit quality.

10. In February 2014 the IASB discussed the mandatory effective date of IFRS 9 *Financial Instruments* (which will incorporate both the classification and measurement amendments as well as the new impairment model) and tentatively agreed that the

Standard should be effective for annual periods beginning on or after 1 January 2018.

11. In February 2014 the IASB also considered the due process steps and concluded that it had completed all of the necessary due process steps required to date. It therefore instructed the staff to proceed to drafting and balloting. A life-cycle review of the project is at Agenda Paper 3C(i)

12. As noted in the work plan and Agenda Paper 3C we envisage issuing the revised IFRS 9 in the second quarter of 2014. However, the current publication date is at the end of June and so the balloting and production process will need very careful management for this timetable to be achieved.

Accounting for Macro Hedging

13. All planned discussions on the model for accounting for macro hedging, prior to publication of the Discussion Paper, have been completed. At the October 2013 IASB meeting permission was unanimously granted to ballot the DP and the IASB tentatively decided on a comment period of 180 days. Publication of the DP is planned for early in the second quarter of 2014.

Insurance Contracts

14. The objective of this project is to eliminate inconsistencies and weaknesses in existing practice and to provide a single principle-based Standard to account for all insurance contracts. The project would result in a Standard to replace IFRS 4 *Insurance Contracts*.

15. The IASB published a revised Exposure Draft (ED) on the accounting for insurance contracts at the end of June 2013. That revised ED sought feedback on five key matters on which the IASB had made significant changes to its previous proposals in its 2010 ED *Insurance Contracts*. The IASB decided to target its revised ED in this way because of the importance of completing this project, and in view of the extensive debate that the IASB has undertaken over the years. The IASB hoped that this approach would avoid further undue delay in finalising a much-needed Standard for insurance contracts accounting.

16. The comment period for the ED ended on 25 October 2013 and 194 comment letters were received. During the comment period, the IASB undertook extensive outreach across a broad range of jurisdictions and with a broad range of interested parties. In addition, the IASB undertook detailed fieldwork with preparers to test the operationality of the proposals in the ED. The feedback suggests broad support for the proposal for a current value measurement approach for accounting for insurance contracts; however, there are also significant areas of disagreement and concerns about excessive complexity. At its January 2014 meeting the IASB considered a summary of the main themes raised

in the comment letters received, the supplementary outreach and the fieldwork.

17. The proposals in the IASB's ED had been developed in conjunction with the FASB. At the same time as the IASB issued its revised ED, the FASB also issued its own Exposure Draft, proposing a model developed through those joint discussions. However, in February 2014 the FASB decided that it would make limited improvements to its existing Standards on insurance contracts rather than continue to develop the model it proposed in its ED. The FASB's revised project will also now be limited to insurance entities as described in existing US GAAP. In contrast, the IASB will continue to address the accounting for insurance contracts, whether issued by an insurer or any other type of entity, and will focus on redeliberations of the five topics targeted in the IASB's 2013 ED.

18. In March 2014, the IASB sought advice from the Accounting Standards Advisory Forum (ASAF) on three of the five items that were targeted in the ED as they relate to non-participating insurance contracts (unlocking the contractual service margin, recognising the effects of changes in the discount rate in other comprehensive income, and insurance contract revenue). The IASB intends to discuss these issues as they relate to participating contracts with the ASAF at a future meeting.

19. Shortly after the discussion with ASAF, the IASB, at its meeting in March 2014, made tentative decisions on two of the five items that were targeted in the 2013 ED as they relate to non-participating contracts—namely, unlocking the contractual service margin and recognising the effects of changes in the discount rate in other comprehensive income. The direction that the IASB took was largely consistent with the feedback that it had heard on the 2013 ED. The IASB plans to review these decisions in the light of future decisions for participating contracts if necessary. The FASB attended the meeting as observers.

20. It is currently anticipated that the IASB will continue to redeliberate the proposals in the 2013 ED during 2014. The IASB expects to establish a clearer timetable for completion of the project once the IASB has considered what, if any, matters may warrant further consideration from the feedback on the 2013 ED.

Leases

21. The objective of the Leases project is to improve the quality and comparability of financial reporting by providing greater transparency about an entity's leverage, the assets it uses in its operations and the risks to which it is exposed from entering into lease transactions.

22. This is a joint project with the FASB. In May 2013, the boards published a joint and revised Exposure Draft on Leases, which was open for comment until 13 September 2013. Under the proposals, a lessee would report assets and liabilities for all leases of

more than 12 months on its balance sheet. The recognition of lease-related expenses in the lessee's income statement for most real estate leases would be different from that for most other leases, to better reflect the differing economics of those leases. The ED also proposes some changes to the accounting applied by many equipment and vehicle lessors, which would better reflect how such lessors price their leases.

23. Extensive outreach activities were undertaken during the comment period, focusing in particular on obtaining feedback from users of the financial statements and on understanding the drivers of costs for preparers. A concentrated effort was made to reach users of financial statements—over 35 meetings have been held, involving more than 220 investors and analysts from Europe, North America, Africa, Asia and Australasia[1]. In addition, a series of public round tables took place.

24. As expected there was a very high response rate to the ED: we received 640 comment letters. A summary of the comment letters and outreach activities (including with users of financial statements) was presented at a joint Board meeting in November 2013. While there is praise for the boards' efforts to respond to concerns regarding the 2010 ED, there is nevertheless considerable concern about the cost and complexity of the 2013 ED proposals. The boards started to redeliberate the lessee model, the lessor model and possible scope simplifications in January 2014, with the aim of reaching decisions on those central topics in March 2014.

25. In preparation for the March 2014 meeting, the IASB also had substantive discussions on the leases project with all of its advisory bodies in February and March 2014:
    - Advisory Council—the IASB sought advice on the strategy for the project. The Advisory Council members were supportive of the project overall, encouraging the IASB to move forward and finalise the project on a timely basis.
    - Accounting Standards Advisory Forum—the IASB sought the views of ASAF members on all of the key technical issues on the project, including the lessee and lessor accounting models.
    - Capital Markets Advisory Committee (CMAC)—the IASB sought the views of CMAC members on which of the possible ways forward for lessee accounting would provide the most useful information for investors and analysts.
    - Global Preparers Forum (GPF)—the IASB sought the views of GPF members on the possible ways that the boards could reduce the costs and complexity of the proposals in the 2013 ED.

26. At their March 2014 joint meeting in Norwalk, the IASB and the FASB reached tentative decisions on the lessee accounting model, the lessor accounting model, scope simplifications for 'small-ticket' leases and the determination of the lease term:
    - Both boards tentatively decided to require lessees to recognise assets and liabilities for all leases (other than short-term leases and, for the IASB, leases of small assets

[1] A summary of the outreach is available on the Leases project page of the IASB website at: http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Documents/Lessee-accounting-investor-outreach-summary-May-to-September-2013.pdf.

such as laptops and office furniture). The boards came to different conclusions, however, on the recognition and presentation of lease expenses in a lessee's income statement:

- The IASB decided upon a single lessee model, whereby a lessee would recognise interest on lease liabilities separately from amortisation of lease assets.
- The FASB decided upon a dual lessee model that would retain the existing distinction between operating and finance leases. This would, in essence, result in no change to the lessee's income statement compared with the income statement outcomes under existing requirements.

- Both boards decided to retain existing lessor accounting. Because existing IFRS lessor accounting is slightly different from existing US GAAP lessor accounting, the boards reached slightly different conclusions, which are not expected to result in any significant differences in practice.
- The boards reached converged decisions on the lease term and short-term leases.

27. The boards agreed that the project will continue on a joint basis. It is currently expected that the IASB will continue to redeliberate the proposals in the 2013 ED, together with the FASB, until later in 2014. It is therefore expected that a life-cycle review of the due process procedure will take place in the first quarter of 2015.

Rate-regulated Activities

28. The short-term objective of the Rate-regulated Activities research project is to develop a Discussion Paper to consider whether rate regulation gives rise to assets or liabilities in addition to those already recognised in accordance with IFRS for non-rate-regulated activities. A Request for Information *Rate Regulation* was published in March 2013 to gather more information about the common features of rate regulation. A summary of the 79 responses received was discussed in July by a formal consultative group that had been formed for this project. That group met again in November 2013 and continues to provide input to the staff in developing the content of the DP.

29. The IASB is analysing the common features of rate regulation that are considered as being most important to distinguish the rights and obligations created by some types of rate regulation from the rights and obligations applicable to non-rate-regulated entities that have the biggest effect on the amount, timing and certainty of cash flows and the stability of 'regulated' earnings. This analysis has been developed to help identify which feature(s), if any, create special economic conditions for which a specific accounting model might need to be developed. The DP will be based on these distinguishing features and will outline a number of potential approaches to developing an accounting model.

30. The ASAF provided input at its meetings in December 2013 and March 2014.

31. At its January 2014 meeting, the Committee received a report summarising the life cycle of the due process on the project to develop an interim IFRS on rate-regulated activities

(Agenda Paper, AP3C for that meeting refers). At the meeting, while the Due Process Oversight Committee (DPOC) considered that all the due process steps had been followed satisfactorily and that the IASB could proceed with the issue of the interim IFRS (IFRS 14 *Regulatory Deferral Accounts* was published later in January), the DPOC emphasised to the IASB the importance of the comprehensive project being completed as quickly as possible. The IASB is conscious of the DPOC's view on project timing. The IASB expects to publish the DP in mid-2014.

32. At its meeting in April 2014 the IASB will consider the due process steps taken so far on the research project and the staff will be seeking permission to start balloting the DP. A copy of the due process paper to be considered by the IASB at its April meeting is at AP 3B(i) for this meeting. As the DPOC will see, that paper also emphasises to the IASB the importance of finalising the main project as quickly as possible.

Revenue Recognition

33. The balloting process for the new Standard is now complete and the Standard is now in the production phase. It is expected that the Standard will be issued early in the second quarter of 2014.

34. As discussed previously, because of the importance of revenue and the broad scope of the new Standard, the IASB and the FASB intend to establish a limited-life transition resource group to support preparers in the transition to the new Standard. Importantly, it is not proposed that the group should provide authoritative guidance. Progress is being made on determining the composition of the group and the identification of potential suitable candidates, together with the working procedures for the operation of the group.

The Conceptual Framework

35. The Conceptual Framework sets out the concepts that underlie the preparation and presentation of financial statements. It is not a Standard or Interpretation and does not override any specific Standard or Interpretation. However, it identifies principles for the IASB to use when it develops and revises its Standards.

36. The existing Conceptual Framework has enabled the IASB to develop high quality Standards that have improved financial reporting. However, it does not cover some important areas and some guidance needs updating. Consequently, most respondents to the 2011 agenda consultation identified the Conceptual Framework as a priority project for the IASB.

37. The Discussion Paper, published in July 2013, is the first step towards issuing a revised Conceptual Framework. It is designed to obtain initial views and comments on important issues that the IASB will consider as it develops an Exposure Draft of a revised Conceptual Framework. It focuses on areas that have caused the IASB problems in

practice, including:

- definitions of assets and liabilities;
- recognition and derecognition;
- the distinction between equity and liabilities;
- measurement;
- presentation and disclosure; and
- other comprehensive income (OCI).

38. The 180-day comment period for the DP ended on 14 January 2014. We have received over 220 comment letters. During the comment period, outreach has been conducted to obtain feedback on the issues included in the DP, including the following:

- Round tables held in London (UK), Tokyo (Japan), Toronto (Canada) and São Paulo (Brazil) during October and early November 2013. We met a range of participants (eg preparers, users, auditors, local standard-setters and regulators) to discuss key issues raised in the DP.
- Participation, in person or by video or phone, in public discussion forums organised by local national standard-setters. These discussion forums were held in cities in Asia, Europe, Oceania and South Africa. Participants included preparers, auditors, national standard-setters, users, academics and regulators.
- Discussing key issues with national standard-setters in the World Standard-Setters event in September 2013.
- Presentations in person or by video or phone in various conferences.
- Meetings with groups or individuals, from various backgrounds, including preparers, auditors, national standard-setters, users, academics and regulators.
- An initial webcast to launch the DP, followed by a series of seven webcasts, and one podcast, on particular aspects of the DP.
- Targeted outreach with users of financial statements based on topics that are most directly relevant to them. Here we focused on the distinction between liabilities and equity, presentation of profit or loss and other comprehensive income, measurement, and issues relating to prudence, reliability and stewardship.

39. The IASB also consulted its advisory groups during the comment period—the Advisory Council, ASAF (which acts as the project's working group), CMAC, and the GPF. The feedback from these groups expressed support for continuing the project.

40. The advice of the ASAF was sought at its meeting in March 2014 on the strategy for some of the key sections of the Conceptual Framework. Many ASAF members stated that the IASB should continue to place a high priority on completing the revisions to the Conceptual Framework in line with its current timetable while acknowledging that, as a

consequence, some areas of the Conceptual Framework might be more developed than others. Other ASAF members suggested that the IASB should complete some sections of the Conceptual Framework to the current timetable but subsequently take more time to develop other sections.

41. At the March 2014 IASB meeting, the staff presented an analysis of the comment letters received on the DP.

42. Our original intention was not to fundamentally reconsider the Objective and Qualitative Characteristics chapters of the Conceptual Framework, which were published in 2010. However, respondents were asked for comments on this approach and many expressed the view that we should reconsider at least some aspects of those chapters (in particular, the treatment of prudence, reliability and stewardship). Those expressing this view most strongly have received a significant amount of attention both in the press and in the European Parliament.

43. The IASB will redeliberate the Conceptual Framework in the second and third quarters of 2014 with the aim of publishing an Exposure Draft of a revised Conceptual Framework by the end of 2014. To achieve this timetable we will need to be very focused and balance the need to finish the project on a timely basis with the need to consider the conceptual decisions that are important to our Standards in sufficient depth.

44. Before asking for permission to ballot the ED the staff will prepare a paper that considers the due process steps undertaken. A copy of the relevant staff paper will be distributed to the DPOC as normal.

Implementation projects

Disclosure Initiative

45. This is a broad-based initiative to explore how disclosures in IFRS financial reporting can be improved. The work is informed by a Discussion Forum and related survey on Financial Reporting Disclosure that was held in January 2013. A Feedback Statement on these events was published in May 2013.

46. The Initiative is divided into short- and medium-term projects that address some of the concerns the IASB has heard and that we highlighted in the Feedback Statement.

47. As a result of one of these short-term projects, the IASB published an Exposure Draft of narrow-focus amendments to IAS 1 *Presentation of Financial Statements* on 25 March 2014 with a comment period of 120 days. These proposed amendments to IAS 1 are intended to clarify, rather than significantly change, existing requirements. Although the proposed amendments are relatively modest, it is expected they will help to address some excessively literal interpretations of some of the guidance in IAS 1 that has resulted in

problems in practice, in areas such as the application of materiality and determining the order of the notes to the financial statements.

48. Before publishing the ED, in January 2014 the IASB reviewed the due process steps and considered that it had completed all of the necessary due process steps required to date.

49. It is also expected that in the short term the IASB will consider how materiality is applied in practice and consider whether further guidance is needed.

50. In the medium term the IASB will undertake a research project to explore replacing IAS 1, IAS 7 *Statement of Cash Flows* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. This research project will incorporate exploratory work on whether work previously undertaken on the Financial Statement Presentation project can inform this project.

51. In the medium term the IASB will also undertake a research project to review disclosure in existing Standards to identify and assess conflicts, duplication and overlaps.

52. We have sought advice from the IASB's advisory bodies including ASAF, GPF and CMAC on the proposed project on materiality and on the scope of the project to explore whether IAS 1, IAS 7 and IAS 8 should be replaced.

IAS 41—Bearer Plants

53. In June 2013, the IASB published an Exposure Draft of proposals to include bearer plants within the scope of IAS 16 *Property, Plant and Equipment*. Bearer plants are a class of biological assets that, once mature, are held by an entity solely to grow produce over their productive life. Examples include grape vines, rubber trees and oil palms.

54. Currently, IAS 41 *Agriculture* requires all biological assets that are related to agricultural activity, including bearer plants, to be measured at fair value less costs to sell. This requirement is based on the principle that biological transformation is best reflected by fair value measurement. However, once mature, bearer plants no longer undergo significant biological transformation. Furthermore, their operation is similar to that of manufacturing. Consequently, the ED proposes that bearer plants should be accounted for in accordance with IAS 16 instead of IAS 41, thus permitting the use of either a cost model or a revaluation model. Under the proposals the produce growing on the bearer plants would remain under the fair value model in IAS 41.

55. The ED closed for comment on 31 October 2013 and the IASB considered the comments received at its January 2014 meeting.

56. The IASB redeliberated the proposals at its meetings in February and March 2014. It has tentatively decided to amend the definition of bearer plants to clarify that the likelihood of

selling a bearer plant as a living plant or harvesting it as agricultural produce, except for incidental scrap sales, must be remote.

57. In April 2014 the IASB will review the due process steps undertaken and decide whether it has undertaken sufficient consultation and analysis to begin the balloting process for the limited amendments to IAS 16 and IAS 41. The staff expect that the final amendments will be issued in June 2014. Accordingly, the life-cycle review will need to be conducted before the next face-to-face meeting of the DPOC in July 2014. To permit the DPOC to consider this life-cycle review we will circulate it by email and, if necessary, organise a conference call for the DPOC.

IFRS 11 Joint Arrangements: Acquisition of an Interest in a Joint Operation

58. The objective is to add new guidance to IFRS 11 *Joint Arrangements* on the accounting for the acquisition of an interest in a joint operation that constitutes a business. The amendment will require that acquirers of such interests should apply the relevant principles on business combination accounting in IFRS 3 *Business Combinations* and relevant guidance in other Standards, and disclose the relevant information specified in these IFRSs for business combinations.

59. The IASB published the Exposure Draft in December 2012, and the comment period closed on 23 April 2013. The Interpretations Committee considered the comment letters in July 2013, and the IASB discussed the comments received and the Interpretations Committee's recommendations in October 2013 and decided to finalise the amendment. The IASB reviewed the due process steps at its meeting in November 2013. At its meeting in January 2014 the IASB considered two sweep issues that had arisen in the finalisation process. As a result of these issues, the amendments to IFRS 11 will now be issued in the second quarter of 2014.

60. At its meeting in March 2014, the IASB reviewed the progress of the balloting process since the November 2013 meeting and decided to amend the mandatory effective date of the amendments to IFRS 11 to 1 January 2016.

IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*: Clarification of acceptable methods of depreciation and amortisation

61. This project is a limited-scope amendment to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* to prohibit the use of a revenue-based depreciation or amortisation method.

62. The IASB published the Exposure Draft in December 2012. The Interpretations Committee considered the comment letters in July and September 2013. The IASB discussed the comments received and the Interpretations Committee's recommendations in October and November 2013 and decided to finalise the amendment. The IASB has concluded that revenue is an inappropriate basis for measuring depreciation expense,

because the revenue generated by an activity that includes the use of an asset generally reflects factors other than merely the consumption of the asset. The IASB has, however, modified the amendment in respect of amortisation of intangible assets to acknowledge that there may be some limited circumstances in which revenue may be used as the basis for measuring amortisation expense.

63. The IASB reviewed the due process steps at its meeting in December 2013. It is expected the amendment will be issued in the first quarter of 2014.

Classification of liabilities

64. The IASB has decided to propose clarifications to the requirements in IAS 1 *Presentation of Financial Statements* on when liabilities should be classified as current and when they should be classified as non-current. The objective of this narrow-scope amendment is to make clearer when the right to roll over or refinance a loan should lead an entity to classify that loan as non-current. The proposed clarifications will also consider what effect, if any, events after the reporting period, such as a breach of covenant, should have on classification. This issue was originally included in Annual Improvements, but feedback received indicated that a separate narrow-scope amendment is needed.

65. The Exposure Draft of the proposed amendment to IAS 1 is currently expected to be published in the third quarter of 2014.

IAS 28 *Investments in Associates and Joint Ventures*: Elimination of gains arising from 'downstream' transactions

66. The IASB has decided it will publish an Exposure Draft proposing a narrow-scope amendment to IAS 28 *Investments in Associates and Joint Ventures* clarifying the accounting for a 'downstream' transaction between an entity and its associate or joint venture, when the gain from the transaction exceeds the carrying amount of the entity's interest in the associate or joint venture.

67. At its meeting in January 2014, the IASB considered the due process steps undertaken. The ED is scheduled for publication in the second quarter of 2014 and will be open for comment for 120 days.

IAS 28 *Investments in Associates and Joint Ventures*: Equity Method—Share of Other Net Asset Changes

68. In November 2012 the IASB published an Exposure Draft of proposed amendments to IAS 28. The objective was to provide additional guidance to IAS 28 on the application of the equity method. The Interpretations Committee considered the comment letters in July 2013 and the IASB discussed the comments received and the Interpretations Committee's recommendations in October and December 2013.

69. The IASB has tentatively decided to finalise the proposed amendments, because they are a short-term solution to address diversity in practice. The amendment was discussed at the ASAF meeting in March 2014 where it was explained that IASB recognised the solution proposed was practical rather than conceptual.

70. At its meeting in March 2014, the IASB considered the due process steps undertaken. The final amendment is expected to be issued in the second quarter of 2014. The effective date of the amendment will be 1 January 2016. Two IASB members have indicated their intention to dissent from the final amendment.

Fair Value Measurement: Unit of Account

71. The IASB will issue a proposed narrow-scope amendment to clarify the unit of account of equity investments in subsidiaries, associates and joint ventures and their corresponding fair value measurement. The Exposure Draft will also include a non-authoritative example to illustrate the application of the portfolio exception in IFRS 13 *Fair Value Measurement*.

72. The IASB reviewed the due process steps at its meeting in February 2014 and considered that it had completed all of necessary due process steps required to date. It therefore instructed the staff to proceed to drafting and balloting. It is expected that the ED will be issued in the second quarter of 2014 with a comment period of 120 days.

Put Options Written on Non-controlling Interests (NCI)

73. In March 2013, the IASB decided not to proceed with the finalisation of the draft interpretation regarding the accounting for NCI puts. The IASB asked the staff to undertake further analysis on the accounting for puts over an entity’s own equity (including over NCI).

74. This work has been incorporated into the broader project looking at the distinction between liabilities and equity.

IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

75. The objective of the project is to address the acknowledged inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011), in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture.

76. In December 2012, the IASB published an Exposure Draft. In July 2013 the Interpretations Committee considered the responses received and decided that it should recommend to the IASB that it should proceed with the amendments. In October 2013, the IASB agreed with the Interpretations Committee’s recommendations.

77. In November 2013 the IASB reviewed the due process steps in relation to these amendments.

78. At its meeting in January 2014 the IFRS IC reviewed a related matter raised by respondents to the 2012 ED. As a consequence the IFRS IC recommended to the IASB that it should make a further amendment to IAS 28. Accordingly at its March 2014 meeting, the IASB decided to amend paragraph 31 of IAS 28 so that the proportion of the gain or loss relating to the assets received in exchange for the contribution of an asset should be recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB decided to include this amendment in the forthcoming Exposure Draft *Elimination of gains from downstream transactions*.

79. It is expected that the IFRS will be issued in the second quarter of 2014.

IAS 27— Equity Method in Separate Financial Statements

80. IAS 27 allows an entity to account for its investments in subsidiaries, joint ventures and associates at cost or at fair value in its separate (parent-only) financial statements. The laws of some countries require entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in the separate financial statements and in most cases, the use of equity method is the only difference between the separate financial statements prepared in accordance with IFRSs and those prepared in accordance with local regulations.

81. The proposed amendments to IAS 27 would allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate (parent-only) financial statements. The IASB expects that the proposed change will reduce compliance costs for many entities, while providing information that would be helpful to an assessment of the investor's net assets and profit or loss.

82. The ED was open for comment until 3 February 2014. This 60-day comment period was shorter than normal, reflecting the importance of this change to several jurisdictions.

83. At its meeting in March 2014 the IASB was presented with a summary and analysis of the comment letters received. The IASB decided to proceed with the amendments to IAS 27 and will continue its redeliberations at a future meeting.

IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

84. The objective of this project is to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. An amendment related to this issue was originally proposed as part of Annual Improvements, but in response to the comments received, the IASB decided that it should consider a narrow-scope amendment instead.

85. A draft amendment to IAS 12 *Income Taxes* is expected to be published for comment in second quarter of 2014.

Annual Improvements

Annual Improvements 2012–2014

86. The IASB published an Exposure Draft of five proposed amendments to four Standards in December 2013. The proposals were open for comment until 13 March 2014. The comments received will be presented to the IFRS IC in May 2014.

Annual Improvements 2013–2015

87. The IASB has started to discuss issues for inclusion in the next cycle of Annual Improvements. So far one amendment has been identified for the next ED, which is expected to be published in the third quarter of 2014.

The research programme

88. The IASB is moving to more evidence-based standard-setting, through the whole of the development cycle for Standards. The wider IFRS community can already see examples of this shift in emphasis. The research-phase projects demonstrate the importance of understanding a financial reporting problem before resources are committed to developing new financial reporting requirements. We are also undertaking more fieldwork to assess the likely effects of new proposals—the Leases Exposure Draft is a good example. The implementation team looked for evidence of diversity in practice before Interpretations are developed. The post-implementation reviews include an assessment of evidence of the observed effects of recently implemented Standards.

89. The IASB and its staff do not plan to undertake all of this research themselves. In fact, most of the research will be, or already has been, undertaken by research professionals and national standard-setters (particularly for fieldwork). Accordingly, many of our efforts have been to improve staff access to existing research and information and to encourage research professionals to undertake research that will be helpful to the IASB.

Financial Reporting research projects

90. Our research programme places much more emphasis on defining the financial reporting problem and assessing whether the IASB can make cost-effective improvements than we have done in the past. To this end, the output of the initial research will normally be a Discussion Paper. The outcome will be either a decision to undertake a Standards-level project or, perhaps, a decision not to undertake any more work on that topic.

91. We have begun work on *Business combinations under common control*, *Discount rates*, *The equity method, Financial instruments with the characteristics of equity* and the

Disclosure Initiative. We expect to take papers to public sessions of the IASB in the first half of 2014 for these projects. In addition, we expect to initiate work on *Emissions trading schemes*, and *Hyperinflation* within the next few months.

92. *Intangible assets*, *Extractive activities*, *Share-based payment* and *Post-employment benefits* will be longer-term projects.

IFRS for SMEs

Comprehensive Review 2012–2014

93. As previously discussed, when the IASB issued the *International Financial Reporting Standard for Small and Medium-sized Entities* (*IFRS for SMEs*) in July 2009, it stated that it would undertake an initial comprehensive review of the Standard. This review would allow the IASB to assess the first two years' experience in implementing the Standard and consider whether there is a need for any amendments. In many jurisdictions, companies started using the *IFRS for SMEs* in 2010. Consequently, the IASB commenced its initial comprehensive review in 2012.

94. In order to assist in the process of identifying which items to consider for amendment, the IASB issued a Request for Information (RfI) in June 2012 to seek public views and consulted with the SME Implementation Group (SMEIG), an advisory body to the IASB. The IASB also consulted the Advisory Council in June 2013 on the review of IFRS for SMEs. After considering the feedback it had received, and taking into account the fact that the *IFRS for SMEs* is still a new Standard, the IASB proposes to make only limited amendments to the *IFRS for SMEs*. The proposed amendments are not expected to result in significant changes in practice for SMEs or to have a significant impact on their financial statements.

95. The Exposure Draft of proposed amendments to the *IFRS for SMEs* was published in October 2013 with an extended comment period of 150 days to allow organisations additional time in order to solicit and consolidate the views of smaller businesses in their jurisdictions.

96. The ED closed for comment on 3 March 2014. We are currently compiling the comments received and we will seek recommendations from the SMEIG before the IASB begin their redeliberations.

97. The terms of existing SMEIG members will expire on 30 June 2014. Consequently, the IASB is currently selecting new members to join the group. The first role of the newly structured SMEIG in July 2014 will be to discuss the public comments received on the ED and to develop a set of recommendations for the IASB on amendments to the *IFRS for SMEs*. IASB redeliberations are expected to start in the third quarter of 2014 once the SMEIG has made its recommendations.

Post-implementation review (PiR)

98. In July 2013 the IASB launched its PiR of IFRS 3 *Business Combinations.* The review will include both IFRS 3 (2004) and IFRS 3 (2008) as well as all the amendments made to other Standards (eg IAS 36 *Impairment of Assets*, IAS 38 *Intangible Assets* etc) as a result of the Business Combinations project.

99. The first phase of the review resulted in the publication of a Request for Information (RfI). The IASB considered (in both its November 2013 and December 2013 meetings) the tentative questions to be included in the RfI. The RfI was also discussed by the Advisory Council in October 2013 and input was sought from the ASAF at its meeting in December 2014.

100. The RfI was published in January 2014 and is open for consultation until 30 May 2014.

Appendix A—Work plan as at 25 March 2014

Major IFRSs	2014 Q1	2014 Q2	2014 Q3	2014 Q4	Change in timing since 17 December 2013
IFRS 9 *Financial Instruments* (replacement of IAS 39)					
Classification and Measurement (Limited Amendments)		Target IFRS			—
Impairment		Target IFRS			—
Accounting for Macro Hedging	Target DP				→
Insurance Contracts	Redeliberations				—
Leases	Redeliberations				—
Rate-regulated Activities		Target DP			—
Revenue Recognition		Target IFRS			→

Conceptual Framework	2014 Q1	2014 Q2	2014 Q3	2014 Q4	
Conceptual Framework (chapters addressing elements of financial statements, measurements, reporting entity and presentation and disclosure)				Target ED	—

Appendix A—Work plan as at 25 March 2014

Implementation

Next major project milestone

Narrow-scope amendments	2014 Q1	2014 Q2	2014 Q3	2014 Q4	Change in timing since 17 December 2013
Acquisition of an Interest in a Joint Operation (Proposed amendments to IFRS 11)		Target IFRS			
Annual Improvements 2012-2014 (Comment period ended 13 March 2014)		Redeliberations			
Annual Improvements 2013-2015			Target ED		
Bearer Plants (Proposed amendments to IAS 41)		Target IFRS			
Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed amendments to IAS 16 and IAS 38)	Target IFRS				
Classification of liabilities (Proposed amendment to IAS 1)			Target ED		New project
Disclosure Initiative					
Amendments to IAS 1 (Disclosure Initiative)	ED published				
Elimination of gains arising from “downstream” transactions (Proposed amendments to IAS 28)		Target ED			
Equity Method: Share of Other Net Asset Changes (Proposed amendments to IAS 28)		Target IFRS			
Fair Value Measurement: Unit of Account		Target ED			
Put Options Written on Non-controlling interests(Proposed amendments to IAS 32)		Next steps TBD			
Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to IAS 12)		Target ED			
Sale or Contribution of Assets between an investor and its Associate or Joint Venture (Proposed amendments to IFRS 10 and IAS 28)		Target IFRS			
Separate Financial Statements (Equity Method) (Proposed amendments to IAS 27)		Redeliberations			

Post-implementation Reviews	2014 Q1	2014 Q2	2014 Q3	2014 Q4	
IFRS 3 *Business Combinations*		Public consultation			

Appendix A—Work plan 25 March 2014

Research projects

Research projects on which preliminary work has commenced	
Business combinations under common control	
Disclosure initiative	
Discount rates	
Emissions trading scheme	
Equity method of accounting	
Extractive activities	
Financial instruments with characteristics of equity	
Intangible assets	
Research projects on which preliminary work is not expected to commence until after the 2015 agenda consultation	
Income taxes	
Post-employment benefits (including pensions)	
Share-based payment	
Research projects for which the timing of preliminary work has not yet been confirmed	
Financial reporting in high inflationary economies	
Foreign currency translation	
Liabilities–amendments to IAS 37	

Appendix B

Report of IASB papers posted after commencement of the IASB Meeting

(This report excludes educational meetings of the IASB)

IASB paper number	FASB paper number	Project	Status of paper	Comment
January 2014				
13A	-	ICAS-EFRAG Academic literature review: *The use of information by capital providers*	Posted 17 January 2014	External presentation
March 2014				
10I		Conceptual Framework: Feedback summary: presentation in the statement of comprehensive income—profit or loss and other comprehensive income	Posted 10 March 2014	Posted later than anticipated because of restricted staff availability, due to unforeseen circumstances.
3I		Leases: Feedback from the IASB's advisory bodies	Posted 13 March 2014	Supplementary information: paper summarised various recent meetings and was held back to capture a meeting held in week commencing 10 March