AGENDA PAPER

IFRS Foundation Advisory Council

London 24-25 February 2014 Agenda paper 1A

Memorandum

To: Advisory Council

From: Henry Rees/Alan Teixeira

Date: 3 February 2014

Re: Technical Activities - update

Introduction

1. The objective of this session is to provide the Council with the opportunity to raise and discuss strategic issues not covered by one of the individual sessions during the meeting. Topics that will be discussed separately during this meeting are: IPSASB Governance, Leases, Education Initiative, Future of Corporate Reporting, and Investor Outreach Strategy. The session also serves as an update on the project activities since the last meeting.

Overview

2. Since the meeting in October the IASB has issued the following amendments to Standards:
   - IFRS 9 *Financial Instruments* (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39);
   - Annual Improvements to IFRSs 2010–2012 Cycle;
   - Annual Improvements to IFRSs 2011–2013 Cycle; and
   - Amendments to IAS 19 *Employee Benefits—Defined Benefit Plans: Employee Contributions*.

3. It has also published two Exposure Drafts (EDs):
   - Annual Improvements to IFRSs 2012-2014 Cycle; and
   - Proposed amendments to IAS 27—Equity Method in Separate Financial Statements.

4. The IASB is continuing to progress the four major projects: Financial Instruments, Revenue Recognition, Leases and Insurance Contracts.

5. The Interpretations Committee continues to be very active.

6. The recently announced realignment of technical resources will provide increased management support to technical activities.

7. A copy of the work plan as at 27 January 2014 is attached as Appendix A.

Requirements that came into effect recently

Consolidation and joint arrangements standards

8. Three new IFRSs came into effect at the start of 2013; IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. This package of standards formed part of our response to the global financial crisis. Although these standards came into effect last year, the European Union endorsement added a one year deferral for EU companies. Experience from those entities that have already applied these standards has identified an implementation question relating to the classification of joint arrangements in accordance with IFRS 11. This issue is currently being examined by the IFRS Interpretations Committee to consider whether clarification or additional guidance should be given.

Investment entities guidance

9. The IASB issued new guidance in October 2012 that requires qualifying investment entities to account for their portfolios of investments at fair value through profit or loss, rather than consolidate those investees which they control. This amendment to IFRS 10 is effective from 2014, although it has been available for early application, and so many investment entities have applied it at the same time as they first applied IFRS 10.

Interpretation on accounting for levies

10. The IASB issued IFRIC 21 *Levies* in May 2013 to provide specific guidance on the timing of recognition of the liability to pay a levy to a government. IFRIC 21 is an interpretation of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, and is effective from 2014. The scope of IFRIC 21 is broad and initial feedback suggests that the extent of its impact varies between jurisdictions, reflective of the national/regional nature of levies.

Narrow-scope amendments

11. There are a number of narrow-scope amendments that take effect from 2014. Notable among these are *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32) and *Novation of Derivatives and Continuation of Hedge Accounting* (Amendments to IAS 39 and

IFRS 9).

Financial Instruments

Hedge Accounting (amendments to IFRS 9)

12. In November 2013, the IASB finalised a package of final amendments to the accounting requirements for financial instruments. The amendments:
    (a) bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements;
    (b) allow the changes to address the so-called 'own credit' issue that were already included in IFRS 9 *Financial Instruments* to be applied in isolation without the need to change any other accounting for financial instruments; and
    (c) remove the 1 January 2015 mandatory effective date of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements.

IFRS 9—Classification and Measurement (limited amendments)

13. As discussed in previous meetings, in November 2012 the IASB published an ED *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 for simple debt investments, and to propose clarifications to the concept of 'holding to collect' contractual cash flows.

14. The FASB issued an ED on the classification and measurement of financial instruments in February 2013. While the EDs reflect joint decisions made by the boards, because of the different stage of development of our projects (the IASB is revising IFRS 9 whereas the FASB is proposing completely new guidance), the documents were not identical.

15. The IASB is considering the comments received on the ED. In the last quarter the IASB has jointly discussed with the FASB:
    (a) Debt instruments with simple features ('solely payments of principal and interest' (SPPI)) that would be eligible for measurement other than at fair value through profit or loss.
    (b) Clarifications proposed in the ED to the business model assessment. The boards tentatively decided to retain two fair value measurement categories, namely fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL), and to define the business model that results in measurement of FVOCI and to retain FVPL as the residual measurement category.
    (c) The fair value option. The boards tentatively decided to extend the current fair value

option in IFRS 9 so that it is available for financial assets that would otherwise be mandatorily measured at FVOCI, if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

16. The FASB, at its meeting in December 2013, made a number of tentative decisions that suggest it will not proceed fully with the proposals set out in its ED regarding the SPPI test. They discussed the solely payments of principal and interest condition in classifying financial assets and decided to not continue to pursue that condition for assessing the contractual cash flow characteristics of financial assets. Instead, the FASB decided to retain the bifurcation requirements in current U.S. GAAP. As the FASB re-deliberates aspects of their approach it is possible that further differences between the two approaches may arise.

17. The IASB's tentative approach considers classification of financial assets based on business model and solely payments of principal and interest criteria. The IASB staff will provide an update to the Board on these developments at the February 2014 Board meeting.

18. The target remains to finalise IFRS 9 in the first half of 2014.

Impairment

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

20. In March 2013 the IASB published an ED *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 result 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.

21. As discussed at previous meetings, in July 2012 the FASB decided to explore a different approach—one still based on expected credit losses, but in which full (all) lifetime expected credit losses are recognised for all loans from initial recognition.

22. In late December 2012, the FASB published its ED on impairment. The IASB and FASB have shared the feedback they have received on their respective EDs. While many (including the Financial Stability Board and the Advisory Council) are still asking for a converged solution, geographical differences in feedback continue to be apparent, including from users of financial statements, and few suggestions have been made for how convergence could be achieved. Each board is now considering changes it would make to its proposals, taking into consideration the comments that they have received. Following those amendments, the boards will be able to consider the prospects for further aligning the models.

23. Overall, the feedback received by the IASB was supportive. In particular, there was support for a model that measures expected credit losses differently on the basis of a significant increase in credit risk. The operationality of the proposals was also confirmed. Some did however raise

concerns about the timeliness of identification of significant increases in credit risk, so the IASB has considered ways to make the model more responsive to changes in credit risk.

24. At its October 2013 meeting the IASB tentatively decided to confirm that lifetime expected credit losses should be recognised when there is a significant increase in credit risk since initial recognition and to clarify (potentially through examples) when to recognise lifetime expected credit losses.

25. At its November meeting the IASB tentatively decided that the final version of IFRS 9 will be no earlier than annual periods beginning on or after 1 January 2017. The IASB will make a decision on the mandatory effective date closer to finalisation of the Impairment and Classification and Measurement projects– this discussion is currently planned for February 2014.

26. The FASB decided in December 2013 to finalise their impairment model (the Current Expected Credit Loss model or CECL model). Under the CECL model, expected credit losses are always recognised at what is described as 'lifetime expected credit losses'. The CECL model makes no distinction between those financial instruments that have experienced a significant increase in credit risk since initial recognition and those that have not, which is a key element of the IASB's tentative model. The IASB's tentative model measures expected credit losses at an amount equal to 12-month expected credit losses for those financial instruments for which credit risk has not increased significantly. As the FASB re-deliberates aspects of the CECL model over the coming months, it is possible that further differences between the two models may arise. The IASB staff will provide an update to the Board on these developments at the February 2014 Board meeting.

Accounting for Macro Hedging

27. All planned technical discussions on the model for accounting for macro hedging, prior to publication of the Discussion Paper (DP), 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 Q1 2014.

Leases

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

29. This is a joint project with the FASB. In May 2013, the boards published a joint and revised ED 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.

30. 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 lot of effort has gone into reaching 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.

31. As anticipated 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 have started to redeliberate the lessee model, the lessor model and any possible scope simplifications in January 2014, with the aim of reaching decisions on those central topics in March 2014.

32. The Advisory Council discussed the feedback on the ED at the October 2013 meeting and during this meeting will discuss the project strategy. This discussion will therefore be timely because the boards began redeliberating the lessee model, the lessor model and possible scope simplifications in January 2014, and aim to reach decisions on those central topics at a joint meeting in Norwalk in March 2014. Before the March meeting, ASAF will also provide input on the possible paths forward.

Revenue Recognition

33. The objective of this joint project is to improve financial reporting by creating a common revenue recognition Standard that clarifies principles that can be applied consistently across various transactions, industries and capital markets. The project applies to all contracts with customers (except leases, financial instruments and insurance contracts).

34. This project is currently being balloted following resolution of three issues in the autumn and it is expected to be issued in the first half of 2014. The resolution of these issues and the extensive input sought on the draft of the final document reflect the importance the boards place on ensuring that the final document is clear and operational.

35. 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. The group has yet to be set up and detailed terms

[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.

of reference will be drafted in the near future.

36. Some of the issues under consideration with respect to this group include:

- Determining the balance of membership between preparers, regulators, auditors and other stakeholders;
- Obtaining appropriate geographic coverage; and
- Determining the appropriate output from the group (eg minutes of the discussion).

Insurance Contracts

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

38. The IASB published its revised Exposure Draft at the end of June 2013. Because of the importance of completing this project, and in view of the extensive debate the IASB has undertaken over the years, the Exposure Draft sought feedback on five key matters on which there have been significant changes to the proposals in the 2010 Exposure Draft. The IASB hoped that targeting its revised Exposure Draft in this way will avoid further undue delay in finalising a much-needed Standard for insurance contracts accounting.

39. At the September 2013 meeting the ASAF provided feedback on the five key areas on which questions are asked in the Exposure Draft. The Advisory Council discussed the project at its June 2013 meeting.

40. The comment period for the Exposure Draft ended on 25 October 2013, 194 comment letters were received. During the comment period, extensive outreach was undertaken across a broad range of jurisdictions. In addition, the IASB undertook detailed field work with preparers to test the operationality of the proposals in the ED. The feedback suggests broad support for the proposal; however, there are also significant areas of disagreement and concerns about excessive complexity. A summary of the main themes raised in the comment letters received in response to the ED and the supplementary outreach was considered by the IASB at its January 2014 meeting. We will carefully consider how to finalise this Standard in the light of the comments received and the extent to which it will be appropriate and/or necessary to consider specific issues that we have in common with the FASB that were included within the scope of the issues raised in the IASB's ED.

Rate-regulated Activities

41. The short-term objective of the Rate-regulated Activities research project is to develop a Discussion Paper to consider whether rate regulation gives rise 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.

42. The IASB is considering the common features identified as being most important to distinguish rate-regulated activities from general commercial activities, and that have the biggest impact on the amount, timing and certainty of cash flows and the stability of ‘regulated’ earnings.

43. The ASAF provided input at its December 2013 meeting, and the IASB will continue its deliberations and expects to publish the Discussion Paper in Q2 2014.

44. At its November meeting the IASB concluded its discussions on the interim IFRS designed to assist those adopting IFRS prior to completion of the broader project. This IFRS was issued in January 2014.

The Conceptual Framework

45. 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.

46. 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.

47. The Discussion Paper (DP), 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).

48. The 180-day comment period for the DP ended on 14 January 2014. 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 had 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.
- Numerous 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.
- An article in our series of 'Investor Perspectives'.

49. The IASB also consulted its advisory groups during the comment period—the Advisory Council, ASAF (which acts as the project team's working group), the Capital Markets Advisory Committee (CMAC), and Global Preparers Forum (GPF).

50. At the March 2014 IASB meeting, the staff will present a paper analysing the comment letters received on the DP. 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.

Implementation projects

Disclosure Initiative

51. This is a broadly-based initiative to explore how disclosures in IFRS financial reporting can be improved. The work is informed by a *Discussion Forum on Disclosure in Financial Reporting* that was held in January 2013. In conjunction with this, the IASB staff also conducted a survey. A Feedback Statement on these events was published in May 2013.

52. The Initiative is divided into short- and medium-term projects. In the short term, the IASB will issue an Exposure Draft of narrow-focus amendments to IAS 1 *Presentation of Financial Statements* to address some of the concerns the IASB has heard and that we highlighted in the

Feedback Statement. At its September, October and November 2013 meetings, the IASB considered these amendments, which are intended to clarify, rather than significantly change, existing IAS 1 requirements. Although the proposed amendments are relatively modest, it is expected they will help to address some problems that have emerged in practice in areas such as the application of materiality and determining the order of the notes to the financial statements.

53. 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.

54. In the medium term the IASB will undertake a research project to explore whether IAS 1, IAS 7 *Statement of Cash Flows* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* should be replaced. This research project will incorporate a review of the work previously done on the Financial Statement Presentation project. The outcome of this project could, in essence, be a disclosure framework for IFRS. 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.

55. In October 2013 the IASB announced that it was bringing together members of its standard-setting team with the eXtensible Business Reporting Language (XBRL) team. The creation of a combined team of standard-setting and electronic reporting experts reflects the increasing importance of electronic filing of financial information. The integration of the XBRL team into the IASB's work programme also completes a major aspect of the recent strategic review of XBRL by the IFRS Foundation Trustees. This is also an issue that was discussed with the Advisory Council on several occasions, most recently in June 2013.

IAS 41—Bearer Plants

56. In June 2013, in response to the 2011 Agenda Consultation, the IASB published for public comment an ED 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.

57. 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 *Property, Plant and Equipment* instead of IAS 41, thus permitting the use of either a cost model or a revaluation model. The produce growing on the bearer plants would remain under the fair value model in IAS 41.

58. The ED closed for comment on 31 October 2013 and the IASB will commence its deliberations of the comments received in early 2014 (at its January 2014 meeting, the IASB considered a

paper that summarises the main feedback received from comment letters in response to the ED). Some of the main concerns raised by respondents include extending the scope of the amendment to include livestock, exempting produce growing on bearer plants from fair value measurement and providing further guidance on determining when a bearer plant reaches maturity.

Ongoing narrow-scope projects

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

59. 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 IASB amendment will require that acquirers of such interests shall 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.

60. The IASB published the ED 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. It is expected the amendment will be issued in the first quarter of 2014.

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 ED 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. It is expected the amendment will be issued in the first quarter of 2014.

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

64. The IASB has decided it will publish an ED 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.

65. The ED is scheduled for publication in the first quarter of 2014.

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

66. In November 2012 the IASB published an ED 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.

67. The IASB has tentatively decided to finalise the proposed amendments, because they are a short-term solution to address diversity in practice, subject to reviewing a further analysis of the application of those requirements to some specific fact patterns.

Fair Value Measurement: Unit of Account

68. 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 ED will also include a non-authoritative example to illustrate the application of the portfolio exception in IFRS 13 Fair Value Measurement. The IASB expects to issue the ED in Q1 of 2014.

Put Options Written on Non-controlling Interests (NCI)

69. 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).

70. Work on this issue has been continuing and the IASB will decide what the next steps should be at a future date.

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

71. 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.

72. In December 2012, the IASB published an ED. The Interpretations Committee considered the responses received in July 2013 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.

73. It is expected that the IFRS will be issued in Q1 of 2014.

IAS 27—Separate Financial Statements (Equity Method)

74. 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.

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

Disclosure Requirements about Assessment of Going Concern

76. IAS 1 requires that when management is aware of material uncertainties about an entity's ability to continue as a going concern, those uncertainties should be disclosed. The submitter, the International Auditing and Assurance Standards Board (IAASB), thinks that the guidance about the disclosure of these uncertainties is not clear. A similar topic had been presented to the Advisory Council in June 2012 by the chair of the UK FRC on actions that they were taking in response to the Sharman Inquiry. The Advisory Council's advice at that time was that perhaps the Interpretations Committee or the IASB could provide guidance on these disclosures.

77. At its March 2013 meeting the IASB discussed proposals for a narrow-scope amendment to IAS 1 that would clarify when disclosures about material uncertainties connected with going concern should be disclosed and what disclosures should be given. The IASB requested that the proposals should be further developed. The IASB discussed the proposals further at its November 2013 meeting. In the discussion, the IASB acknowledged that information about going concern is important to investors and that information about the events and conditions that cast significant doubt upon an entity's ability to continue as a going concern is useful to investors and creditors.

78. Many IASB members were concerned, however, about the sensitive nature of these disclosures. Some were concerned that, in making these disclosures, an entity could be in greater risk of no longer being a going concern, ie the act of disclosure could become a self-fulfilling prophecy. Others expressed concerns that even with applying criteria to assess the magnitude, likelihood and timing before disclosing an event or condition, too many events or conditions might be disclosed, resulting in boilerplate disclosures. Some IASB members were not persuaded that

further guidance was needed.

79. Consequently, the IASB decided not to develop these proposals further.

IAS 19—Actuarial Assumptions: Discount Rate

80. The Interpretations Committee was asked to clarify whether corporate bonds with a rating lower than ‘AA’ can be considered to be high quality corporate (HQC) bonds for the purposes of calculating the defined benefit obligation for post-employment benefits. According to prevailing past practice, listed corporate bonds have usually been considered to be HQC bonds if they receive one of the highest two ratings given by a recognised rating agency (eg ‘AAA’ and ‘AA’). Because of the financial crisis the number of these bonds has decreased.

81. The Interpretations Committee discussed various proposals to address this issue, but concluded that this topic is too broad for a narrow-scope amendment to IAS 19 *Employee Benefits*. The Interpretations Committee has issued an agenda decision explaining why it has not added this issue to its agenda.

82. The results of the Interpretations Committee’s discussions were reported to the IASB in December 2013.

Annual Improvements

Annual Improvements 2010–2012 and Annual Improvements 2011-2013

83. The *Annual Improvements to IFRSs 2010–2012 Cycle* and *Annual Improvements to IFRSs 2011–2013 Cycle* were issued in December 2013. These two sets of amendments between them make twelve amendments to nine IFRSs. The amendments take effect from July 2014.

Annual Improvements 2012–2014

84. The IASB has published an ED of five proposed amendments to four Standards. The proposals are open for comment until 13 March 2014.

Annual Improvements 2013–2015

85. 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

86. 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 field work to assess the likely effects of new proposals—the leases exposure draft is a good example. The implementation team look 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.

87. The IASB and its staff do not plan to undertake all of this research. In fact, most of the research will be, or already has been, undertaken by research professionals and national standard-setters (particularly for field work). 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

88. 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.

89. 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 *hyper-inflation* within the next few months.

90. *Intangible assets*, *extractive activities*, *share-based payments* and *post-employment benefits* will be longer term projects.

Working with national standard-setters

91. An essential ingredient for this research programme to be successful will be the involvement of national standard-setters, for two reasons. The first is that the IASB does not have enough staff resources to undertake this broad research programme alone. The second reason is that involving national standard-setters helps us ensure that the projects benefit from analyses that reflect different jurisdictional characteristics. We have already initiated some shared research activities.

Access to research and research professionals

Information resources

92. Towards the end of 2013 we secured the services of an information specialist to help us assess how we can improve access to resources to support staff analysis. Peter Clarke is assessing a

range of databases that would provide the staff with access to financial statement data, market data, academic research and professional journals. In addition, Peter is establishing access arrangements with other organisations, such as the major accounting firms and professional bodies, to give staff access to their resources.

93. Access to the resources will be through an internal research portal.

Research professionals

94. We are also building web pages that are aimed at external research professionals. The main objective of these pages is to increase awareness of the needs of the IASB in terms of encouraging research professionals to undertake targeted research projects. We know when we will be commencing post-implementation reviews of Standards and we will specify issues for which we would benefit from having research.

95. We have also established an annual **Research Forum**. Researchers will have the opportunity to discuss their research with academic peers and with members of the IASB and other practitioners from a regulatory and policy background. The first such forum will be held at SAÏD Business School at Oxford University in October this year, in conjunction with the journal **Accounting and Business Research**. The topic for that conference is the IASB's project on the Conceptual Framework. The 2015 Research Forum will be held in Hong Kong, in conjunction with the Australasian journal **Accounting and Finance**.

Effects Analysis

96. The Advisory Council discussed effects analysis at its meeting in October. At that meeting the IASB staff shared some of the themes emerging from the meetings held by the Effects Analysis Consultative Group.

97. The Council members provided helpful input to the effects analysis group. In particular, members emphasised the importance of ensuring the scope of the analysis is consistent with the objectives of financial reporting as set out in the Conceptual Framework. The IASB should encourage interested parties to undertake their own analysis of the relevant effects and, in that regard, may act as a facilitator without assuming responsibility for such efforts. By way of example, if a regulatory body is charged with monitoring financial stability it is important that that body undertake its own analysis.

98. The IFRS Foundation Trustees met immediately after the IFRS AC meeting, in Frankfurt. Alan Teixeira provided the Trustees with a verbal update of the messages conveyed by the IFRS AC. Members of the DPOC expressed similar views to those of IFRS AC members.

99. The Effects Analysis Consultative Group has met twice since then, by conference call on 7 November and face-to-face on 18 November. The feedback and advice of the Council and Trustees was conveyed to members of the consultative group. The report of the group will take

into consideration, and reflect, this input. We expect to have a final report ready in April, when it will be considered by Trustees.

IFRS for SMEs

Comprehensive Review 2012–2014

100. 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.

101. 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, an advisory body to the IASB. The IASB also consulted the Advisory Council on the review of IFRS for SMEs in June 2013. 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.

102. The ED 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.

Post-implementation review (PiR)

103. In July 2013 the IASB completed its first PiR, the review of IFRS 8 *Operating Segments*. A report and feedback statement was published by the IASB. The general conclusion of the report was that IFRS 8 is functioning as was anticipated. IFRS 8 is a converged Standard with US GAAP, so the IASB noted that in the limited areas in which further investigation is warranted, the IASB will liaise with the FASB and that any changes would be considered within the context of the convergence with US GAAP that was achieved with IFRS 8.

104. 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.

105. The first phase of the review will be the publication of a Request for Information (RfI). The IASB considered (in both its November and December meetings) the tentative questions to be

included in the RfI. The RfI was also discussed by the Advisory Council in October 2013. The RfI was published in January 2014 and is open for consultation until 30 May 2014.

Education Initiative

Fair value measurement—educational material

106. In October 2013 the Education Initiative updated the Trustees' Education and Content Services Committee on the range of educational material being developed in accordance with the Education Initiative's medium-term plan (approved by the Trustees in March 2011; updated October 2012) and in compliance with the recently formalised requirements for peer review set out in the *Due Process Handbook*.

107. The Education Initiative is developing educational material to support IFRS 13 with the assistance of a valuation expert group. The material is being prepared in various chapters. A chapter dealing with the concept of 'highest and best use' in fair value measurement is currently being developed.

108. During this meeting we will have a separate session discussing the Education Initiative.

Work plan—as at 27 January 2014

Major IFRSs

Next major project milestone

	2014 Q1	2014 Q2	2014 Q3	2014 Q4
IFRS 9 *Financial Instruments* (replacement of IAS 39)				
Classification and Measurement (Limited Amendments)		Target IFRS		
Impairment		Target IFRS		
Accounting for Macro Hedging	Target DP			

Next major project milestone

	2014 Q1	2014 Q2	2014 Q3	2014 Q4
Insurance Contracts	Redeliberations			
Leases	Redeliberations			
Rate-regulated Activities				
Interim IFRS	Target IFRS			
Rate Regulation		Target DP		
Revenue Recognition	Target IFRS			

IFRS for SMEs: Comprehensive Review 2012-2014–**see project page**

Implementation

Next major project milestone

Narrow-scope amendments	2014 Q1	2014 Q2	2014 Q3	2014 Q4
Acquisition of an Interest in a Joint Operation (Proposed amendments to IFRS 11)	Target IFRS			
Annual Improvements 2012-2014 (Comment period ends 13 March 2014)		Redeliberations		
Annual Improvements 2013-2015			Target ED	
Bearer Plants (Proposed amendments to IAS 41)	Redeliberations			
Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed amendments to IAS 16 and IAS 38)	Target IFRS			
Disclosure Initiative				
Amendments to IAS 1 (Disclosure Initiative)	Target ED			

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) (Comment period ends 3 February 2014)	Redeliberations			

Next major project milestone

Post-implementation Reviews	2014 Q1	2014 Q2	2014 Q3	2014 Q4
IFRS 3 *Business Combinations*	Publish Request for Information			

Conceptual Framework

Next major project milestone

	2014 Q1	2014 Q2	2014 Q3	2014 Q4
Conceptual Framework **(chapters addressing elements of financial statements, measurements, reporting entity and presentation and disclosure)** (comment period ended 14 January 2014)	Redeliberations			

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 payments
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