

AGENDA PAPER

IFRS Foundation Trustee Meeting - Due Process Oversight Committee

London 8 – 10 July 2014

Agenda paper 3B

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Technical Activities – Update

Overview

1. Since the Technical Update to the Trustees in April 2014 we have been focused on:
 - Redeliberating the discussion paper *A Review of the Conceptual Framework for Financial Reporting*; and
 - Progressing the Insurance Contracts and Leases projects following feedback to the Exposure Drafts published in 2013.
2. In the period April to June 2014 we have issued:
 - IFRS 15 *Revenue from Contracts with Customers*;
 - *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)*; and
 - *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)*.
3. We have also published:
 - a discussion paper *Accounting for Dynamic Risk Management: a Portfolio Approach to Macro Hedging*; and
 - an exposure draft *Investment Entities—Applying the Consolidation Exception (Proposed amendments to IFRS 10 and IAS 28)*.
4. A copy of the work plan as at 24 June 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) and Impairment

6. At its last meeting (Agenda Paper, AP 3C for that meeting refers) the DPOC considered life cycle reviews for these projects. In this quarter we have focused on finalisation of the revised IFRS 9 *Financial Instruments* (which will incorporate both the classification and measurement amendments as well as the new impairment model) that we anticipate will be issued in July 2014. This is slightly delayed from our estimated publication date when we reported in April. The delay is primarily due to the additional time that was required to manage the comprehensive fatal flaw undertaken as part of the finalisation process.
7. The revised IFRS 9 will be effective for annual periods beginning on or after 1 January 2018.
8. A presentation on the revised Standard is being given to the Trustees at their meeting in July 2014 (AP 2A refers).

Accounting for Macro Hedging

9. As noted above the discussion paper was published in April 2014, with a comment period of 180 days, ending on 17 October 2014. The staff are undertaking outreach at present primarily to raise awareness about the DP and to obtain initial feedback from constituents.
10. Initial feedback on the discussion paper was sought from members of the Accounting Standards Advisory Forum at its meeting in June 2014 where members highlighted that the scope of any future exposure draft would be dependent on the project objective being clearly identified.

Insurance Contracts

11. As discussed in previous meetings, the IASB published a revised Exposure Draft (ED) Insurance Contracts on the accounting for insurance contracts at the end of June 2013. That revised ED sought targeted feedback on specific aspects of its proposals on insurance contracts in view of the extensive debate the IASB has undertaken over the years, and the need to avoid further undue delay in finalising a much-needed Standard for insurance contracts accounting.
12. The comment period for the ED ended on 25 October 2013. In January 2014, the IASB considered a summary of the main themes raised in the 194 comment letters, and feedback from the IASB's extensive outreach and detailed fieldwork designed to test the operationality of the proposals. Together, the comment letters, outreach and fieldwork provided the IASB with views across a broad range of jurisdictions and with a broad range of interested parties. 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.
13. The IASB sought advice from the ASAF at both its March and June 2014 meetings. At the March ASAF meeting, the IASB sought input 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). At the June ASAF 2014 meeting advice was sought on key questions that arise relating to the accounting for contracts with participating features.

14. As at June 2014, the IASB has made tentative decisions on three of the five items that were targeted in the 2013 ED as they relate to non-participating contracts—namely, unlocking the contractual service margin; recognising the effects of changes in the discount rate in other comprehensive income; and insurance contracts revenue. In addition, the IASB has also made tentative decisions on the specific issues that were highlighted by respondents to the 2013 ED that were not targeted for input, but which the IASB had decided to address. The direction that the IASB took in all these decisions was largely consistent with the feedback that it had heard on the 2013 ED.
15. On 22 May 2014 the IASB provided an update on the project through its website. The update included a podcast of the tentative decisions, a summary of the effect of redeliberations on the 2013 ED and a Powerpoint presentation (these can be accessed on the insurance contracts project page).
16. As previously reported, although the proposals in the IASB's ED had been developed in conjunction with the FASB, the FASB has decided that it will make limited improvements to its existing Standards on insurance contracts rather than continue to develop the model it proposed in its ED.
17. The IASB expects to complete its redeliberations of the 2013 ED during 2014 and to issue the Standard on Insurance Contracts in 2015. The IASB has substantially completed its deliberations on most of the proposals in the 2013 ED. However, the IASB is currently considering the most difficult and contentious of the issues on which it sought input, ie those relating to the accounting for contracts with participating features. In doing so, the IASB is conscious of the need to balance completing the project with the need to maintain the quality of its decision-making process in dealing with these challenging technical issues.

Leases

18. 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 and the assets it uses in its operations.
19. This is a joint project with the FASB. In May 2013, the two 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. The ED also proposed some changes to the accounting applied by many equipment and vehicle lessors.
20. Extensive outreach activities were undertaken during the comment period, focusing in particular on obtaining feedback from investors and analysts, and on understanding the

drivers of costs for preparers. In addition, a series of public round tables took place.

21. 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 investors and analysts) was presented at a joint board meeting in November 2013. Although 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.
22. In preparation for the redeliberations, the IASB had substantive discussions on the leases project with all of its advisory bodies in February and March 2014—the Advisory Council, the Accounting Standards Advisory Forum (ASAF), the Capital Markets Advisory Council (CMAC) and the Global Preparers Forum (GPF).
23. At their March 2014 joint meeting, 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.
24. 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 such as laptops and office furniture). Therefore, with respect to the primary goal of the project, the boards have reached a converged solution. However, the boards came to different conclusions on the recognition and presentation of lease expenses in a lessee's income statement:
 - a. The IASB decided upon a single lessee model, whereby a lessee would recognise interest on lease liabilities separately from amortisation of lease assets.
 - b. 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. (But, as noted above, existing operating leases would be recognised on the balance sheet.)
25. Both boards decided to retain, in essence, 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.
26. The boards reached converged decisions on the lease term and short-term leases.
27. In the second quarter of 2014, the boards have continued to redeliberate the proposals on a joint basis, and have reached converged tentative decisions on all matters discussed, with one exception—the IASB decided to require a lessee to remeasure lease liabilities if inflation-linked lease payments change; the FASB decided not to require such remeasurement. The IASB also provided ASAF members with an update on the project at its meeting in June 2014. The IASB and FASB members present at the ASAF meeting indicated that the boards will continue redeliberations on a joint basis, with the intention of minimising any differences between US GAAP and IFRS.
28. 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 quarter one of 2015.

Revenue Recognition

29. The IASB issued its new revenue recognition standard, IFRS 15 *Revenue from Contracts with Customers*, in May 2014. The Standard is converged with its US GAAP equivalent, which the FASB issued concurrently with the IASB, and will be effective from January 2017.
30. As previously reported to the DPOC, the IASB and the FASB have announced the formation of a Joint Transition Resource Group (TRG) for Revenue Recognition. The TRG will inform the IASB and the FASB about potential implementation issues that could arise when companies and organisations implement the new Standard. The TRG will also provide stakeholders with an opportunity to learn about the new Standard from others involved with implementation. The TRG will not issue guidance.
31. As separately reported to the DPOC in May 2014, members of the TRG include financial statement preparers, auditors and users representing a wide spectrum of industries, geographical locations and public and private companies and organisations.
32. The boards expect that the TRG will meet twice in 2014 and four times in 2015. The first meeting is scheduled for 18 July 2014. All meetings will be public and co-chaired by the Vice-Chairmen of the IASB and the FASB.

The Conceptual Framework

33. 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.
34. 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.
35. The Discussion Paper, published in July 2013, is the first step towards issuing a revised Conceptual Framework. It was 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.
36. The 180-day comment period for the DP ended on 14 January 2014. We received 226 comment letters. During the comment period, outreach was conducted to obtain feedback on the issues included in the DP.
37. The IASB continues to consult with its advisory bodies—the Advisory Council, ASAF (which acts as the project’s working group), the CMAC, and the GPF have been consulted. The Advisory Council and ASAF have been consulted both during and following the comment period; CMAC and GPF were consulted during the comment

period and further discussions are due to take place at their joint meeting in June 2014.

38. 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. The advice of ASAF was sought on specific topics at its meeting June 2014.
39. At the March 2014 IASB meeting, the staff presented an analysis of the comment letters received on the DP. Nearly all respondents to the DP expressed support for the project.
40. In April 2014, the IASB tentatively approved both a timetable and strategy for the project. The strategy for most sections of the Conceptual Framework is to build on the suggestions in the DP, modified in light of comments received.
41. Our original intention was not to fundamentally reconsider the Objective and Qualitative Characteristics chapters of the Conceptual Framework that 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, stewardship and reliability). Those expressing this view most strongly (particularly a coalition of UK investors) have received a significant amount of attention both in the press and in the European Parliament. We have held meetings with a number of investors to get a better understanding of their concerns and the IASB has tentatively decided:
 - a. to reintroduce a reference to prudence (described as caution under conditions of uncertainty) in the Conceptual Framework. The Conceptual Framework will emphasise that the exercise of prudence is consistent with neutrality and should not allow the overstatement or understatement of assets, liabilities, income or expenses;
 - b. to increase the prominence of references to stewardship within the description of the overall objective of financial reporting;
 - c. not to reinstate the term ‘reliability’ to describe one of the two fundamental qualitative characteristics of useful financial information.¹ The existing Conceptual Framework now uses the term ‘faithful representation’ to refer to that concept, and describes it in a manner largely similar to the discussion of ‘reliability’ in the previous version of the Conceptual Framework. The IASB noted that:
 - i. the existing Conceptual Framework expresses the idea that if the level of uncertainty associated with an estimate is sufficiently large, that estimate might not provide relevant information. We will consider in drafting whether to make that idea more prominent.

¹ The other fundamental qualitative characteristic is relevance.

- ii. the concept of ‘faithful representation’ includes implicitly the notion that accounting for a transaction in accordance with its legal form may not be appropriate if that form differs from the economic substance of the transaction. The IASB decided tentatively to reintroduce a more explicit reference to economic substance and legal form.
42. The IASB will continue its redeliberations in the third quarter 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.
 43. 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 Committee as normal.

Disclosure Initiative

44. The Disclosure Initiative is a portfolio of projects designed to improve the quality of information provided in financial reports. 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.
45. The Initiative is divided into implementation and research projects that address some of the concerns the IASB has heard and that we highlighted in the Feedback Statement.
46. The implementation projects include:
 - Narrow-focused amendments to IAS 1 *Presentation of Financial Statements*; and
 - Narrow-focused amendments to IAS 7 *Statement of Cash Flows*.
47. The research projects include:
 - Principles of Disclosure – review of IAS 1, IAS 7 and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
 - Materiality; and
 - Review of disclosures in existing standards.
48. We have sought advice from the IASB’s advisory bodies including ASAF, GPF and CMAC on the proposed project on materiality and the scope of the project to explore the Principles of Disclosure.
49. The IASB is also working with the national standard setters in the UK and Italy as part of the Principles of Disclosure project. The UK national standard setter is undertaking research on the Statement of Cash Flows and the Italian national standard setter is reviewing the presentation and disclosure requirements for changes in accounting policies.
50. As reported in AP 3E the IASB will consider whether to establish a consultative group for this project at its meeting in July 2014.

IAS 1- Presentation of Financial Statements

51. 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 overly 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.

IAS 7- Statement of Cash Flows Reconciliation of liabilities relating to financing activities

52. The objective of this narrow-scope project is to improve disclosures about an entity's liabilities relating to financing activities. The project responds to requests from investors who have highlighted that understanding cash flows is critical to their analysis of the entity, and that there is a need for improved disclosures about an entity's debt and the changes in that debt during the period to assist them in verifying their understanding of cash flows.
53. In the early part of 2014 we undertook a short survey with investors to understand what information, if any, investors required about debt when analysing an entity. The results of the survey were presented to the IASB in March 2014 with a recommendation that the IASB should undertake a narrow-scope improvements project to address some of the concerns noted.
54. It is anticipated that the IASB will issue an Exposure Draft in fourth quarter of 2014.

Principles of Disclosure – review of IAS 1, IAS 7 and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;

55. The objective of the Principles of Disclosure project is to improve disclosure effectiveness in IFRS through identifying and developing a set of principles for disclosure in IFRS. The efforts in this project aim to set the basis for replacing three of our current Standards: IAS 1, IAS 7 and IAS 8. The project may also impact the review of disclosure requirements and guidance of other IFRSs.
56. In April 2014 the IASB discussed the scope of the project. The IASB asked the staff to prioritise work on establishing principles:
- a. for the notes to the financial statements, including establishing the objective and boundaries of the notes and principles for organising, placing, formatting and linking information.
 - b. that apply to the information in a complete set of IFRS financial statements, including the presentation and disclosure of non-IFRS financial information and comparative information.
57. Because many people are asking for immediate improvements to disclosure requirements, the IASB will also consider proposing targeted changes to disclosure requirements if it

can identify improvements or simplifications in the project that can be developed relatively quickly and are not dependent on other remaining research in this project.

Materiality

58. The IASB is researching how materiality is applied in practice with the aim of deciding whether further guidance is needed. We are currently liaising with national and regional standard setters regarding local guidance and practice. It is anticipated that staff will present the findings to the IASB in the third quarter of 2014, at which point the next steps for the project will be determined.

Review of disclosures in existing standards

59. The IASB is undertaking a research project to review disclosure in existing Standards to identify and assess conflicts, duplication and overlaps.

The Research Programme

60. 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.
61. 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.
62. During this quarter we have presented an overview of the research programme to, and sought advice from, the ASAF and the Advisory Council, who have been supportive towards the programme

Update on current research projects

63. 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.
64. The following section provides an update on the projects currently part of the research programme. These are in addition to the Disclosure Initiative projects set out above.

Rate-regulated Activities

65. The short-term objective of the Rate-regulated Activities research project is to develop a Discussion Paper to consider whether the general requirements of IFRS should be

amended to reflect the effects of rate regulation. *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 2013 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.

66. 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 and 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, if one is considered to be needed.
67. The ASAF provided input at its meetings in December 2013 and March 2014.
68. At its meeting in April 2014 the IASB considered the due process steps taken so far on the research project. The staff have sought some additional input for the DP and will be seeking permission to commence the balloting process at the IASB meeting in July 2014. The IASB expects to publish the DP in the third quarter of 2014.

Business Combinations Under Common Control (BCUCC), Discount Rates, Equity Method, Financial Instruments with the Characteristics of Equity

69. We have begun work on *Business Combinations Under Common Control (BCUCC)*, *Discount Rates*, *Equity Method* and *Financial Instruments with the Characteristics of Equity*. Since we last reported to the DPOC, the IASB has considered the scope of these projects and the methodology to be adopted in evaluating the financial reporting problem. We have also sought the advice of ASAF on the BCUCC and Equity method projects.
70. In addition, we expect to initiate work on *emissions trading schemes*, *post-employment benefits* and *hyper-inflation* within the next few months. *Intangible assets*, *extractive activities*, and *share-based payments* will be longer term projects.

Implementation projects

IAS 41—Bearer Plants

71. 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*. This would permit bearer plants to be measured using either a cost or revaluation model rather than requiring them to be measured at fair value less costs to sell. 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.
72. The IASB completed its redeliberations of the ED in March 2013 ED, deciding to finalise its proposals subject to some minor amendments and clarifications

73. In April 2014 the IASB reviewed the due process steps undertaken and confirmed it is satisfied all the necessary due process steps on the project have been completed to date and instructed staff to start the balloting process. The due process life cycle review was distributed to DPOC by email on 27 May 2014.
74. The final amendments will be issued in on 30 June 2014.

Clarification of Classifications of Share-based Payment Transactions

75. The IASB has decided, based on advice from the IFRS Interpretations Committee, to publish three proposed amendments to IFRS 2 *Share-based Payment* in an Exposure Draft *Clarifications of Classification and Measurement of Share-based Payment Transactions*. The three amendments relate to:
- Measurement of cash-settled share-based payment transactions that include a performance condition
 - Modification of a share-based payment from cash-settled to equity settled
 - Share-based payments settled net of tax withholdings
76. The IASB confirmed that it has completed all necessary due process steps to date at its meeting in June 2014 and expects to publish the ED in the fourth quarter of 2014.

Classification of liabilities

77. 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 rollover or refinance a loan should lead an entity to classify that loan as non-current. This issue was originally included in Annual Improvements, but feedback received indicated that a separate narrow-scope amendment is needed.
78. The Exposure Draft of the proposed amendment is expected to be published in the fourth quarter of 2014.

Elimination of gains arising from transactions between an entity and its associate or joint venture (IAS 28 *Investments in Associates and Joint Ventures*)

79. 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.
80. The IASB considered the due process steps undertaken at its meeting in January 2014.
81. In March 2014 the IASB discussed an additional clarification related to this project, and decided to include this additional proposed clarification in the Exposure Draft.
82. The Exposure Draft of the proposed amendment is expected to be published in the fourth quarter of 2014.

Equity Method in Separate Financial Statements - IAS 27

83. The IASB published an Exposure Draft of proposed amendments to IAS 27 in December 2013 proposing to allow 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.
84. At its meeting in March 2014 the IASB was presented with a summary and analysis of the comment letters received and decided to finalise the proposals. In April 2014 the IASB considered the due process steps undertaken on the project and confirmed it is satisfied all the necessary due process steps have been completed to date and instructed the staff to start the balloting process.
85. The amendments are expected to be issued in the third quarter of 2014.

Fair Value Measurement: Unit of Account

86. 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*.
87. 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.
88. It is anticipated that the ED will be published in the third quarter with a comment period of 120 days.

Investment Entities: Applying the Consolidation Exemption

89. In June 2014, the IASB published an Exposure Draft of proposed narrow-scope amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. The proposals are designed to clarify three issues about the application of the requirement for investment entities to measure subsidiaries at fair value instead of consolidating them.
90. The issues originated from submissions to the IFRS Interpretations Committee, which recommended that the IASB should amend the Standards to clarify the requirements in order to reduce the risk of diversity developing in practice.
91. The IASB considered, in April 2014, the due process steps undertaken on the project and agreed to shorten the normal comment period, reflecting the 1 January 2014 effective date of the original requirements in IFRS 10 for investment entities.
92. The proposals are open for public comment for 96 days.

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

93. 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 based on the

comments received, the IASB decided that it should consider a narrow-scope amendment instead.

94. The IASB considered the due process steps undertaken at its meeting in June 2014 and expects to publish the draft amendment to IAS 12 *Income Taxes* in the third quarter of 2014.

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

95. 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.
96. In December 2012, the IASB published an Exposure Draft. 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.
97. The IASB reviewed the due process steps in relation to these amendments in November 2013.
98. At its June 2014 meeting, IASB members were asked whether they intended to dissent to the publication of the narrow-scope amendments to IFRS 10 and IAS 28. Four IASB members indicated that they intend to dissent.
99. It is anticipated that the amendment will be issued in the third quarter of 2014.

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

100. 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.
101. The IASB had tentatively decided to finalise the proposed amendments, because it viewed them as a practical short-term solution to address diversity in practice. The IASB considered the due process steps undertaken at its meeting in March 2014 and two IASB members communicated their intention to dissent from the amendments.
102. Following that meeting three further IASB members indicated their intention to dissent as a result of having reflected on the consequences of the amendments, rather than as a result of any new technical matters. Accordingly, in the light of the change in the number of IASB members indicating an intention to dissent, the IASB members were asked to confirm their vote at their May meeting. Nine IASB members were in favour of finalising the amendments as proposed, which was less than the number required (10) to approve

the amendments. In the light of this vote, the IASB decided not to proceed with the proposed amendments.

Annual Improvements

Annual Improvements 2012–2014

103. 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.
104. The comments received were presented to the IFRS Interpretations Committee in May 2014. The Interpretations Committee recommended five proposed amendments to the IASB. Subject to the IASB's approval, the amendments are expected to be issued in the third quarter of 2014.

Annual Improvements 2013–2015 and 2014-2016

105. The IASB has started to discuss issues for inclusion in the next cycle of Annual Improvements. So far only one amendment has been identified for the next ED,

IFRS for SMEs

Comprehensive Review 2012–2014

106. 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.
107. 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.
108. 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.

109. The ED closed for comment on 3 March 2014. The IASB discussed a summary of the feedback received on the ED at its May 2014 meeting. No decisions were made.

Post-implementation review (PiR)

110. 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.

111. The first phase of the review resulted in 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 and input sought from the ASAF at its meeting in December 2014.

112. The RfI was published in January 2014 and closed for comment on 30 May 2014. We have received 91 comment letters. It is anticipated that the IASB will consider a summary of the comment letters in the third quarter of 2014.

Appendix A - Work plan as at 24 June 2014

Major IFRSs and Amendments

Next major project milestone

	2014 Q2	2014 Q3	2014 Q4	2015 Q1	Change in timing since March 2014
IFRS 9 <i>Financial Instruments</i> (replacement of IAS 39)					
Classification and Measurement (Limited Amendments)		Target IFRS			
Impairment		Target IFRS			
Accounting for Dynamic Risk Management: a portfolio Revaluation Approach to Macro Hedging [Comment period ends 17 October 2014]	Public consultation				
Insurance Contracts	Redeliberations				
Leases	Redeliberations				

Conceptual Framework

Next major project milestone

	2014 Q2	2014 Q3	2014 Q4	2015 Q1	Change in timing since March 2014
Conceptual Framework			Target ED		

Key:



Project timing delayed



No change to project timing

Implementation

Next major project milestone

Narrow-scope amendments	2014 Q2	2014 Q3	2014 Q4	2015 Q1	Change in timing since March 2014
Annual Improvements 2012-2014		Target IFRS			
Bearer Plants (Proposed amendments to IAS 41)	Target IFRS				
Clarification of Classification and Measurement of Share-based Payment Transactions (Proposed amendment to IFRS 2)			Target ED		New Project
Classification of liabilities (Proposed amendment to IAS 1)			Target ED		
Disclosure initiative					
Amendments to IAS 1 (Disclosure Initiative) [Comment period ends 23 July 2014]		Redeliberations			
Reconciliation of liabilities from financing Activities			Target ED		New Project
Elimination of gains or losses arising from transactions between an entity and its associate or joint venture (Proposed amendments to IAS 28)			Target ED		
Equity Method in Separate Financial Statements (Proposed amendments to IAS 27)		Target IFRS			
Fair Value Measurement: Unit of Account		Target ED			
Investment Entities: Applying the Consolidation Exception (Proposed amendments to IFRS 10 and IAS 28) [Comment period ends 15 September 2014]			Redeliberations		New Project
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			

We have rescheduled the timing for some of the implementation projects in order to provide capacity for work required in relation to IFRS 9.

Next major project milestone

Post-implementation Reviews	2014 Q2	2014 Q3	2014 Q4	2015 Q1	Change in timing since March 2014
IFRS 3 Business Combinations		Deliberations			

Research Projects

	2014 Q2	2014 Q3	2014 Q4	2015 Q1
Short and medium term projects				
Business combinations under common control	Board discussion			
Disclosure initiative				
General disclosure review	To be determined			
Materiality		Board discussion		
Principles of disclosure	Board discussion			
Discount rates	Board discussion			
Emissions trading scheme	To be determined			
Equity method of accounting	Board discussion			
Financial instruments with characteristics of equity	Pending developments in the <i>Conceptual Framework</i> project			
Foreign currency translation / inflation			Board discussion	
Liabilities – amendments to IAS 37	Pending developments in the <i>Conceptual Framework</i> project			
Rate-regulated Activities		Target DP		
Longer term projects				
Extractive activities / Intangible assets / R&D activities				
Income taxes				
Post-employment benefits (including pensions)				
Share-based payments				

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
April 2014				
AP2B		Insurance Contracts: Insurance contract revenue – examples	(Re-posted on 15 April)	This paper was reposted due to an error in one the graphs. The original paper was posted on 10 April and the only change from the original paper was to replace the graph after paragraph 28. We informed readers of the paper of that fact in a note on the revised paper.
May 2014				
AP16		Agriculture: Bearer Plants: IAS 8 disclosures on initial application	(Posted on 16 May)	A sweep issue that arose during the balloting process of the final amendments.
June 2014				
AP15		Research project on discount rates – review of existing requirements: Approach to the research	(Posted on 11 June)	Staff needed to follow up on some points regarding the general approach to the research and received the information needed only on 11 June. We could have postponed the paper until July meeting but decided to go ahead with posting for June meeting as: <ul style="list-style-type: none"> a) it is a non-decision making paper b) stakeholders are keen to understand what we are doing on this research project.