AGENDA PAPER

IFRS Advisory Council

London 9-10 June 2014 Agenda paper 1A

Memorandum

To: IFRS Advisory Council

From: Hugh Shields/Alan Teixeira/Henry Rees

Date: 30 May 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 relating to the IASB standard-setting work. Topics that will be discussed separately during this meeting are: Use of Judgement, Conceptual Framework, Implementation Support Groups, Research Programme, Effects Analysis, Role of the Council, and Post-implementation Review of IFRS 3 *Business Combinations*. This session also serves as an update on the project activities since the last meeting.

Overview

2. Since our last report to the Council in February 2014, we have issued our interim standard IFRS 14 *Rate-regulated Activities* and IFRS 15 *Revenue from Contracts with Customers*. We have also published:
   - Discussion Paper: Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging;
   - The 2014 *IFRS Taxonomy*;
   - Exposure Draft: Disclosure Initiative *Proposed amendments to IAS 1;*
   - Narrow-scope amendments to IFRS 11 *Joint Arrangements*: Accounting for Acquisitions of Interests in Joint Operations; and
   - Narrow-scope amendments to IAS 16 *Property, Plant and Equipment* and IAS 38

Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation.

3. The IASB expects to issue revised IFRS 9 *Financial Instruments* in July 2014.

4. The IASB is continuing to progress the work on major projects on Leases and Insurance Contracts.

5. The Interpretations Committee continues to be very active.

6. The work on research programme is progressing well, with a number of projects being discussed with the Board.

7. A copy of the work plan as at 28 May 2014 is attached as Appendix A.

Financial Instruments

IFRS 9—Classification and Measurement (limited amendments)

8. We have now completed all planned technical discussions of the amendments to the classification and measurement requirements for financial assets that are already contained in IFRS 9 *Financial Instruments*.

9. The main changes to IFRS 9 are to clarify the notion of principal and interest, to introduce a ‘fair value through OCI’ category for simple debt investments, and to clarify the concept of ‘holding to collect’ contractual cash flows.

10. We published an Exposure Draft proposing these amendments in November 2012. The FASB published its own ED on the classification and measurement of financial instruments in February 2013. While those EDs reflected joint decisions made by the boards, because of the different stage of development of our projects (the IASB was proposing limited amendments to IFRS 9 whereas the FASB was proposing completely new guidance), the documents were not identical.

11. The FASB has decided to proceed in this project by making limited amendments to its current standards; as a consequence we will not issue converged standards.

Impairment

12. We have now also completed our planned technical discussion on our proposed impairment model for IFRS 9.

13. 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.

14. 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.

15. As previously noted we have been unable to reach a converged impairment model with the FASB. 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 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 model measures expected credit losses at an amount equal to 12-month expected credit losses for financial instruments for which credit risk has not increased significantly.

16. In February 2014 the IASB discussed the mandatory effective date for the revised IFRS 9 (which will incorporate both the classification and measurement amendments, and the new impairment model) and decided the Standard would be effective for annual periods beginning on or after 1 January 2018.

17. We expect the revised Standard to be issued in July 2014.

18. We are considering forming a limited life group to support implementation of the new impairment guidance. This will be discussed in a separate session during this meeting.

Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging

19. On 17 April 2014, the IASB published the Discussion Paper *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging*.

20. The DP explores a possible approach to accounting for an entity's dynamic risk management activities. The approach is the portfolio revaluation approach (PRA). When applying the PRA, exposures that are dynamically risk managed would be revalued with respect to the managed risk. This revaluation would offset the effect of measuring any risk management instruments (derivative instruments) that are used to manage those risks at fair value.

21. The DP uses dynamic risk management of interest rate risk, particularly as managed by banks, for illustrative purposes. However, the approach considered in the DP is intended to be applicable to the dynamic management of risks arising from both financial and non-financial items.

22. The PRA would also address the needs of users by providing information on the dynamic risk management activities undertaken by entities. Under one of the presentation alternatives of the DP, users would be able to analyse the impact of such dynamic risk management activities in an entity's net interest by presenting net interest pre- and post- dynamic risk management activities.

23. The IASB will use the feedback received on the DP to evaluate whether, and how, the new approach would result in an enhancement of the usefulness of the information provided by the financial statements. The feedback will be also useful to the IASB to assess whether the approach being explored is operational and to evaluate whether, and how, it could be applied to other risks.

24. The comment period of the Discussion Paper ends on 17 October 2014.

Leases

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

26. This is a joint project with the FASB. In May 2013, the boards published a joint and revised Exposure Draft on leases, which was open for comment until 13 September 2013.

27. 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. The boards started to redeliberate the proposals in the 2013 Exposure Draft at the beginning of 2014.

28. Before making any decisions in 2014, the IASB sought advice from all of its advisory bodies. The IASB obtained advice on:
    (a) the strategy for the project from the Advisory Council at its meeting in February 2014;
    (b) the lessee model, the lessor model and possible simplifications to the proposals from the ASAF at its meeting in March 2014;
    (c) the lessee model from the Capital Markets Advisory Committee in February 2014; and
    (d) possible simplifications to the proposals from the Global Preparers Forum in March 2014.

29. At joint meetings in March, April and May 2014, the IASB has reached tentative decisions on a number of aspects of the project. The following summarises the main tentative decisions reached:

(a) Both boards 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).

(b) The IASB decided upon a single lessee model, for the recognition and presentation of lease expense, whereby a lessee would recognise interest on lease liabilities separately from amortisation of lease assets.

(c) The FASB decided upon a dual lessee model for the recognition and presentation of lease expense, 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. (However, as noted under (a), leases would be recognised on the balance sheet.)

30. Both boards decided to retain existing lessor accounting. Because existing IFRS lessor accounting is slightly different from existing US GAAP lessor accounting, the boards reached slightly different conclusions, which are not expected to result in any significant differences in practice.

31. The boards reached converged decisions on the lease term, short-term leases, variable lease payments, discount rate, the definition of a lease and separating lease and non-lease components, with one exception—the IASB decided to require the remeasurement of lease assets and liabilities when lease payments linked to an index or a rate change; the FASB did not. These tentative decisions largely retain the proposals in the 2013 Exposure Draft with some simplifications made regarding the lease term, short-term leases, variable lease payments and separating lease and non-lease components.

32. The boards' redeliberations of the proposals in the 2013 Exposure Draft will continue on a joint basis with the aim of reaching converged solutions wherever possible. The boards expect to complete their redeliberations before the end of 2014, with a final leases standard expected to be published in 2015.

Revenue Recognition

33. As noted above we have just issued our new Revenue Recognition Standard, IFRS 15 *Revenue from Contracts with Customers*. This standard is converged with the FASB's Accounting Standards Update 2014-09 *Revenue from Contracts with Customers*. 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.

Insurance Contracts

34. 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.

35. 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 would avoid further undue delay in finalising a much-needed Standard for insurance contracts accounting.

36. 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. The IASB also sought views on the project from the Advisory Council in June 2013, and from the ASAF in September 2013. In addition, the IASB undertook detailed field work with preparers to test the operationality of the proposals in the ED.

37. The feedback suggested broad support for the proposal; however, there were 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.

38. Since January 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. These are on the issues of unlocking the contractual service margin, presentation of insurance contracts revenue and expense, and the recognition of the effects of changes in the discount rate in other comprehensive income. The IASB has held an education session to consider issues arising for the accounting for participating contracts, which was the subject of one of the other targeted issues, and plans to discuss those issues with ASAF at the June 2014 meeting. In addition, the IASB agreed to consider further some of the issues raised in the comment letters that were not targeted for comment.

39. The IASB intends to finalise deliberations on the insurance contracts project during 2014 and to publish a final standard in 2015.

Disclosure Initiative

40. 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.

41. The Initiative is divided into short- and medium-term projects. In the short term, the IASB has issued an Exposure Draft of narrow-focus amendments to IAS 1 *Presentation of Financial Statements.* The Exposure Draft was published in March 2014, with comments requested by 23 July 2014. The proposed amendments 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 perceived barriers to exercising judgement in areas such as the application of materiality and determining the order of the notes to the financial statements.

42. In another short-term project the IASB is considering proposals to amend IAS 7 *Statement of Cash Flows* to require disclosure of changes in liabilities from financing activities. These proposals respond, in part, to requests from some analysts and investors for improved disclosures about debt.

43. 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.

44. 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 some of the principles developed in the Financial Statement Presentation project. Based on the outcome of this research project, the IASB will also undertake further research to review disclosure requirements in existing Standards to identify and assess conflicts, duplication and overlaps.

45. In October 2013 the IASB announced that it was bringing together members of its standard-setting team with the IFRS Taxonomy 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 IFRS Taxonomy team into the IASB's work programme also completes a major aspect of the recent strategic review of XBRL and the IFRS Taxonomy 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 and February 2014.

The Conceptual Framework

46. As previously reported we are revising our Conceptual Framework following feedback from the 2011 Agenda Consultation. 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.

47. The Discussion Paper (DP), published in July 2013, was the first step towards issuing the revised Conceptual Framework. The comment period for the DP ended on 14 January 2014. During the comment period, we conducted outreach to obtain feedback on the issues included in the DP. The IASB also consulted the IFRS Advisory Council and its advisory groups during the comment period—the ASAF (which acts as the project team's working group), the Capital Markets Advisory Committee, and the Global Preparers Forum. The feedback from these groups gave support for continuing the project.

48. At the March 2014 IASB meeting, the staff presented a paper that analysed the comment letters received on the DP and in April 2014, the IASB tentatively approved the proposed strategy and timetable for redeliberations. The proposed timetable envisages completion of a revised Conceptual Framework in Q2 2016.

49. The IASB is redeliberating 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.

50. During this meeting, we will have a separate session discussing the Conceptual Framework.

Implementation projects

IAS 41—Bearer Plants

51. In June 2013, the IASB published for public comment an Exposure Draft (ED) of proposals to include bearer plants within the scope of IAS 16 *Property, Plant and Equipment*. The limited scope project was added to the IASB agenda in September 2012 in response to concerns raised to the 2011 Agenda Consultation. Bearer plants are a class of biological assets that are held by an entity solely to grow produce over their productive life. Examples include grape vines, rubber trees and oil palms.

52. The ED closed for comment on 31 October 2013 and in January 2014 the IASB discussed the feedback received on the ED. During its February and March 2014 meetings the IASB discussed all the issues raised by respondents to the ED. The result of the IASB's redeliberations at these meetings is that only minor changes will be made to the proposals in the ED. The IASB expect to issue the final amendments in late June/early July 2014.

53. 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 are used to grow produce over several periods until the end of their productive life. The only significant future economic benefits from bearer plants arise from selling the agricultural produce that they create. Bearer plants meet the definition of property, plant and equipment in IAS 16 and their operation is similar to that of manufacturing. Accordingly, the amendments will require bearer plants to be accounted for as property, plant and equipment and included within the scope of IAS 16, rather than IAS 41. The produce growing on the bearer plants will remain within the scope of IAS 41.

Recently completed narrow-scope projects

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

54. The objective of this project was to add new guidance to IFRS 11 *Joint Arrangements* on the accounting for the acquisition of an interest in a joint operation that constitutes a business. The

amendment requires acquirers of such interests to 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. The amendment was issued in May 2014.

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

55. This project was a limited-scope amendment to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets.* The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The amendment was issued in May 2014.

Ongoing narrow-scope projects

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

56. 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.

57. The ED is scheduled for publication in the third quarter of 2014.

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

58. 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. After considering the comments received on the proposals and concerns about the consequences of the proposed amendments, the IASB decided in May 2014 not to finalise the proposed amendments. Consequently, the IASB will not proceed with the proposed amendments. The issues that had been considered in this project will instead be considered as part of the IASB's broader research project on the equity method of accounting.

Fair Value Measurement: Unit of Account

59. The IASB will publish 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 when those investments are quoted in an active market. The narrow-scope amendment will also clarify the measurement of the recoverable amount of cash-generating units

on the basis of fair value less costs of disposal when they correspond to entities that are quoted in an active market. 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 publish the ED in Q2 of 2014

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

60. 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.

61. 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.

62. It is expected that the IFRS will be issued in Q3 of 2014.

IAS 27—Equity Method in Separate Financial Statements

63. 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.

64. The forthcoming amendments to IAS 27 will 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 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. It is expected that the IFRS will be issued in Q2 of 2014.

IFRS 2 *Share-based payment* – Clarification of classification and measurements of share-based payment transactions

65. The objective of this project is to provide guidance and clarification for three issues related to share-based payments that had been submitted to the Interpretations Committee. Having considered proposals by the Interpretations Committee, the IASB has decided to propose a collection of narrow-scope amendments to IFRS 2 to address these three issues.

66. The IASB expects to publish an exposure draft of these proposed amendments in Q3 2014.

IAS 1 *Presentation of Financial Statements* – Classification of liabilities

67. The objective of the proposed amendment to IAS 1 is to provide guidance on whether a liability should be classified as current or non-current, particularly in the context of loans that are rolled over or loans made when the holder has a right to defer settlement for at least 12 months after the reporting period. The proposed amendment will also clarify the effect of events after the reporting period, such as a breach of covenant, on the classification of liabilities.

68. At their March 2014 meeting the IASB discussed the staff's proposals for changes to the detailed guidance in the Standard and asked the staff to prepare revised proposals of a narrow-scope amendment to IAS 1 for future public consultation.

IFRS 10 *Consolidated Financial Statements* – Investment Entities: Applying the consolidation exception

69. The objective of this project is to provide guidance and clarification for three issues related to the implementation of the consolidation exception that was introduced by *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27), issued in October 2012. The IASB has decided to propose a collection of narrow-scope amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* to address these three issues.

70. The ED is scheduled for publication in June 2014.

IAS 12 Income Taxes – Recognition of deferred tax assets for unrealised losses

71. The objective of this project is to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

72. The exposure draft Annual Improvements to IFRSs 2010—2012 Cycle, which was published in May 2012, included a draft amendment on this issue. After analysing the comment received on this proposal, the IASB tentatively decided to address this issue in a narrow-scope project. A revised draft amendment to IAS 12 Income Taxes is expected to be published for comment in Q3 of 2014.

Put Options Written on Non-controlling Interests (NCI)

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

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

Annual Improvements

Annual Improvements 2012–2014

75. The IASB has published an ED of five proposed amendments to four Standards. The proposals were open for comment until 13 March 2014. The Interpretations Committee discussed the comments received in May 2014 and recommended that all five proposed amendments be finalised, subject to some minor modifications. The next step is for the IASB to discuss the Interpretations Committee's recommendations.

Annual Improvements 2013–2015

76. 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

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

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

79. To support the staff directly, in March we launched a new Research Gateway. The web-based portal brings together many of our existing resources to provide a focused gateway for accessing material that helps the staff to undertake analysis for their projects. Additionally, we have invested in new databases to give staff access to a wider range of resources.

80. In April we launched a new web-based Research Centre on the IFRS website, aimed mainly at research professionals, including academics. The Research Centre provides information designed to encourage research that is relevant to the IASB. A focused newsletter entitled Research Round-up was launched at the same time.

Financial Reporting research projects

81. 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 often 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.

82. 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 are taking papers to public sessions of the IASB in the first half of 2014 for these projects. In addition, we expect to initiate work on *Emissions trading schemes*, and Hyperinflation within the next few months. In many cases we are working directly with national standard-setters who have an interest in working with the IASB on these projects.

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

84. During this meeting, we will have a separate session discussing the research programme. At that separate session, we will be asking the Council for specific advice on research outputs and prioritisation of research projects.

Rate-regulated Activities

85. Because we have now published our interim Standard (IFRS 14 *Regulatory Deferral Accounts*) we are now focusing on our research project. In the short term, our objective for this research project is to develop a Discussion Paper to consider the impact that rate regulation has on the amount, timing and certainty of future cash inflows to the entity and how this influences the returns expected by existing and potential investors, lenders and other creditors. A Request for Information *Rate Regulation* was published in March 2013 to gather more information about the common features of rate regulation.

86. We are reviewing the common features of rate regulation that are considered as being most important for distinguishing the rights and obligations created by some types of rate regulation from the rights and obligations applicable to non-rate-regulated entities, and to identify those that have the biggest impact 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 Discussion Paper will be based on these distinguishing features and will outline a number of potential approaches to developing an accounting model.

87. The IASB expects to publish the Discussion Paper in Q2/3 2014.

IFRS for SMEs

Comprehensive Review 2012–2014

88. 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.

89. 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 most SMEs or to have a significant impact on their financial statements.

90. 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.

91. At its May 2014 meeting the IASB discussed a summary of the feedback received from respondents to the ED. In the third quarter of 2014, the SME Implementation Group will also review this feedback and will then provide recommendations to the IASB on possible changes to the ED.

Post-implementation review (PIR)

92. 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.

93. 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.

94. In the first phase of the review the IASB identified the main question that will be addressed in the PIR of IFRS 3. Those questions are included in the 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 was sought from the ASAF at its meeting in December 2013.

95. The RFI was published in January 2014 and was open for consultation until 30 May 2014.

96. During this meeting, we will have a separate session discussion the PIR of IFRS 3.

Education Initiative

97. Since updating the IFRS Advisory Council on its activities at the February meeting the Education Initiative has:
    (a) Facilitated IFRS teaching workshops in London (for the London Business School), London (the IASB staff day for IFRS teachers), Tallinn (at the European Accounting Association), Tokyo (for Japanese IFRS teachers) and Warsaw (for the World Bank);
    (b) Organised in Singapore a 1.5-day IFRS conference, an Investor-focused IFRS update and half-day special interest sessions on implementing each of IFRS 9, IFRSs 10 and 12 and IFRS 15;
    (c) Facilitated a two-day IFRS workshop in Tokyo for JICPA members that are preparing for the wider use of IFRS in Japan; and
    (d) Organised jointly with the World Bank a regional 3-day IFRS workshop for Securities Exchange, Banking and Insurance regulators from selected European and Central Asian countries.
    (e) Published a Japanese-language translation of our framework-based IFRS teaching material that is designed to support those teaching IFRS to develop their students' ability to make IFRS judgements.

98. Before the October meeting of the IFRS Advisory Council the Education Initiative will arrange, among other events, major IFRS conferences and special interest sessions on implementing new IFRSs in London (23 and 24 June), Johannesburg (13 and 14 August, jointly with SAICA) and Mexico City (6 and 7 October). We also expect to publish, amongst other documents, Framework-based teaching material on liabilities; Investor-focused multimedia presentations on a range of new IFRSs; and the 2014 editions of our three 'commercial' publications: (i) *A Briefing for Chief Executives, Audit Committees & Boards of Directors*, (ii) *A Guide through IFRS*, and (iii) *Financial Instruments: Accounting and Reporting*.

Fair value measurement—education material

99. The Education Initiative is developing educational material to support IFRS 13 *Fair Value Measurement* with the assistance of a valuation expert group. The material is being prepared in various chapters. A chapter dealing with the fair value measurement of unquoted equity instruments within the scope of IFRS 9 *Financial Instruments* was published in December 2012 and a chapter dealing with the concept of 'highest and best use' in fair value measurement is currently being developed.

Work plan—as at 28 May 2014

Major IFRSs and Amendments

Next major project milestone

	2014 Q2	2014 Q3	2014 Q4	2015 Q1
IFRS 9 ***Financial Instruments*** (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			

Next major project milestone

	2014 Q2	2014 Q3	2014 Q4	2015 Q1
Disclosure Initiative				
Amendments to IAS 1 (Disclosure Initiative) [Comment period ends 23 July 2014]		Redeliberations		
Reconciliation of liabilities from financing Activities			Target ED	
Insurance Contracts	Redeliberations			
Leases	Redeliberations			

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

Implementation

Next major project milestone

Narrow-scope amendments	2014 Q2	2014 Q3	2014 Q4	2015 Q1
Annual Improvements 2012-2014 (Comment period ended 13 March 2014)	Redeliberations			
Annual Improvements 2013-2015		Target ED		
Bearer Plants (Proposed amendments to IAS 41)	Target IFRS			
Clarifications of Classification and Measurement of Share-based Payment Transactions (Proposed amendment to IFRS 2)		Target ED		
Classification of liabilities (Proposed amendment to IAS 1)		Target ED		
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			

Equity Method: Share of Other Net Asset Changes (Proposed amendments to IAS 28)	Project stopped			
Fair Value Measurement: Unit of Account	Target ED			
Investment Entities: Applying the Consolidation Exception (Proposed amendments to IFRS 10 and IAS 28)	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		

Next major project milestone

Post-implementation Reviews	2014 Q2	2014 Q3	2014 Q4	2015 Q1
IFRS 3 *Business Combinations*	Public consultation			

Conceptual Framework

Next major project milestone

	2014 Q2	2014 Q3	2014 Q4	2015 Q1
Conceptual Framework			Target ED	

Research Projects

	2014 Q2	2014 Q3	2014 Q4	2015 Q1
Shorter and medium term projects				
Business combinations under common control	Board discussion			
Disclosure initiative				
Amendments to IAS 1 (Disclosure Initiative) [Comment period ends 23 July 2014]		Redeliberations		
Reconciliation of liabilities from financing Activities			Target ED	
Materiality		Board discussion		
Principles of disclosure	Board discussion			
General disclosure review	To be determined			
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 *Conceptual Framework* project			

Foreign currency translation / inflation			Board discussion	
Liabilities – amendments to IAS 37	Pending developments in the *Conceptual Framework* 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				

Completed IFRSs

Major projects	Issued date	Effective date	Year that PiR is expected to start*
IFRS 9 *Financial Instruments*	November 2013	TBD (available for application)	TBC
IFRS 14 *Regulatory Deferral Accounts*	January 2014	1 January 2016	TBC
IFRS 15 *Revenue from Contracts with Customers*	May 2014	1 January 2017	TBC

*A post-implementation review normally begins after the new requirements have been applied internationally for two years, which is generally about 30-36 months after the effective date.

Narrow-scope amendments	Issued date	Effective date	
Acounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	May 2014	1 January 2016	
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	May 2014	1 January 2016	

Annual Improvements 2010-2012
• IFRS 2 *Share-based Payment*
  ○ Definition of vesting condition
• IFRS 3 *Business Combination*
  ○ Accounting for contingent consideration in a business combination
• IFRS 8 *Operating Segments*
  ○ Aggregation of operating segments
  ○ Reconciliation of the total of the reportable segments' assets to the entity's assets
• IFRS 13 *Fair Value Measurement*
  ○ Short-term receivables and payables
• IAS 16 *Property, Plant and Equipment*
  ○ Revaluation method—proportionate restatement of accumulated depreciation
• IAS 24 *Related Party Disclosures*
  ○ Key management personnel
• IAS 38 *Intangible Assets*
  ○ Revaluation method—proportionate restatement of accumulated amortisation
	December 2013	1 July 2014	

Annual Improvements 2011-2013
• IFRS 1 *First-time Adoption of International Financial Reporting Standards*
  ○ Meaning of 'effective IFRSs'
• IFRS 3 *Business Combinations*
  ○ Scope exceptions for joint ventures
• IFRS 13 *Fair Value Measurement*
  ○ Scope of paragraph 52 (portfolio exception)
	December 2013	1 July 2014	

• IAS 40 *Investment Property* ○ Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property			
IAS 32 *Financial Instruments: Presentation*– Offsetting Financial Assets and Financial Liabilities	December 2011	1 January 2014	
Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	October 2012	1 January 2014	
Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)	June 2013	1 January 2014	
Recoverable Amount Disclosures for Non-Financial Assets	May 2013	1 January 2014	
IFRS 9 *Financial Instruments*—Mandatory effective date of IFRS 9 and transition disclosures	December 2011	TBD (available for application)	
Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)	November 2013	1 July 2014	

Interpretations	Issued date	Effective date	
IFRIC 21 *Levies*	May 2013	1 January 2014	

Agenda Consultation

	2014	2015	2016
The IASB is committed to carrying out regular public agenda consultations to seek formal input on the strategic direction and overall balance of our work programme. The **feedback** from our first formal consultation was published in December 2012. Next major project milestone			
Three-yearly public consultation		Initiate second triennial public consultation	