

# AGENDA PAPER

IFRS Advisory Council

London 23 February 2015

Agenda paper 2A

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Presenters: Hugh Shields/Michael Stewart

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## Technical Activities—Update

### Purpose

1. The report provides the IFRS Advisory Council with an update on the standard-setting activities of the IASB since our last meeting in October 2014. We provide an update on the activities of the IFRS Interpretations Committee in paper 2B for this session.

### Overview

2. Since the last Technical Update report in October 2014 we have:
  - (a) completed aspects of the implementation phase of the Disclosure Initiative while progressing the research phase;
  - (b) completed our redeliberations of the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting*; and
  - (c) continued to focus on finalising the Insurance Contracts and Leases projects following feedback on the Exposure Drafts published in 2013.
3. In the period from October to December 2014 we have issued:
  - (a) *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28);
  - (b) *Disclosure Initiative* (Amendments to IAS 1);
  - (c) Interim Release 2 to the *IFRS Taxonomy 2014*; and
  - (d) *Annual Improvements to IFRSs 2012–2014 Cycle*.
4. We have also published:
  - (a) Exposure Draft *Classification and Measurement of Share-based Payment Transactions* (Proposed amendments to IFRS 2);
  - (b) Exposure Draft *Disclosure Initiative* (Proposed amendments to IAS 7); and
  - (c) Proposed Interim Release 3 to the *IFRS Taxonomy 2014*.
5. A copy of the work plan as at 27 January 2015 is set out in Appendix A of this paper.

## Major projects

### Insurance Contracts

6. As discussed in previous meetings, the IASB published a revised Exposure Draft (ED) *Insurance Contracts* in June 2013. That revised ED sought feedback on specific aspects of its proposals, reflecting the extensive debate that the IASB has undertaken over many years, and also reflected the need to avoid further undue delay in finalising the much-needed Standard for insurance contracts.
7. During the comment period between June and October 2013, the IASB received 194 comment letters, and undertook extensive outreach and detailed field testing of the operability of the proposals. The feedback received suggested broad support for the principle of current value measurement of insurance contracts. However, there were also significant areas of disagreement, in particular about performance reporting, and concerns about excessive complexity.
8. The IASB has been deliberating the response to the 2013 ED since January 2014. During its redeliberations, the IASB has maintained extensive dialogue with all interested parties and continues to consult its advisory bodies. In particular:
  - (a) the IASB has engaged extensively with preparers and other interested parties, in particular in Europe, Canada and Japan.
  - (b) the IASB has sought advice from the Accounting Standards Advisory Forum (ASAF) at its March, June and September 2014 meetings.
  - (c) during Quarter 3 of 2014, the IASB held meetings with senior representatives of insurance companies from Canada, China, France, Germany, Japan, Korea, the UK and South-East Asia. The purpose of these meetings was to ensure that the IASB and staff have a clear understanding of the remaining critical issues before the IASB concludes its technical redeliberations.
  - (d) in November 2014, the IASB held an education session in which it considered a paper in which the European Insurance CFO Forum set out its high level proposals for the accounting for contracts with participating features.
9. The IASB has largely concluded its tentative decisions relating to non-participating contracts. In particular, the IASB has addressed each of the areas that were targeted in the 2013 ED that relate to non-participating contracts, as follows:
  - (a) unlocking the contractual service margin;
  - (b) recognising the effects of changes in discount rates in other comprehensive income (OCI);
  - (c) insurance contracts revenue; and
  - (d) transition.
10. The IASB also made tentative decisions on some specific issues that were highlighted in the feedback but that were not targeted for input. The direction that the IASB took in all

these decisions was largely consistent with the feedback that it had heard on the 2013 ED.

11. In Quarter 4 of 2014, the IASB continued to consider the accounting model for contracts with participating features, which was one of the most difficult and contentious of the specific aspects on which the IASB sought feedback. Because many of the issues to be considered by the IASB in relation to contracts with participating features are interrelated, the staff have approached these deliberations by asking the IASB for indications of the views to which its members were leaning, instead of asking for tentative decisions. The staff note that this process has helped the IASB and the staff to obtain feedback on the direction of the model, which staff will be able to consider in developing models for consideration and decision-making by the IASB.
12. As a consequence of the complexity of the issues relating to contracts with participating features, the IASB has decided to extend its original timetable to allow it to consider the issues in detail, and to engage further with interested parties. As a result, the IASB will continue its deliberations during 2015. The IASB does not expect to issue the Standard on Insurance Contracts before the end of 2015.

### **Leases**

13. 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 about the assets it uses in its operations.
14. This is a joint project with the FASB. In May 2013, the two Boards published a joint and revised ED on leases, which, as anticipated, attracted a large number of responses—640 comment letters.
15. 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.
16. As previously reported, the IASB had substantive discussions on the Leases project with all of its advisory bodies in February and March 2014 in preparation for the redeliberations—the IFRS Advisory Council (the 'Advisory Council'), the ASAF, the Capital Markets Advisory Council (CMAC) and the Global Preparers Forum (GPF).
17. At joint meetings between March 2014 and January 2015, the IASB and the FASB reached converged tentative decisions on almost all aspects of the project, the most important of which are as follows:
  - (a) 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) to measure lease liabilities on a present value basis, with simplifications made to that measurement to address concerns about cost and complexity;
  - (c) to distinguish a lease from a service by assessing control (see further information in the following paragraphs); and
  - (d) to, in essence, leave existing lessor accounting unchanged.

18. As previously reported, the Boards however have reached different conclusions on the recognition and presentation of lease expenses in a lessee's income statement.
19. In Quarter 4 of 2014, the Boards focused their discussions on the definition of a lease, which distinguishes a lease from a service. This is a critical distinction because, in the new Leases Standard, it will determine whether an entity recognises assets and liabilities on its balance sheet. Although respondents generally supported of the proposed definition in the ED, a number of key stakeholders, particularly in Europe and Japan, raised concerns about the definition. They were of the view that the proposed definition would inappropriately capture some contracts that they view as services. The Boards considered various alternative approaches to defining a lease at their October and December 2014 joint meetings, including suggestions made by the EFRAG staff in a paper discussed at the September 2014 ASAF meeting. However, the Boards concluded that these alternative approaches would have excluded substantive capital assets, such as oil rigs and ships from an entity's balance sheet, impairing the usefulness of the financial information.
20. Accordingly, the Boards tentatively decided to reaffirm the proposed definition of a lease in the 2013 ED, but with various changes to the accompanying guidance to address requests to clarify that guidance. In essence, the Boards have tentatively concluded that a lease exists when a customer has exclusive use of an asset for a period of time, and can decide how to use it. The staff are developing a feedback document to explain the Boards' conclusions and rationale about the definition of a lease, which will complement the Leases Update that was published in August 2014.
21. The IASB has provided ASAF members with an update on the project at its meetings in June, September and December 2014 and we have sought the advice from the Advisory Council at its meetings in October 2013 and February 2014.
22. It is currently expected that the IASB will complete redeliberations of the proposals on the 2013 revised ED, together with the FASB, in Quarter 1 of 2015.

### **The Conceptual Framework**

23. 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. It is also used by preparers to develop accounting policies when no specific Standard applies or when there is a choice of accounting policy.
24. The IASB published a Discussion Paper (DP) in July 2013, *A Review of the Conceptual Framework for Financial Reporting*, with a comment period of 180 days. The IASB has considered the responses to that DP as well as other feedback that was received during the development of the ED.
25. The IASB has sought input on this project from its advisory bodies—the Advisory Council, ASAF (which is the consultative group for this project), the CMAC, and the GPF have all been consulted both during the comment period and during redeliberations.

26. The IASB's original intention was not to fundamentally reconsider the Objective and Qualitative Characteristics chapters of the *Conceptual Framework*, which were published in 2010. However, respondents were asked for comments on this approach, and many expressed the view that we should reconsider at least some aspects of those chapters (in particular, the treatment of prudence, stewardship, substance over form and reliability). Meetings were held with a number of investors to get a better understanding of their concerns and the IASB has tentatively decided:
- (a) to reintroduce an explicit reference to prudence (described as 'caution under conditions of uncertainty') into the *Conceptual Framework*.
  - (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.<sup>1</sup> 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*. In addition, the IASB now proposes to clarify how the level of estimation uncertainty associated with an asset or liability affects recognition and measurement.
27. Some respondents to the DP expressed the view that the *Conceptual Framework* is underdeveloped in specific areas (in particular, the distinction between liabilities and equity, measurement and the presentation of items of income or expense in OCI). The IASB discussed these concerns but decided not to undertake significant additional research work on measurement and the use of OCI in developing the ED.
28. There are also several other projects that are relevant to the matters raised in comment letters. For example, the Disclosure Initiative and the Performance Reporting project, which was added to the research programme in July 2014, will touch on aspects of OCI. The IASB also has a separate research project on Financial Instruments with the Characteristics of Equity. These projects could lead to Standard-level requirements that address the matters identified by respondents or could lead to revisions to the *Conceptual Framework*—the IASB has consistently emphasised that the *Conceptual Framework* is a living document. The IASB may, if necessary, revisit these sections of the *Conceptual Framework* once the research work or revised Standards have been completed.
29. The IASB has now finalised redeliberations of the DP. At its October 2014 meeting, the IASB confirmed that it is satisfied that sufficient due process steps have been undertaken and instructed the staff to begin the balloting process on the ED.
30. It is anticipated that the ED will be published at the end of April 2015. At its meeting in October 2014, the IASB considered the comment period for the ED. The IASB agreed on a longer comment period than the normal comment period of 120 days. The ED will be open for comment for a period of 150 days.

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<sup>1</sup> The other fundamental qualitative characteristic is relevance.

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

31. The DP *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging* was published in April 2014, with a comment period of 180 days, ending on 17 October 2014.
32. Over the last six months the staff, along with IASB members, have conducted over 50 outreach meetings with constituents across jurisdictions. The jurisdictions covered by the outreach included Europe, Asia and Oceania, North and South America and Africa.
33. The outreach covered different types of constituents, including preparers (for example, banks, insurance companies and non-financial institutions), users of financial statements, prudential and securities regulators, accounting standard-setters, accountancy bodies and accounting firms.
34. In addition, the ASAF discussed the topic on more than one occasion and has provided members' views on the DP. A similar process was also followed by the GPF.
35. We have received 126 comment letters to date, and although we have received support from constituents for addressing the issue of accounting for dynamic risk management, there is significant divergence in views on the merits of the new approach between users and preparers in general. There is also a difference in views on what should be the overall objective of the project.
36. The staff intend to bring the comment letter analysis to the IASB in February 2015, before asking it to consider the next steps for the project. The summary of the comment letters and the other feedback (including from users) will be made available on the website.

### **Rate-regulated Activities**

37. The DP *Reporting the Financial Effects of Rate Regulation* was published on 17 September 2014, with a comment period of 120 days, which ended on 15 January 2015.
38. The DP describes a type of rate regulation that contains elements of both cost recovery and incentive approaches—this type of rate regulation is termed 'defined rate regulation'. The DP seeks comments on whether or not the distinguishing features of defined rate regulation, as identified by the IASB, sufficiently capture the type(s) of rate regulation that have the most significant financial effects.
39. The DP does not include any specific accounting proposals. Instead, it explores what information about rate-regulated activities is most useful to users of financial statements and outlines possible approaches (and the accompanying advantages and disadvantages) that the IASB could consider in deciding how best to report the financial effects of rate regulation.
40. The project's formal consultative group met in July 2013 and again in November 2013 and provided input to the staff during 2014 in developing the content of the DP.
41. The ASAF provided input at its meetings in December 2013 and March 2014. In addition, it provided preliminary views on the DP at its meeting in December 2014. Other preliminary views were gathered at outreach events during November and December 2014

in Brazil, USA, Canada and Belgium, and by video conference with Malaysia.

42. The initial review of comment letters, together with the feedback received from outreach, suggest that there is strong support for developing specific accounting requirements that will lead to the recognition of at least some regulatory deferral account balances in IFRS financial statements. Views were mixed about whether this should be done through a separate Standard to replace IFRS 14 *Regulatory Deferral Accounts* or through amendments to, or an Interpretation of, existing Standards. A common suggestion made is that the IASB should explore an approach that is based on the principles contained in IFRS 15 *Revenue from Contracts with Customers*, focusing on the entity's rights and obligations relating to its customers as a whole (the customers base), instead of individual customer contracts.
43. IASB staff aim to provide a preliminary analysis of comments to the IASB at its meeting in February 2015. The summary of the comment letters and the other feedback (including from users) will be made available on the website. IASB staff will seek advice from the consultative group in March 2015, before asking the IASB to decide on the next steps for the project.

### **Disclosure Initiative**

44. The Disclosure Initiative is a portfolio of projects being undertaken with the aim of improving the effectiveness of disclosures in financial reporting. The work is informed by a Discussion Forum that was held in January 2013, and a related survey on Financial Reporting Disclosure. A Feedback Statement on these events was published in May 2013.
45. The Disclosure Initiative portfolio of projects includes both implementation and research projects. The implementation projects include:
- (a) narrow-focused amendments to IAS 1 *Presentation of Financial Statements*; and
  - (b) narrow-focused amendments to IAS 7 *Statement of Cash Flows*.
46. The research projects include:
- (a) Principles of Disclosure—review of IAS 1, IAS 7 and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
  - (b) Materiality; and
  - (c) a review of disclosures in existing Standards.

### **IAS 1**

47. These amendments were issued on 18 December 2014 and are designed to encourage companies to apply professional judgement in determining what information to disclose in their financial statements and where, and in what order, information is presented.

### **IAS 7**

48. Also on 18 December 2014, the IASB published an ED *Disclosure Initiative* (Amendments to IAS 7). The proposed amendments are designed to improve:
- (a) information provided to users of financial statements about an entity's financing activities, excluding equity items; and
  - (b) disclosures that help users of financial statements to understand the liquidity of an

entity.

49. In developing the ED a survey was undertaken with investors to identify why investors seek to understand debt, including changes in debt during the reporting period. The CMAC was consulted in October 2013 and the draft proposals were discussed at the joint CMAC and GPF meeting in June 2014. Further input was sought from the GPF in Quarter 3 of 2014.
50. The ED was issued for comment for a period of 120 days, ending 17 April 2015.

### **Principles of Disclosure—review of IAS 1, IAS 7 and IAS 8**

51. This project is the cornerstone of the Disclosure Initiative. Its objective is to improve disclosures in financial statements by identifying and developing a set of principles for disclosure in IFRS. The project's aim is to set the basis for replacing the disclosure requirements in IAS 1, IAS 7 and IAS 8. The project may also affect the review of disclosure requirements and guidance in other Standards.
52. The IASB agreed the scope of the project in April 2014 and has discussed the project regularly during 2014. The Council discussed the initiative during its October 2014 meeting and advice on specific topics was sought from the ASAF at its meetings in December, September and June 2014. In addition, advice has been sought from the GPF and the CMAC during 2014. The staff have also conducted a variety of meetings and conference calls with constituents on specific issues in preparing papers for the IASB meetings, including the International Organization of Securities Commissions (IOSCO) and the European Securities and Markets Authority (ESMA) about the disclosure of non-IFRS financial information.
53. The IASB aims to publish a DP in Quarter 4 of 2015.

### **Materiality**

54. The IASB has conducted outreach with national and regional standard-setters regarding local guidance and practice on the application of materiality. It has also spoken to the Advisory Council, ASAF, the GPF, the World Standard Setters (WSS), IOSCO and the International Auditing and Assurances Standards Board (IAASB) about how materiality is applied in practice and the need for potential guidance.
55. During Quarter 3 of 2015, the IASB agreed to develop guidance on the application of materiality, which would take the form of a Practice Statement. It postponed a decision on how to deal with different terminology relating to the use of materiality within the Standards until the further work on the disclosure requirements in existing Standards has been completed.
56. The IASB plans to expose for public comment a draft Practice Statement in Quarter 2 of 2015.
57. The IASB is aware of the sensitivity of this topic because, in some jurisdictions, materiality is considered to be the responsibility of the securities regulator and the courts.



The staff have been liaising with securities regulators for that reason and we are confident that we can develop helpful, non-mandatory, guidance that works globally.

### Review of disclosures in existing Standards

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

## Research projects

59. The IASB has eight high-priority projects, three-medium priority projects and five longer-term projects. One project (foreign currency translation) has been reclassified from high- to longer-term priority since the last report. Although this may seem like a large pool of projects, we envisage that some of these projects will be completed quickly and will not lead to standard-setting activity. They also vary in size and complexity, which means that they will reach major milestones (a Research Paper or a DP) at different times.

### High-priority projects

60. **Dynamic Risk Management, Rate-regulated Activities** and the **Disclosure Initiative** are part of the research programme.
61. We have been working on a project on **Business Combinations under Common Control** during 2014. There is particular interest from IOSCO and the Emerging Economies Group in this project. We have undertaken outreach with regulators, preparers, investors and auditors on the best way to approach this project. We expect to develop a DP in the second half of 2015.
62. The objective of the **Discount Rates** project is to identify why different rates are required and consider consistency across Standards. The staff are continuing to work on this project, and have been using the analysis presented previously to the IASB and discussed with ASAF as a basis for discussion with other parties. We expect to develop a research paper in the second half of 2015.
63. We discussed the Equity Method of Accounting in Quarter 4 of 2014 with the GPF and the ASAF. The equity method of accounting is a major source of interpretation requests. IASB deliberations are expected to continue in February 2015.
64. Work on **Financial Instruments with Characteristics of Equity** is linked to the *Conceptual Framework* project. Our goal is to develop a DP on this project. This project was discussed by the ASAF in September 2014 and it is anticipated it will be discussed at the March 2015 ASAF meeting.
65. Some issues related to **Foreign currency translation** and **Inflation** have been raised with the IASB by national standard-setters. We took a paper to the October 2014 IASB meeting on foreign currency—relating to a request made to the IASB by the Korea Accounting Standards Board (KASB). The IASB decided that the broader Foreign Currency Translation project should be reclassified from high- to longer-term priority and encouraged the KASB and other standard-setters to provide further information on problematic issues to inform the next Agenda Consultation.

66. **Inflation** was discussed by the ASAF in December 2014, at the request of the Brazilian standard-setter. We plan to bring a paper to the IASB during Quarter 1 of 2015, which reviews the ASAF's recommendation on how the IASB should respond to requests that it should amend the scope of IAS 29 *Financial Reporting in Hyperinflationary Economies*.

#### Medium-priority projects

67. The **Emissions Trading Schemes (ETS)** project was suspended in 2010. At that time the IASB had undertaken a lot of work to document and analyse schemes. That work is being updated at present. In addition, work has started with the International Public Sector Accounting Standards Board (IPSASB) and other standard-setters on background material. ETS was on the agenda at the WSS meeting in London in September 2014.
68. We started public discussions with the GPF, the ASAF and the IASB in November and December 2014. IASB deliberations are expected to continue in February 2015. Staff took a project plan to the IASB in January 2015; IASB deliberations are expected to continue in February 2015.
69. A project on **Liabilities**—amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* was also suspended in 2010. Some preliminary work has begun to assess the implications of the IASB decisions on the *Conceptual Framework*. Concurrently, we have been collecting more detailed data about how IAS 37 is being applied as well as data about practice problems that have been relayed to the IFRS Interpretations Committee. We expect to bring papers to the IASB in Quarter 1 of 2015.
70. A project on **Performance Reporting** was added to the research programme at the July 2014 meeting. Some preliminary work has been undertaken to develop a scope paper for this project and to assess ways in which to educate the IASB and interested parties on the work previously undertaken in the Financial Statement Presentation project.

#### Longer-term projects

71. We have started to plan the scope for a project on **Income Taxes**. The project will be staffed by our Asia-Oceania office, working closely with the London staff. As part of our consultations with investors, it is scheduled to be discussed by the CMAC in February 2015.
72. Work on a project to review the accounting for **Post-employment Benefits** (including pensions) is progressing well. The IASB has started to consider papers setting out the main issues to be considered, and we have begun seeking input from our consultative groups.
73. We have recently allocated staff to work on developing plans for **Share-based Payments**. IFRS 2 *Share-based Payments* is a common source of interpretation requests. The project will help inform the next Agenda Consultation by initially assessing whether the application issues that most commonly generate interpretation requests can be addressed.
74. One project is yet to commence work, pending availability of staff. Work on developing

plans for **Extractive Activities/Intangible Assets/Research and Development Activities** will start once staff become available.

### Evidence-informed standard-setting

75. Part of our efforts has been focused on building our research capability and our interactions with the broader research community. A number of steps were taken in 2014:
- (a) we hired a Research Resource Manager to look after our resources and help staff to access information;
  - (b) we established an internal Research Portal, which gives us access to academic and professional research, business articles, financial statement data and some economic data;
  - (c) we established the IFRS Research Centre, which is aimed at academics and other research professionals;
  - (d) we published our first *Research Round-up*, and we are aiming to publish a new issue every six months; and
  - (e) we started to receive applications from academics for research fellowships.
76. These steps are aimed at increasing our ability to assimilate research. We are helping staff and IASB members to become more aware of how independent research can inform and support their decisions, as well as the pitfalls.
77. We are engaging positively with the broader research community. The International Association for Accounting Education and Research (IAAER) and the European Accounting Association, both of which have representatives on the Advisory Council, have been helpful and supportive in this process.
78. In December 2014 the Report of the Effects Analysis Consultative Group was released. As previously reported, in 2014 we hired a person to develop a toolkit to help staff who are designing and undertaking fieldwork. We are implementing the recommendations of the Consultative Group.

### Post-implementation review (PIR)

79. In July 2013 the IASB launched its PIR of IFRS 3 *Business Combinations*. The review included both IFRS 3 (2004) and IFRS 3 (2008) as well as all the amendments made to other Standards (for example, IAS 36 *Impairment of Assets*, IAS 38 *Intangible Assets* etc) as a result of the Business Combinations project.
80. The Request for Information (RFI) was published in January 2014 and closed for comment on 30 May 2014. We have received 100 comment letters. A summary of the feedback received from the outreach conducted was presented to the Advisory Council in June 2014<sup>2</sup>.
81. In September 2014 the feedback received in response to the RFI was discussed with the ASAF and the IASB. In December 2014 the IASB discussed a comparison of the feedback from the RFI and the results of the review of academic literature.

<sup>2</sup> See Agenda Paper 8 for the June 2014 IFRS Advisory Council meeting.

82. The IASB expects to publish its Feedback Statement on the PIR in Quarter 2 of 2015. An overview of the results of the PIR is included in Appendix B, together with the staff's proposals for the IASB's response to the findings of the PIR. These proposals will be presented to the IASB at its February 2015 meeting<sup>3</sup>

### **IFRS Taxonomy™**

83. At the July 2014 meeting, the DPOC agreed that the IASB should hold two trials to assess the staff proposals to amend the IFRS Taxonomy due process.
84. Significant progress has been made on the first trial; the IASB published the ED *Disclosure Initiative* (Amendments to IAS 7), see paragraph 48. This ED includes the draft Taxonomy Update as accompanying material. The Invitation to Comment incorporates IFRS Taxonomy related questions.
85. As part of the development of the Proposed Taxonomy Update, related IFRS Taxonomy issues were discussed at the July IASB meeting and the Update was balloted along with the ED. In this regard, a new paragraph was inserted in the Ballot form requiring the IASB to express its agreement or disagreement that 'the taxonomy amendments are consistent with the disclosures set out in the Standard and Illustrative Examples'.
86. The second trial relates to the review by the IASB of proposed taxonomy changes for 2014 common practice additions. The focus in the last months has been on educating IASB members on the nature of common practice and the appropriate level of IASB engagement. At the December 2014 Education session, IASB members raised a concern that approval of a list of common practice elements at a public meeting may run the risk of these elements being perceived as authoritative guidance of what entities should report within an electronic filing. To mitigate this risk, members of the IASB held the view that the process for common practice additions should be similar to that applied to educational materials. Under this proposal, a panel consisting of at least three designated members of the IASB will review the proposed common practice taxonomy elements to affirm compliance with IFRS. When appropriate, the IASB member panel may decide to raise a sweep issue for approval by the IASB at a public meeting. The trial will proceed on that basis.

### **Implementation**

87. Since the last report, the FASB and the IASB's Revenue Transition Resource Group has held its second and third meeting to consider potential questions arising on implementation of the new revenue recognition Standard, IFRS 15 *Revenue from Contracts with Customers*, and its US equivalent. For the majority of the questions considered, the Group's discussion has highlighted that stakeholders can understand and apply the applicable parts of the new Standard. However, some of the questions have highlighted a wider range of views and, therefore, potentially greater challenges for some stakeholders in applying the Standard consistently. In part, this stems from the differences in the implementation environment in the US compared to other jurisdictions. Accordingly, the IASB will consider what, if any, action it can or should take to assist entities in these areas.

<sup>3</sup> See Agenda Paper 13 for the February 2015 IASB meeting.

In doing this, the IASB will need to balance maintaining convergence with the FASB and the principle-based objective of IFRS 15. We will discuss this at a separate session in this meeting.

### **Implementation projects**

88. A summary of implementation projects is set out in the following table.

## Implementation projects

Project	Objective	Status	Next steps
<b>Annual Improvements to IFRS 2014–2016 Cycle</b>	The IASB has adopted the Annual Improvements process to deal efficiently with a collection of narrow-scope amendments to IFRS, even though the amendments are unrelated.	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.	Publication of ED in Q2 2015.
<b>Clarification of Classifications of Share-based Payment Transactions</b>  <i>IFRS 2 Share-based Payments.</i>  <i>(Open for comment until 25 March 2015)</i>	The IASB proposes three amendments to IFRS 2: (a) measurement of cash-settled share-based payment transactions that include a performance condition; (b) modification of a share-based payment from cash-settled to equity-settled; and (c) share-based payments settled net of tax withholdings.	ED published 25 November 2014.	Redeliberations of proposals in Q2 2015.
<b>Classification of liabilities</b>  <i>IAS 1 Presentation of Financial Statements</i>	The objective of this project is to clarify when rights to defer settlement affect the classification of liabilities.	The IASB is currently balloting the ED.	Publication of ED in Q1 2015.

Project	Objective	Status	Next steps
<p><b>Elimination of Gains or Losses arising from Transactions between an Entity and its Associate or Joint Venture.</b></p> <p><i>IAS 28 Investments in Associates and Joint Ventures</i></p>	<p>The objective of this project is to clarify</p> <p>(a) 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; and</p> <p>(b) how an entity accounts for a contribution to its associate or joint venture when the entity receives assets in addition to receiving an equity interest.</p>	<p>We have completed balloting the ED.</p>	<p>Publication of ED in Q1 2015.</p>
<p><b>Fair Value Measurement: Unit of Account</b></p> <p><i>IFRS 13 Fair Value Measurement</i></p> <p><i>(Comment period closed 16 January 2015)</i></p>	<p>To clarify the unit of account of equity investments in subsidiaries, associates and joint ventures and their corresponding fair value measurement.</p>	<p>The ED was published on 16 September 2014.</p>	<p>Redeliberations of proposals in 2015.</p>

Project	Objective	Status	Next steps
<p><b>Recognition of Deferred Tax Assets for Unrealised Losses</b></p> <p><i>IAS 12 Income Taxes</i></p> <p><i>(Comment period closed 18 December 2014)</i></p>	<p>To clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.</p>	<p>The ED was published in August 2014.</p>	<p>Redeliberations of proposals commencing Q1 2015.</p>



## Appendix A— Work plan as at 27 January 2015

### Major Projects

Next major project milestone

	2015 Q1	2015 Q2	2015 Q3	2015 Q4
<b>Upcoming Standards</b>				
<b>Insurance Contracts</b>	Redeliberations			
<b>Leases</b>			Target IFRS	
<b>Comprehensive review of the IFRS for SMEs</b>	Target amended IFRS for SMEs			
<b>Upcoming Exposure Drafts</b>				
<b>Conceptual Framework</b>	Target ED			
<b>Published Discussion Papers</b>				
<b>Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging</b> [Comment period ended 17 October 2014]	Comment letter analysis			
<b>Rate-regulated Activities</b> [Comment period ended 15 January 2015]	Comment letter analysis			
<b>Upcoming Discussion Papers</b>				
<b>Disclosure Initiative</b>				
<b>Principles of disclosure</b>		Target DP		

The Disclosure Initiative is a portfolio of Implementation and Research projects.

## Implementation Projects

Next major project milestone

Narrow-scope amendments	2015 Q1	2015 Q2	2015 Q3	2015 Q4
<b>Annual Improvements 2014-2016</b>		Target ED		
<b>Clarifications of Classification and Measurement of Share-based Payment Transactions</b> (Proposed amendment to IFRS 2)		Redeliberations		
<b>Classification of liabilities</b> (Proposed amendment to IAS 1)	Target ED			
<b>Disclosure initiative</b>				
<b>Amendments to IAS 7</b> [Comment period ends 17 Apr 2015]	Public consultation			
<b>Elimination of gains or losses arising from transactions between an entity and its associate or joint venture</b> (Proposed amendments to IFRS 10 and IAS 28)		Target ED		
<b>Fair Value Measurement: Unit of Account</b> [Comment period ended 16 January 2015]	Comment letter analysis			
<b>Recognition of Deferred Tax Assets for Unrealised Losses</b> (Proposed amendments to IAS 12) [Comment period ended 18 December 2014]	Redeliberations			
<b>Remeasurement at a plan amendment, curtailment or settlement/ Availability of a refund of a surplus from a defined benefit plan</b> (Proposed amendments to IAS 19 and IFRIC 14)		Target ED		

Next major project milestone

Post-implementation Reviews	2015 Q1	2015 Q2	2015 Q3	2015 Q4
<b>IFRS 3 <i>Business Combinations</i></b>		Target Feedback Statement		

## Conceptual Framework

	2015 Q1	2015 Q2	2015 Q3	2015 Q4
<b>Conceptual Framework</b>	Target ED			

## Research projects

Next major project milestone

Short- and medium-term projects	2015 Q1	2015 Q2	2015-Q3	2015 Q4
<b>Business combinations under common control</b>	Board discussion			
<b>Disclosure Initiative</b>				
General disclosure review	Board discussion			
<b>Materiality</b>	Board discussion	Target Draft Practice Statement		
<b>Principles of disclosure</b>		Target DP		
<b>Discount rates</b>	Board discussion			
<b>Emissions trading scheme</b>	Board discussion			
<b>Equity method of accounting</b>	Board discussion			
<b>Financial instruments with characteristics of equity</b>	Board discussion			
<b>Inflation</b>	Board discussion			
<b>Liabilities—amendments to IAS 37</b>	CF*			
Performance Reporting	Board discussion			
Longer-term projects	2015 Q1	2015 Q2	2015-Q3	2015 Q4
<b>Extractive activities/Intangible assets / R&amp;D activities</b>				
<b>Foreign currency translation</b>				
<b>Income taxes</b>		Board discussion		
<b>Post-employment benefits (including pensions)</b>	Board discussion			
<b>Share-based payments</b>		Board discussion		

\*Pending developments in the *Conceptual Framework* project.

The IASB is developing its research capabilities—for further information see the [Tommaso Padoa-Schloppa Memorial Lecture](#) and [IASB Research Forum page](#).

## Completed IFRSs

Major projects	Issued date	Effective date	Year that PIR is expected to start*
<b>IFRS 9 <i>Financial Instruments</i></b>	July 2014	1 January 2018	TBC
<b>IFRS 14 <i>Regulatory Deferral Accounts</i></b>	January 2014	1 January 2016	TBC
<b>IFRS 15 <i>Revenue from Contracts with Customers</i></b>	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	
<b>IAS 32 <i>Financial Instruments: Presentation—Offsetting Financial Assets and Financial Liabilities</i></b>	December 2011	1 January 2014	
<b><i>Investment Entities</i></b> (Amendments to IFRS 10, IFRS 12 and IAS 27)	October 2012	1 January 2014	
<b><i>Recoverable Amount Disclosures for Non-Financial Assets</i></b>	May 2013	1 January 2014	
<b><i>Novation of Derivatives and Continuation of Hedge Accounting</i></b> (Amendments to IAS 39)	June 2013	1 January 2014	
<b>Defined Benefit Plans: Employee Contributions</b> (Amendments to IAS 19)	November 2013	1 July 2014	
<b>Annual Improvements 2010-2012</b> <ul style="list-style-type: none"> <li>• IFRS 2 <i>Share-based Payment</i> <ul style="list-style-type: none"> <li>○ Definition of vesting condition</li> </ul> </li> <li>• IFRS 3 <i>Business Combination</i> <ul style="list-style-type: none"> <li>○ Accounting for contingent consideration in a business combination</li> </ul> </li> <li>• IFRS 8 <i>Operating Segments</i> <ul style="list-style-type: none"> <li>○ Aggregation of operating segments</li> <li>○ Reconciliation of the total of the reportable segments' assets to the entity's assets</li> </ul> </li> <li>• IFRS 13 <i>Fair Value Measurement</i> <ul style="list-style-type: none"> <li>○ Short-term receivables and payables</li> </ul> </li> <li>• IAS 16 <i>Property, Plant and Equipment</i> <ul style="list-style-type: none"> <li>○ Revaluation method—proportionate restatement of accumulated depreciation</li> </ul> </li> <li>• IAS 24 <i>Related Party Disclosures</i> <ul style="list-style-type: none"> <li>○ Key management personnel</li> </ul> </li> <li>• IAS 38 <i>Intangible Assets</i> <ul style="list-style-type: none"> <li>○ Revaluation method—proportionate restatement of accumulated amortisation</li> </ul> </li> </ul>	December 2013	1 July 2014	
<b>Annual Improvements 2011-2013</b> <ul style="list-style-type: none"> <li>• IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> <ul style="list-style-type: none"> <li>○ <u>Meaning of 'effective IFRSs'</u></li> </ul> </li> <li>• IFRS 3 <i>Business Combinations</i> <ul style="list-style-type: none"> <li>○ <u>Scope exceptions for joint ventures</u></li> </ul> </li> <li>• IFRS 13 <i>Fair Value Measurement</i> <ul style="list-style-type: none"> <li>○ <u>Scope of paragraph 52 (portfolio exception)</u></li> </ul> </li> <li>• IAS 40 <i>Investment Property</i> <ul style="list-style-type: none"> <li>○ <u>Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property</u></li> </ul> </li> </ul>	December 2013	1 July 2014	
<b><i>Accounting for Acquisitions of Interests in Joint Operation</i></b> Amendments to IFRS 11)	May 2014	1 January 2016	
<b>Clarification of Acceptable Methods of Depreciation and Amortisation</b> (Amendments to IAS 16 and IAS 38)	May 2014	1 January 2016	
<b>Agriculture: Bearer Plants</b> (Amendments to IAS 16 and IAS 41)	June 2014	1 January 2016	
<b>Equity Method in Separate Financial Statements</b> (Amendments to IAS 27)	August 2014	1 January 2016	
<b>Sale or Contribution of Assets between an investor and its Associate or Joint Venture</b> (Amendments to IFRS 10 and IAS 28)	September 2014	1 January 2016	
<b>Annual Improvements 2012-2014</b> <ul style="list-style-type: none"> <li>• IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> <ul style="list-style-type: none"> <li>○ Changes in methods of disposal</li> </ul> </li> <li>• IFRS 7 <i>Financial Instruments: Disclosures</i> <ul style="list-style-type: none"> <li>○ Servicing contracts</li> <li>○ Applicability of the amendments to IFRS 7 to</li> </ul> </li> </ul>	September 2014	1 January 2016	

condensed interim financial statements.			
<ul style="list-style-type: none"> <li>• IAS 19 <i>Employee Benefits</i> <ul style="list-style-type: none"> <li>◦ Discount rate: regional market issue</li> </ul> </li> <li>• IAS 34 <i>Interim Financial Reporting</i> <ul style="list-style-type: none"> <li>◦ Disclosure of information 'elsewhere in the interim financial report'.</li> </ul> </li> </ul>			
<b>Investment Entities: Applying the Consolidation Exception</b> (Amendments to IFRS 10, IFRS 12 and IAS 28)	December 2014	1 January 2016	
<b>Disclosure Initiative</b> Amendments to IAS 1	December 2014	1 January 2016	

Interpretations	Issued date	Effective date	
<b>IFRIC 21 Levies</b>	May 2013	1 January 2014	

## Agenda Consultation

	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 <b>feedback</b> from our first formal consultation was published in December 2012.		
Next major project milestone		
<b>Three-yearly public consultation</b>		Initiate second three-yearly public consultation

## **Appendix B— Overview of the results of the post-implementation review of IFRS 3 Business Combinations and next steps**

The IASB has completed its outreach in respect of its Post-implementation Review of IFRS 3 and it discussed the results at its September 2014 meeting<sup>4</sup>, along with the results of a review of relevant academic literature. At its December 2014 meeting<sup>5</sup> it considered these results further, including the interaction between the feedback results from the Request for Information and the results of the review of academic research. It also considered a staff assessment of the findings from the review and the more significant areas of focus that could feature in follow-up work.

The main topics arising from the review and identified by the staff for future work are

1. The complexity and effectiveness of testing goodwill for impairment on an annual basis.
2. Concerns about the subsequent accounting for goodwill. There were mixed views in the outreach results, on the usefulness of the impairment-only approach, although the academic research suggested that the impairment-only approach provided useful information to investors.
3. Challenges in applying the definition of a business, in particular difficulties in some circumstances in distinguishing between an asset purchase and a business acquisition.
4. Challenges in identifying and fair value measurement of intangible assets such as customer relationships and brands.

Items 2 to 4 of the above list are areas where the US Financial Accounting Standards Board (FASB) has added projects to its agenda in response to the post-implementation review that was conducted on the equivalent US GAAP literature. Given that IFRS and US GAAP are converged in these areas, we think that consideration of how we work with FASB will be important in order that convergence is maintained.

The following table sets out the staff's summary of the main topics arising from the Post-implementation Review of IFRS 3, together with possible next steps in follow up. We will be presenting these to the IASB at its February 2015 meeting<sup>6</sup>.

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<sup>4</sup> Refer to Agenda Papers 12F and 12G for the September 2014 IASB meeting.

<sup>5</sup> Refer to Agenda Papers 12A and 12B for the December 2014 IASB meeting.

<sup>6</sup> Refer to Agenda Paper 13 for the February 2015 IASB meeting for more detail.,

Topic	Assessed significance agreed by IASB	Possible next steps proposed by the staff
1. Ineffectiveness and complexity of testing goodwill for impairment.	Higher	Review IAS 36 <i>Impairment of Assets</i> (IAS 36 is not converged with US GAAP). Consider improvements to the impairment model; in particular consider the scope for simplification.
2. Subsequent accounting for goodwill (ie the benefits of an impairment-only approach compared with an amortisation and impairment approach).	Higher	<p>Work with the FASB. FASB is exploring the amortisation and impairment approach with a focus on how to identify the useful life of goodwill.</p> <p>We could additionally investigate whether and how the costs of accounting for goodwill can be reduced without losing the information currently being provided by the impairment-only approach, and which our review of academic studies suggested was value-relevant. This could include considering:</p> <ul style="list-style-type: none"> <li>• whether a variation on an amortisation and impairment model might be developed with an amortisation method that does not undermine the information currently provided by the impairment-only approach; and</li> <li>• what improvements could be made in the short-term to the impairment-only approach in order to address on a timely basis some of the concerns that have been raised, pending developments on the longer-term review of IAS 36.</li> </ul>
3. Challenges in applying the definition of a business.	Medium/high	<p>Work with the FASB. FASB is focusing its analysis on clarifying the definition of a business and the related application guidance.</p> <p>We could additionally consider whether the market-participant approach is preferable to an entity-specific approach when making this assessment.</p>
4. Identification and fair value measurement of intangible assets such as customer relationships and brand names.	Medium/high	<p>Work with the FASB. FASB is assessing whether certain intangible assets (eg customer relationships) should be subsumed into goodwill.</p> <p>We could additionally consider what additional guidance could be given to assist in the identification of customer relationship intangibles, and their associated measurement.</p>
5. Information about the subsequent performance of the acquiree.	Medium	Further analysis, eg investigate how practicable it would be to prepare this information, and for how many reporting periods post-acquisition this information should be provided.
6. Usefulness of the subsequent accounting for contingent consideration.	Medium	Further analysis. Some participants suggest investigating whether in some circumstances changes in the fair value of contingent consideration should be recognised against the assets acquired.
7. Fair value measurement of contingent consideration and contingent liabilities.	Medium	Further analysis. Some participants suggest investigating whether contingent consideration and contingent liabilities should be recognised only if they can be measured reliably.

<b>Topic</b>	<b>Assessed significance agreed by IASB</b>	<b>Possible next steps proposed by the staff</b>
8. Usefulness of the accounting for step acquisitions and loss of control.	Medium	Further analysis. Some participants suggest investigating whether remeasurement gains should be recognised in OCI.
9. Measurement of non-controlling interests.	Lower	Further analysis. Some participants suggest investigating whether the measurement of NCI should be a one-time accounting policy choice for all business combinations (ie it should not be a transaction-by-transaction choice).
10. Pro-forma prior year comparative information.	Lower	Further analysis, eg investigate how practicable it would be to prepare this information.
11. Usefulness of the recognition of negative goodwill in P&L.	Lower	Further analysis. Some participants suggest investigating whether negative goodwill should be recognised in OCI.
12. Accounting for contingent payments to selling shareholders who become employees.	Lower	Further analysis. Some participants suggest revisiting the guidance for contingent payments to selling shareholders in circumstances in which those selling shareholders become, or continue as, employees. In their view, this guidance should be one of the indicators to consider in assessing whether such payments should be treated as consideration or as a post-acquisition expense.