

AGENDA PAPER

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TOPIC Technical Update

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Technical activities: key issues and update

Purpose

1. This paper provides an update on the standard-setting activities of the International Accounting Standards Board ('the Board') January to May 2016. This report is primarily for information.

Structure of this report

2. This paper is structured as follows:
 - (a) The key issues relating to technical activities are summarised in paragraphs 4 to 9.
 - (b) A summary of the technical report is set out in Appendices, as follows:
 - (i) Appendix A—Major projects;
 - (ii) Appendix B—Implementation activities;
 - (iii) Appendix C—Education activities.
 - (c) This paper does not include a work plan nor does it include an update on research projects, as these will be discussed in detail in the paper for the Agenda Consultation session (AP2 for this meeting).

Due process documents

3. In the period January to May 2016 the Board has issued amendments to:
 - (a) IFRS 15 *Revenue from Contracts with Customers*;
 - (b) IAS 7 *Statement of Cash Flows*; and
 - (c) IAS 12 *Income Taxes*.

Technical Activities—Key Issues

2015 Agenda Consultation

4. A key focus area for the Board this quarter has been its consideration of the feedback received to its Request for Views *2015 Agenda Consultation* (Agenda Consultation). The comment period for the request for views closed on 31 December 2015 and the Board commenced its deliberations of the feedback received in March 2016.
5. At its meetings in April and May 2016 meeting the Board discussed summaries of responses on individual projects as well as its future work plan, in preparation for the discussion with the Council at this meeting.
6. The Agenda Paper 2 for this meeting discusses the Agenda Consultation in detail.

Different effective dates of IFRS 9 Financial Instruments and the new Insurance Contracts Standard

7. In May 2016, the Board has completed its redeliberations of the December 2015 Exposure Draft (ED) of proposed amendments to the existing insurance contracts Standard, IFRS 4 *Insurance Contracts*. These amendments result from the Board's consideration of issues that may arise from applying IFRS 9 *Financial Instruments* prior to the new insurance contracts Standard. The amendments:
 - (a) give companies that issue insurance contracts the option to remove from profit or loss the volatility that may be caused by certain changes in the measurement of financial assets when applying IFRS 9 before the new insurance contracts Standard; and
 - (b) give companies whose predominant activities are insurance-related an optional temporary exemption from applying IFRS 9 until 2021.
8. The amendments to IFRS 4 will supplement existing options in that Standard that could be used to address the volatility that may be caused by applying IFRS 9 before the new insurance contracts Standard.
9. The Board expects to issue amendments in September 2016.

Appendix A

Major projects as at 20 May 2016

Insurance Contracts

A1. The Board has completed its planned deliberations on its project on Insurance Contracts.

The Conceptual Framework

Last due process document	ED published in May 2015 with an amended comment period of 150 days ending on 25 November 2015.
Current status	The Board is redeliberating the proposals in the ED.
Timing	The Board plans to issue a revised <i>Conceptual Framework</i> in early 2017.

- A2. The *Conceptual Framework* sets out the concepts that underlie the preparation and presentation of financial statements. It is not a Standard and does not override any specific Standard. However, it identifies principles for the Board to use when it develops and revises its Standards. It is also used by preparers to develop and select accounting policies, and by all parties to understand and interpret the Standards.
- A3. The Board published a Discussion Paper (DP) in July 2013 and an ED in May 2015.
- A4. The Board received over 220 comment letters on the ED. Summaries of all the feedback received are available on the Board’s website. These incorporate a separate summary of all the feedback from users of financial statements (including from meetings and teleconferences). The Council discussed this feedback at the February meeting.
- A5. The Board discussed this feedback in March and its approach to redeliberations in April 2016 with redeliberations starting in May.
- A6. On the approach, the Board decided that it would redeliberate the topics that have proved controversial or those topics for which new information has become available. On other topics, the Board will discuss whether to confirm the proposals in the ED but would not undertake significant additional analysis.
- A7. During the redeliberations so far:
- (a) The Board tentatively rejected the idea of publishing the Conceptual Framework without a chapter on measurement, and undertaking a research project to develop material that could be added to the Conceptual Framework at a later date. The Board directed the staff to improve the discussion on measurement in the light of responses to the Exposure Draft.
 - (b) The Board also tentatively decided to provide high-level guidance on reporting financial performance in the Conceptual Framework. Such guidance will be based on the proposals in the Exposure Draft, modified in the light of the feedback received on the Exposure Draft.

- (c) Finally, the Board tentatively decided, consistently with the proposal in the Exposure Draft, not to develop concepts to address challenges that arise in classifying financial instruments with characteristics of both liabilities and equity as part of the Conceptual Framework project. Instead, the Board tentatively decided to continue to develop concepts to address those challenges in the Financial Instruments with Characteristics of Equity research project, acknowledging that one outcome of that project might be a need to make further amendments to the revised Conceptual Framework.

Disclosure Initiative

- A8. The Disclosure Initiative is a portfolio of projects that aim to improve the effectiveness of disclosures in financial reporting. The work is informed by a discussion forum, which was held in January 2013, and by a related survey on financial reporting disclosure. A Feedback Statement on these events was published in May 2013.
- A9. The Disclosure Initiative includes the following research projects:
- (a) Principles of Disclosure—review of IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
 - (b) Standards-level review of disclosures.
- A10. The Disclosure Initiative also includes the following implementation projects:
- (a) narrow-scope amendments to IAS 1 (completed);
 - (b) narrow-scope amendments to IAS 7 *Statement of Cash Flows* (completed); and
 - (c) narrow-scope amendments to IAS 8 (ED to be issued).
- A11. In addition to these implementation projects, the Board has published an ED of a Practice Statement on the application of materiality.
- A12. In the period January to May 2016 the Board has issued the amendments to IAS 7 and has been developing the *Principles of Disclosure* DP.

Principles of Disclosure—review of IAS 1 and IAS 8

Last due process document	No due process documents issued.
Current status	The Board is developing a DP.
Timing	DP to be published in Q3 of 2016.

- A13. 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 Standards (Standards). The project's aim is to set the basis for replacing the disclosure requirements in IAS 1 and IAS 8. The project may also affect the review of disclosure requirements and guidance in other Standards.
- A14. The Board agreed the scope of the project in April 2014 and discussed the project regularly during 2014 and 2015. Advice on specific topics was sought from the ASAF

regularly during 2014 and 2015. In addition, advice has been sought from the GPF and the CMAC during 2014 and in Q1 of 2015. The staff have also conducted a variety of meetings and conference calls with constituents on specific topics in preparing papers for the Board meetings; including the International Organization of Securities Commissions (IOSCO); the European Securities and Markets Authority (ESMA); and investors and users of financial statements.

- A15. Due to significant changes in the staffing of the project (and particularly at senior staff level) the drafting of the DP is taking longer than anticipated. An ambitious target for publishing the DP was originally set for the end of Q1 of 2016; however, we now anticipate that the DP will be published in Q3 of 2016.

Standards-level review of disclosures

- A16. This research project responds to concerns that the way in which disclosure requirements in Standards are written contributes to the ‘disclosure problem’. The disclosure problem is described in more detail in the Feedback Statement on the [*Discussion Forum—Financial Reporting Disclosure*](#).
- A17. At its December 2015 meeting, after seeking the ASAF’s advice, the Board agreed a plan for this project which includes:
- (a) developing a set of principles, processes and tools in the form of a drafting guide for the Board’s internal use when developing disclosure requirements in new or amended Standards;
 - (b) testing this guide on targeted Standards.
- A18. This project will be informed by the principles being developed in the Principles of Disclosure project, including the feedback the Board receives on that DP.

Amendments to IAS 7

- A19. In January 2016 the Board issued amendments to IAS 7. The amendments require entities to provide information about changes in their financing liabilities and are a response to requests from investors for information that helps them better understand changes in a company’s debt.

Amendments to IAS 8

- A20. At its meeting in May 2015 the Board discussed how to clarify the existing distinction between a change in an accounting policy and a change in an accounting estimate. At that meeting, the Board decided to develop proposals clarifying the distinction as a separate project within the Disclosure Initiative.
- A21. It was originally envisaged that the proposals would result in an ED of narrow-scope amendments to IAS 8 in the first half of 2016. However, in developing the ED the staff conducted targeted outreach on the draft proposals. The Board discussed the latest version of the proposals at its meeting in April 2016. To minimise burdens on respondents, Board members suggested that the ED should be published together with one or more other EDs. The timing has yet to be determined.

Materiality Practice Statement

Last due process document	ED Practice statement published in October 2015 with a comment period of 120 days.
Current status	The Board is redeliberating the proposals in the ED.
Timing	It is expected that the Practice Statement will be issued in early 2017.

- A22. In developing the ED of the Practice Statement on the application of materiality, the Board conducted outreach with national and regional standard-setters regarding local guidance and practice on the application of materiality. It has also spoken to the ASAF, the GPF, the WSS, the Advisory Council, IOSCO and the International Auditing and Assurance Standards Board (IAASB).
- A23. The Board has received 97 comment letters in response to the ED. At its meeting in April 2016 the Board discussed the comments received on the ED. It will continue its discussions in June 2016.

Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging

Last due process document	DP published in April 2014 with a comment period of 180 days. The Board received 126 comment letters in response to the DP.
Current status	The Board is redeliberating proposals.
Timing	Not yet determined.

- A24. The objective of this project is to develop an approach to better reflect entities' dynamic risk management activities in their financial statements, and to enhance the usefulness of the financial information to help users of financial statements to better understand such activities.
- A25. The Board published a Discussion Paper in April 2014. Although the Board received support from constituents for addressing the issue of accounting for dynamic risk management, there was significant divergence in views between users and preparers in general on the merits of the new approach. There is also a difference in views on what should be the overall objective of the project.
- A26. At its meeting in May 2015 the Board decided to start work on the next stage of this project by seeking to understand the information needs of constituents concerning the dynamic risk management activities as a basis for determining the recognition, measurement and disclosures approach. In July 2015 the ASAF's advice was sought on information needs relating to an entity's dynamic risk management of interest rates and on possible sources of information that could be consulted for ascertaining such information needs.
- A27. The staff are currently considering alternative approaches for recognition and measurement along with the information needs arising from an entity's dynamic risk

management activities. The staff are participating as observers to the work that the European Financial Reporting Advisory Group (EFRAG) is planning to undertake to better understand the key drivers and parameters used in core demand deposit modelling.

A28. The Board has tentatively decided that the project should remain in the Research programme with the aim of publishing a second DP.

Rate-regulated Activities

Last due process document	DP published in September 2014 with a comment period of 120 days. The Board received 118 comment letters in response to the DP.
Current status	The Board is assessing whether there is a viable model that reflects the effects of rate regulation.
Timing	Not yet determined.

A29. The Board published a DP in September 2014 that considered common features of rate regulation and explored which of them, if any, create a combination of rights and obligations distinguishable from the rights and obligations arising from activities that are not rate-regulated. The DP explores several possible approaches for the Board to consider when deciding how best to report the financial effects of a defined type of rate regulation.

A30. Responses to the DP suggested that:

- (a) a type of rate regulation termed ‘defined rate regulation’ in the DP creates distinguishable financial effects.
- (b) the financial effects of defined rate regulation may not be faithfully represented by the existing predominant practice in applying Standards.
- (c) there is strong support for recognising at least some regulatory deferral account balances in IFRS financial statements. A common suggestion made is to explore an approach based on the principles in IFRS 15 *Revenue from Contracts with Customers*.

A31. The Board decided in May 2015 that it should undertake Standard-setting activity to address the issues identified in this project, but that the form of that Standard-setting activity would only become apparent as the project progresses. The Board also decided that the development of a second DP would be the fastest way to progress the project.

A32. At the April 2016 Board meeting the staff presented a project update, including a summary of responses on the Agenda Consultation. The Board asked the staff to develop an accounting model to reflect the effects of rate regulation, building on the discussions with ASAF.

Appendix B

Implementation activities

Interpretations Committee

1. Since the last Technical Update Report, the Interpretations Committee met three times, in January 2016 (via video conference), March 2016 and May 2016. The Interpretations Committee will hold its next meeting in July 2016 (via video conference).
2. Activities in the period include:
 - (a) Tentative decisions to develop draft interpretations or propose amendments:
 - (i) IFRS 9 *Financial Instruments* and IAS 28 *Investments in Associates and Joint Ventures*—Accounting for long-term interests;
 - (ii) IAS 12 *Income Taxes*—Accounting for income tax consequences of payments on, and issuing costs of, financial instruments that are classified as equity; and
 - (iii) IAS 16 *Property, Plant & Equipment*—Accounting for proceeds from selling items produced while an item of property, plant and equipment is made ready for its intended use.
 - (b) Finalisation of agenda decisions:
 - (i) IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*—To what extent can an impairment loss be allocated to non-current assets within a disposal group?
 - (ii) IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*—How to present intragroup transactions between continuing and discontinued operations;
 - (iii) IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* —Other IFRS 5-related issues;
 - (iv) IFRS 9 *Financial Instruments*—Transition issues relating to hedging;
 - (v) IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*—Derecognition of modified financial assets
 - (vi) IFRS 9 *Financial Instruments*—Determining hedge effectiveness for net investment hedges;
 - (vii) IFRS 11 *Joint Arrangements*—Remeasurement of previously held interests;
 - (viii) IAS 12 *Income Taxes*—Recognition of deferred taxes for the effect of exchange rate changes;
 - (ix) IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*—Variable payments for asset purchases;
 - (x) IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*—Accounting for repayable cash receipts;
 - (xi) IAS 32 *Financial Instruments: Presentation*—Classification of liability for a prepaid card in the issuer’s financial statements;
 - (xii) IAS 32 *Financial Instruments: Presentation*—Offsetting and cash-pooling arrangements; and

- (xiii) IAS 36 *Impairment of Assets*—Recoverable amount and carrying amount of a cash-generating unit.
- (xiv) IAS 39 *Financial Instruments: Recognition and Measurement*—Separation of an embedded floor from a floating rate host contract in a negative interest rate environment;
- (c) Tentative agenda decisions published for comment:
 - (i) IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*—Fees and costs included in the ‘10 per cent’ test for the purpose of derecognition (Agenda Paper 11);
 - (ii) IFRS 11 *Joint Arrangements* and IFRS 10 *Consolidated Financial Statements*—Accounting for loss of control transactions; and
 - (iii) IAS 32 *Financial Instruments: Presentation*—Accounting for a written put option over non-controlling interests to be settled by a variable number of the parent’s shares.
 - (iv) IFRIC 12 *Service Concession Arrangements*—Payments made by an operator to a grantor in a service concession arrangement;
 - (v) IFRIC 12 *Service Concession Arrangements*—Accounting for service concession arrangements for which the infrastructure is leased.

3. Further information on the issues discussed and the decisions reached at the meetings can be found [here](#).

Other Implementation Activities

4. Table 1 sets out the current activities being undertaken to support the implementation of newly-issued Standards.

Table 1: Implementation support

Project	Activity	Webpage
<p>Joint Transition Resource Group for Revenue Recognition (TRG)</p>	<p>As previously reported, the Board does not plan to schedule further meetings of the its constituents of the TRG. The TRG has not been disbanded and is available for consultation if needed. In addition, stakeholders can submit issues through the Board’s website.</p> <p>Some Board members and staff observed the FASB TRG meeting in April 2016— from that meeting, no issues arose that require consideration by the Board.</p> <p>The Board has created an implementation page for revenue recognition on the Board’s website. In part, this was to signal that the decision not to schedule any further TRG meetings does not mean that the Board is stepping back from supporting the consistent and faithful implementation of IFRS 15.</p>	<p>Educational and implementation materials are available on the IASB website:</p> <p>http://www.ifrs.org/Current-Projects/IASB-Projects/IFRS-15-Implementation/Pages/IFRS-15-Revenue-from-Contracts-with-Customers-Implementation.aspx</p>
<p>Leases (IFRS 16)</p>	<p>IFRS 16 <i>Leases</i> was issued on 13 January 2016 and has a mandatory effective date of 1 January 2019.</p> <p>The Board is currently undertaking a number of activities to support implementation of the Standard, including developing a series of educational webcasts and organising conferences. Stakeholders can also inform us about implementation questions through the website.</p>	<p>Educational and implementation materials are available on the IASB website:</p> <p>http://www.ifrs.org/Current-Projects/IASB-Projects/leases-implementation/Pages/IFRS-16-Leases-Implementation.aspx</p>

Project	Activity	Webpage
Transition Resource Group for Impairment of Financial Instruments (ITG)	The ITG was established to provide support for the IFRS Standards constituents who are implementing the new expected credit loss requirements in IFRS 9 <i>Financial Instruments</i> .	ITG agenda papers and meeting summaries are available on the IASB website: http://www.ifrs.org/About-us/IASB/Advisory-bodies/ITG-Impairment-Financial-Instrument/Pages/Meetings.aspx

Appendix C

Education Initiative activities

- C1. Over the last 3 months the Education Initiative has been involved in a number of activities. Most significant were a 4 day workshop, with an additional day's conference, in Thailand. These were jointly hosted with the Securities and Exchange Commission, Stock Exchange of Thailand, and the Federation of Accounting Professions in Thailand. In addition there were IFRS teaching events in London and Maastricht. These were supported by the release of teaching notes that accompany the Big Change Case Study.
- C3. On Friday 20th of May approximately 100 participants from across Europe attended a one day IFRS Foundation conference on Implementing IFRS 16 Leases in London presented by the Leases team. In the coming weeks the focus of the team is on the Green Book and the annual European IFRS conference, this year in Zurich.
- C4. With Matt Tilling joining as the new Director of Education the team will also be reviewing the strategic focus of Education within the IASB and possible areas to develop new offerings.