

IASB Update

Emerging Economies Group

December 2017

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- Update: use of IFRS in the Emerging Economies Group
- Changes ahead
- Upcoming consultations

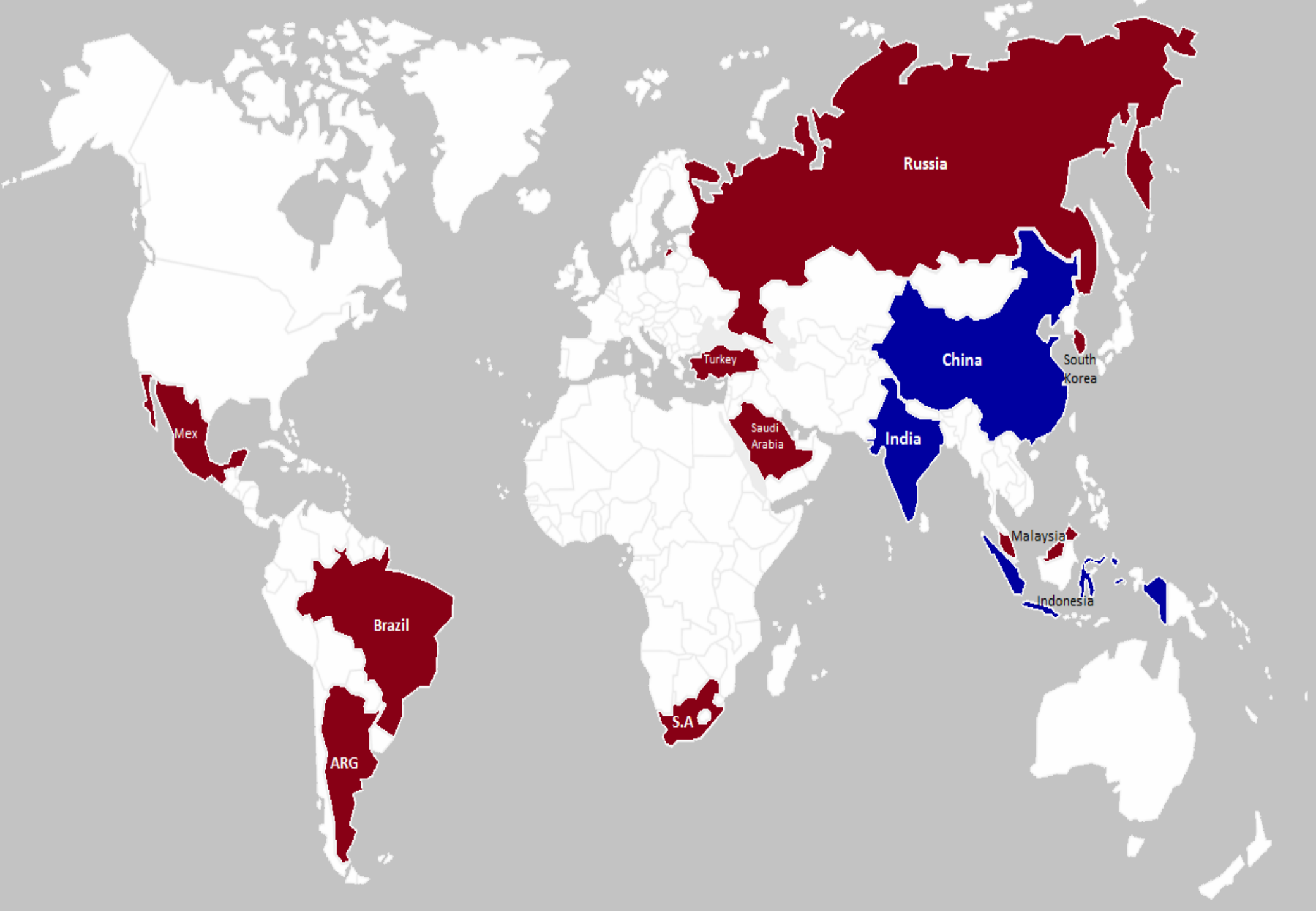
- 2016 – 2017 Activities
 - IFRS 17 *Insurance Contracts*
 - 2016-2017 Amendments & Interpretations

- Implementing the IASB Work Plan 2017–2021
 - Better Communication
 - Active projects
 - Conceptual Framework
 - Rate-regulated activities
 - Research programme
 - Active research projects
 - Research pipeline
 - Post-implementation reviews
 - Wider corporate reporting
 - Supporting implementation

Use of IFRS in the Emerging Economies Group

- **IFRS Standards required for all or most publicly accountable entities (PAEs)**

- **IFRS Standards not permitted for PAEs**



Russia

China

India

South Korea

Mex

Brazil

ARG

Turkey

Saudi Arabia

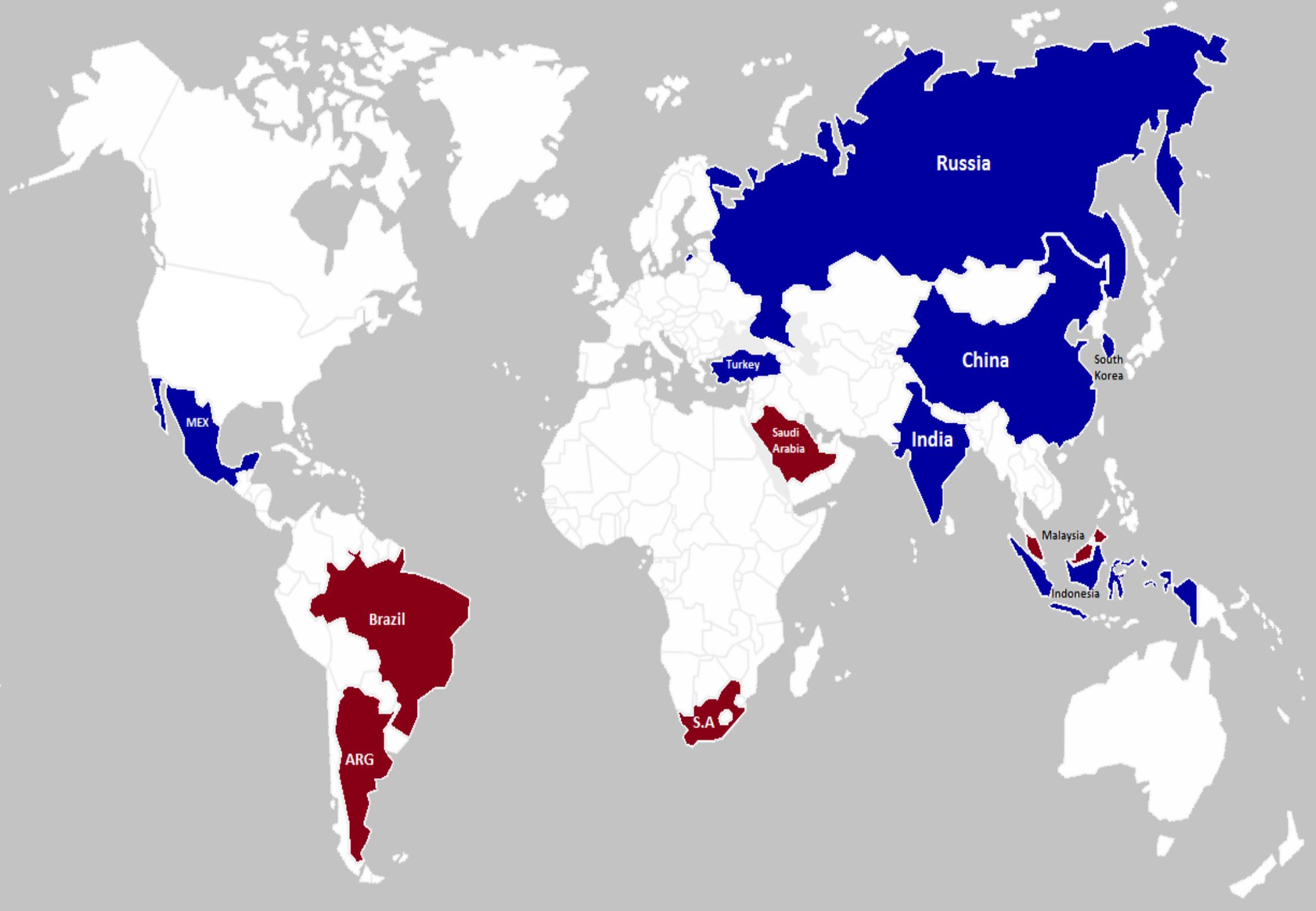
S.A

Malaysia

Indonesia

- **IFRS for SMEs Standard is required or permitted**

- **IFRS for SMEs Standard is not used**



Russia

China

South Korea

Turkey

India

Saudi Arabia

MEX

Brazil

ARG

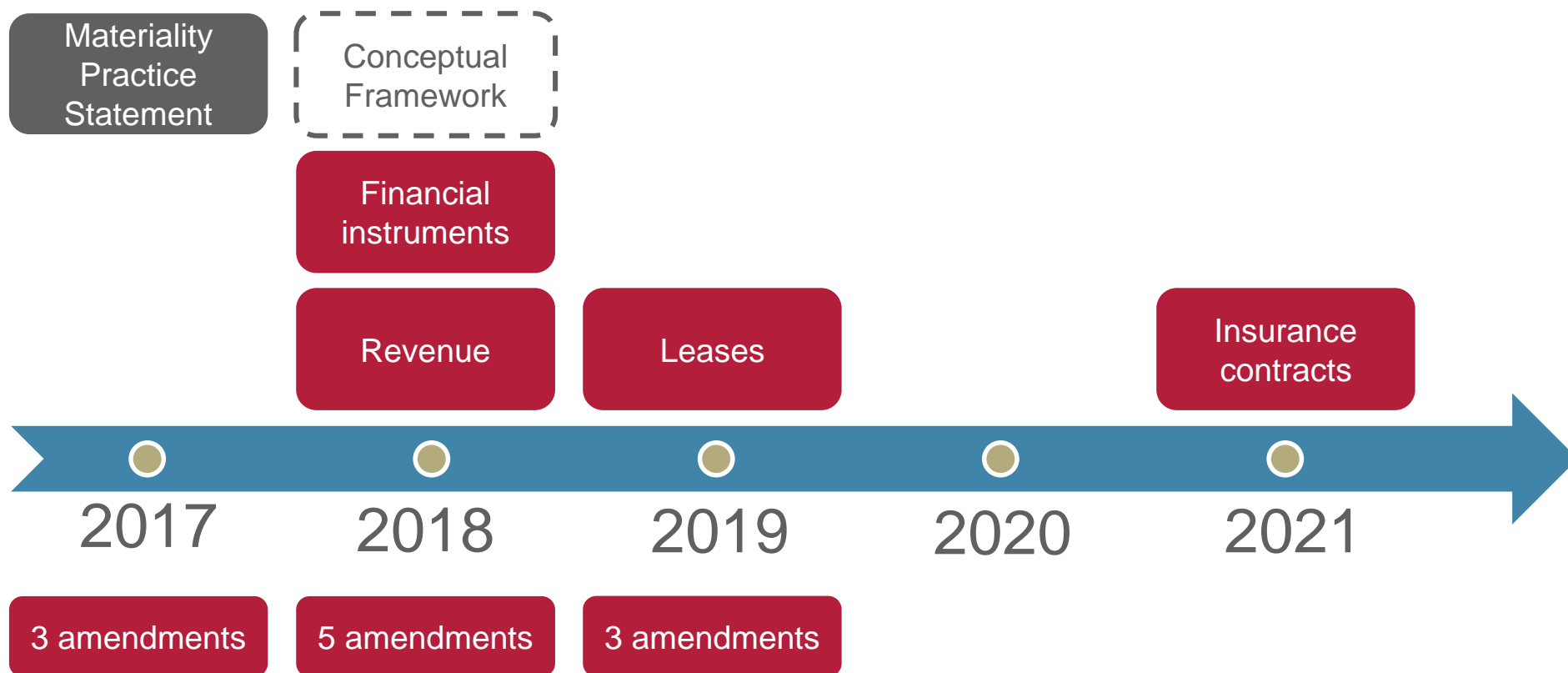
S.A

Malaysia

Indonesia

Changes ahead

Changes ahead – effective dates of issued Standards



2016-2017 Amendments & Interpretations

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Topic	Effective date
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Applying IFRS 9 <i>Financial Instruments</i> with IFRS 4 <i>Insurance Contracts</i> (Amendments to IFRS 4)	1 January 2018
IFRIC 23 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
Transfer of Investment Property (Amendments to IAS 40)	1 January 2018
Annual Improvements 2014-2016 Amendments to IFRS 12 Amendments to IFRS 1, IAS 28	1 January 2017 1 January 2018

Forthcoming narrow-scope amendments

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Annual Improvements to IFRS Standards 2015–2017 Cycle

Previously held interests in a joint operation (Amendments to IFRS 3 and IFRS 11)

Income tax consequence of payments on financial instruments classified as equity (Amendments to IAS 12)

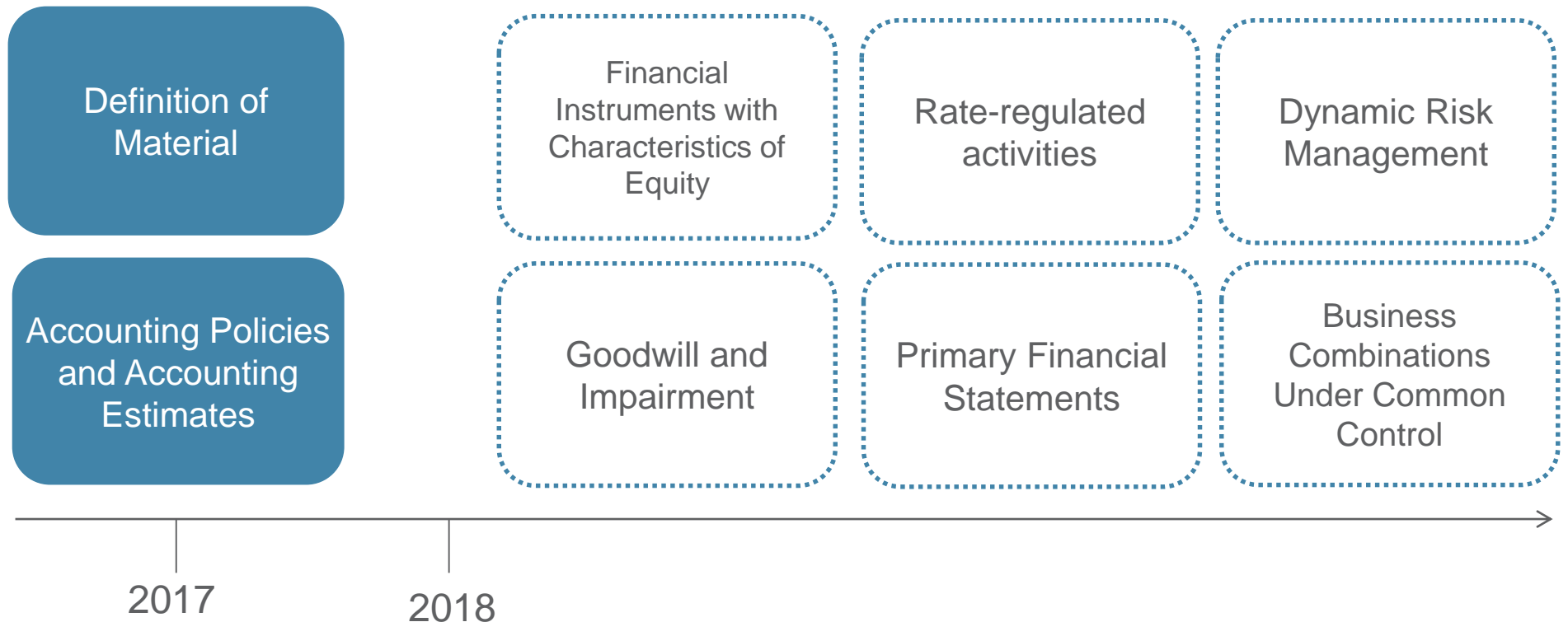
Borrowing costs eligible for capitalisation (Amendments to IAS 23)

Amendments to IAS 19

Plan amendment, curtailment or settlement (Amendments to IAS 19)

Upcoming consultations


Upcoming consultation



2016–2017 Activities and achievements


IFRS 17 *Insurance Contracts*

The first truly international
IFRS Standard for insurance contracts



One

accounting model for all insurance contracts in all IFRS jurisdictions—replaces IFRS 4



Who is affected?



450
listed insurers
using IFRS
Standards



\$13 trillion
total assets of
those listed
insurers

When?



2021
mandatory
effective date of
IFRS 17

What changes?



More
useful and
transparent
information



Better
information
about profitability

Insurance accounting today

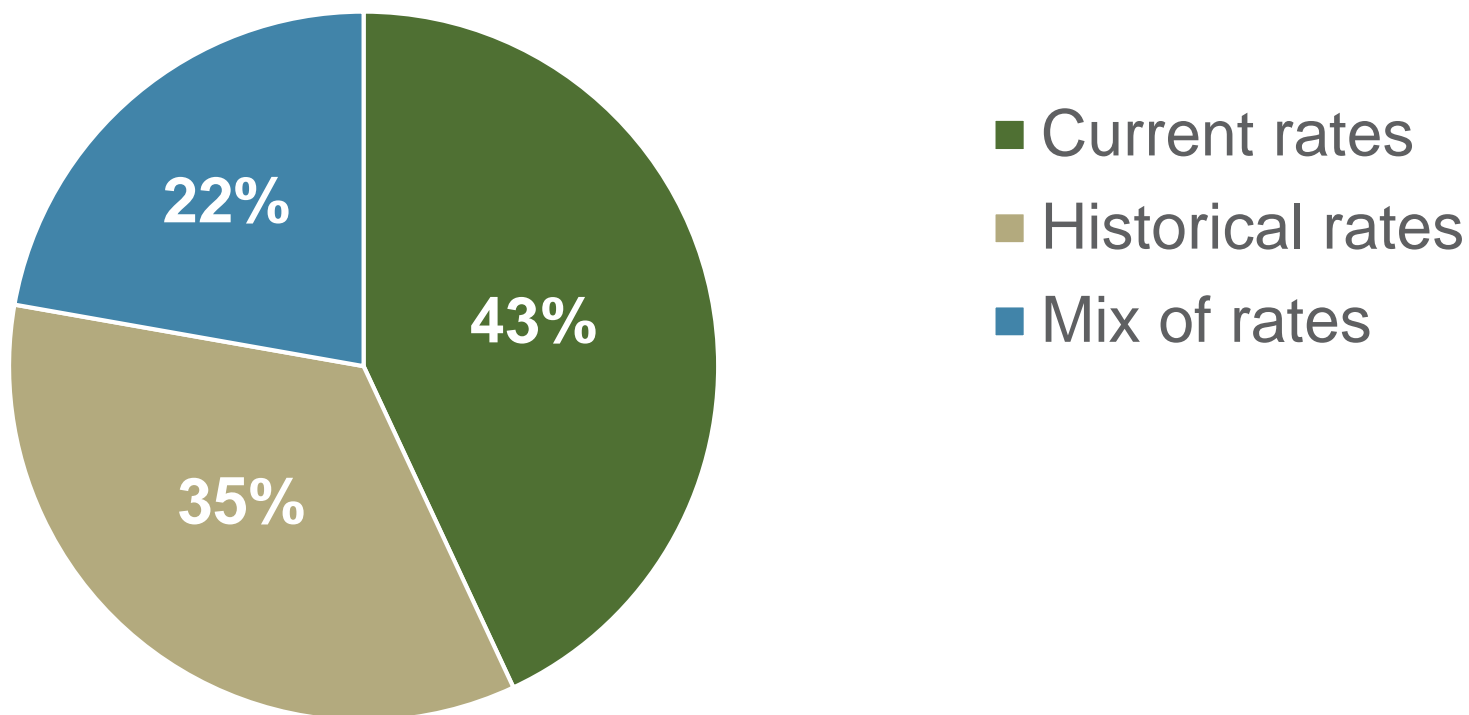
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- Same insurer – two different GAAP

(\$ millions)	GAAP 1	GAAP 2	Difference	
Revenue	9,010	11,244	(2,234)	-25%
Operating income	1,606	748	858	53%
Total equity	10,375	4,567	5,808	56%

Insurance accounting using IFRS today

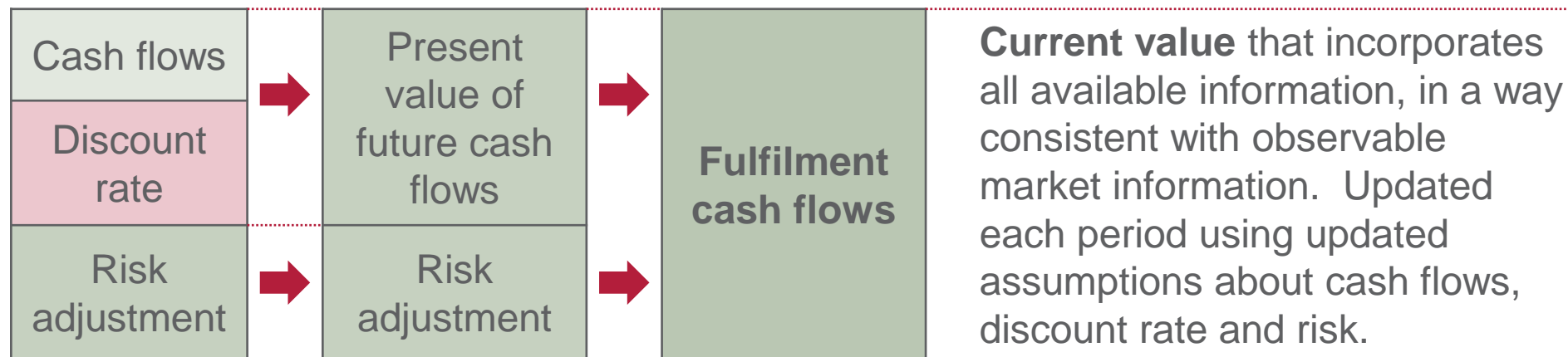
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Discount rates used for a sample of life insurers (2015)

IFRS 17 measurement model

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Contractual service margin



IFRS 17 asset or liability

All insurance contracts are measured as the sum of:

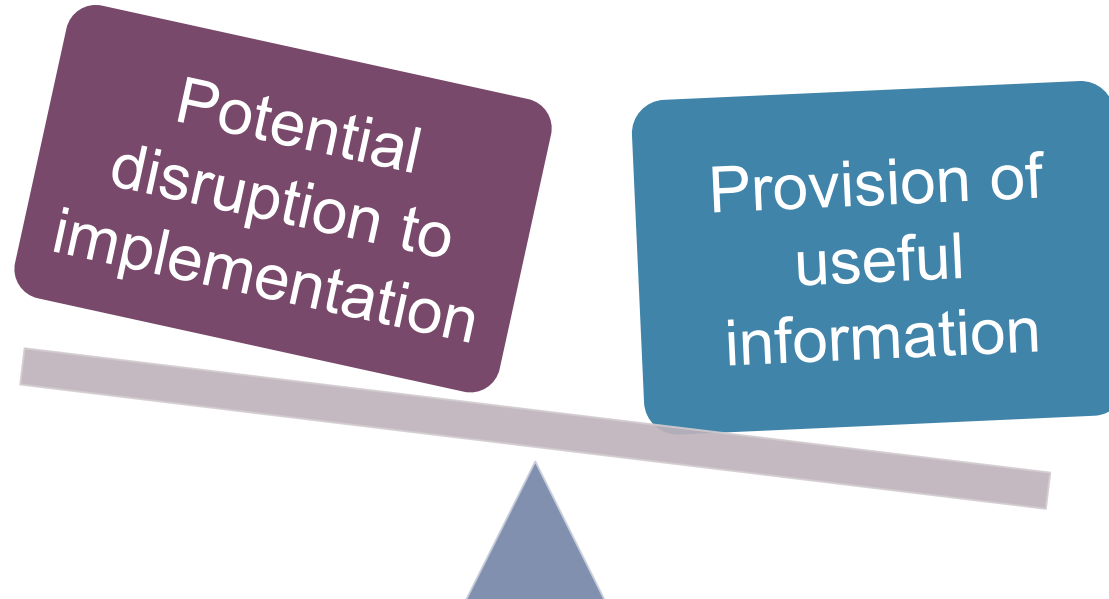
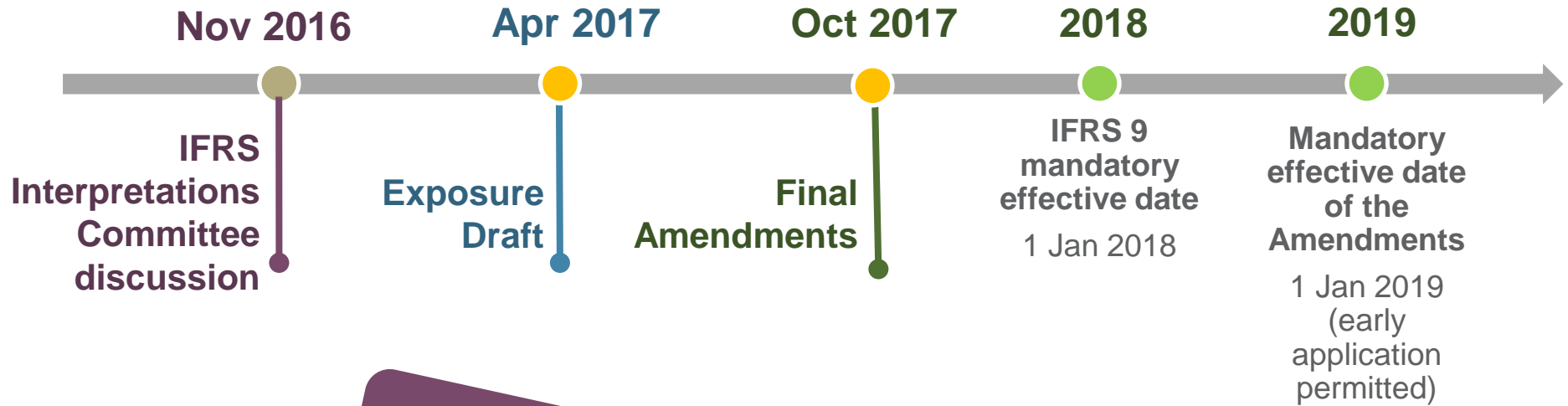
- **fulfilment cash flows;**
- and
- **contractual service margin**

Unearned profit of a group of contracts. It is adjusted by changes in estimates and is recognised in profit or loss as insurance coverage is provided.



Amendments to IFRS 9 *Prepayment Features with Negative Compensation*

Amendments to IFRS 9



Issue

Without an amendment to IFRS 9, all prepayable financial asset with so-called 'negative compensation' features would be measured **at fair value through profit or loss.**

Amendments

The amendments allow some financial assets with such features to be measured at amortised cost when a specific condition is met.

Implementing the IASB Work Plan 2017–2021

Better Communication

Central theme of Board's work

Primary
Financial
Statements

Disclosure
Initiative

IFRS
Taxonomy™

Content and its organisation

Content delivery

Primary Financial Statements – scope

Statement(s) of financial performance	Statement of cash flows	Statement of financial position	Statement of changes in equity
Requiring additional EBIT subtotal	Eliminating options (interest/dividends)	No planned change – except possible development of template for primary financial statements and greater disaggregation	
Providing guidance on presentation of management operating performance and alternative EPS	Aligning the operating section between the statements of cash flows and financial performance		
Better ways to communicate OCI	Requiring a consistent starting point for the reconciliation		

Disclosure Initiative: the disclosure problem

- The Board has identified three main concerns about disclosures in financial statements:
 - Not enough relevant information
 - Too much irrelevant information
 - Ineffective communication



Disclosure Initiative and related projects

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Disclosure Initiative

Related projects

Completed projects

Materiality implementation projects

Research projects

Amendments to IAS 1 to remove barriers to application of judgement

Amendments to IAS 7 to improve disclosure of liabilities from financing activities

Materiality Practice Statement

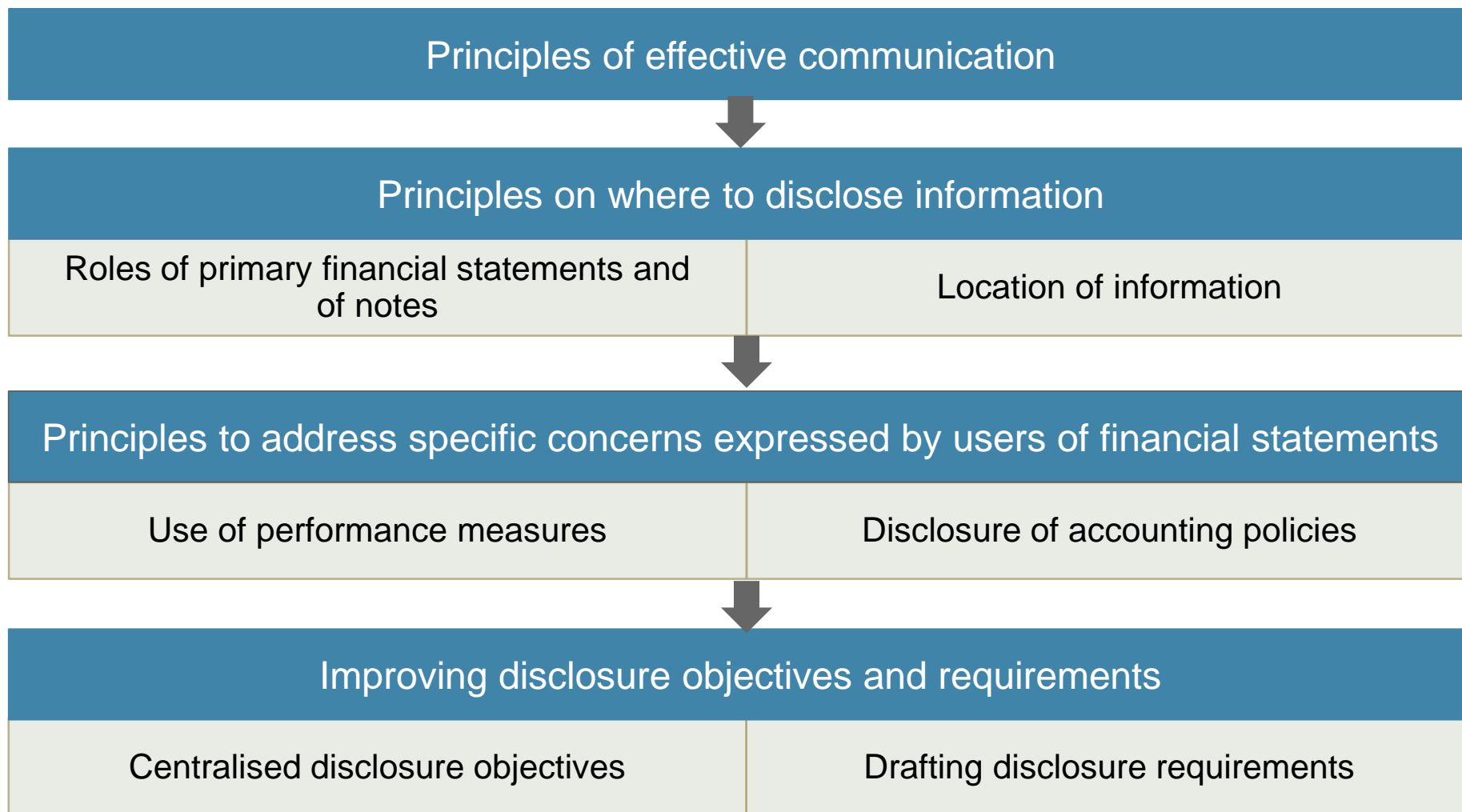
Definition of material

Principles of Disclosure (POD)

Standards-level Review of Disclosures

Conceptual Framework

Primary Financial Statements



IFRS Practice Statement 2 *Making Materiality Judgements*



Gathers in one place all the requirements on materiality from IFRS Standards and adds practical guidance and examples

Objective



Provides reporting entities with guidance on making materiality judgements when preparing financial statements in accordance with IFRS Standards

Form of the guidance



The Practice Statement does not change any existing requirements nor introduce any new requirements; it is a non-mandatory document developed by the Board

Making Materiality Judgements

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'One-stop materiality shop'



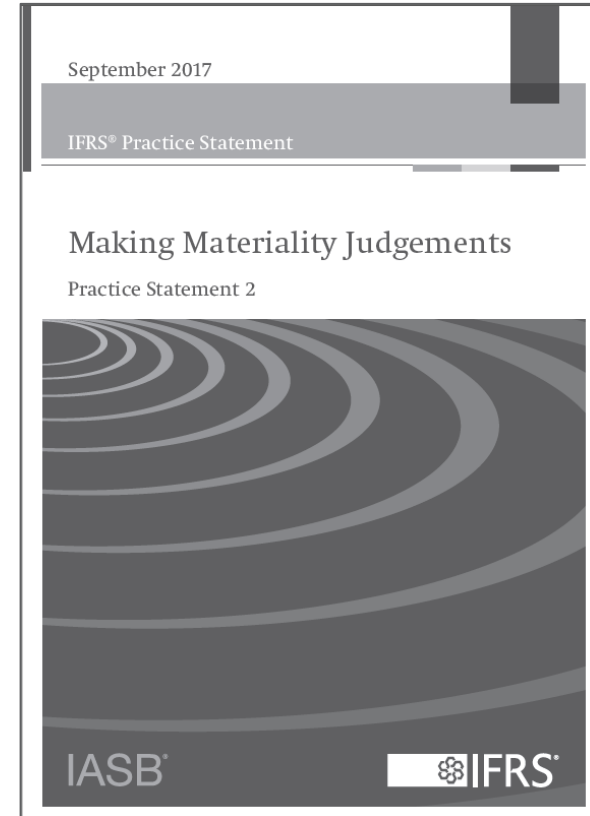
All IFRS materiality requirements



Practical guidance



Examples



- A **classification system** for IFRS reporting
- Consists of '**elements**' that are used to tag the information in IFRS financial statements
- Enables **structuring** of the information to make it more understandable and accessible
- Makes the tagged information **readable for computers**

Covers IFRS® Standards and the *IFRS for SMEs*® Standard

Active projects

Conceptual Framework

We need a *Conceptual Framework*

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It supports principle-based Standards

Provides a consistent starting point

Focuses on principles rather than rules

It addresses fundamental issues

What is the objective of financial reporting?

What are assets, liabilities, equity, income and expenses, when should they be recognised and how should they be measured, presented and disclosed?

What makes financial information useful?

It underpins decisions made by the Board when setting Standards

What is the *Conceptual Framework*?

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A practical tool that assists:

Board

- to develop Standards

Preparers

- to develop consistent accounting policies when no specific Standard applies

All

- to understand and interpret Standards

Not a Standard and does not override Standards

Standards should be consistent with the *Conceptual Framework*

Existing *Conceptual Framework* useful but some improvements needed

Fill in the gaps

- For example, provides concepts on presentation and disclosure and measurement

Update

- For example, updates the definitions of assets and liabilities

Clarify

- For example, clarifies the roles in financial reporting of:
 - stewardship
 - prudence
 - substance over form
 - measurement uncertainty

What are the improvements?

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Recognition &
Derecognition

Uncertain
liabilities

Role of
prudence and
stewardship

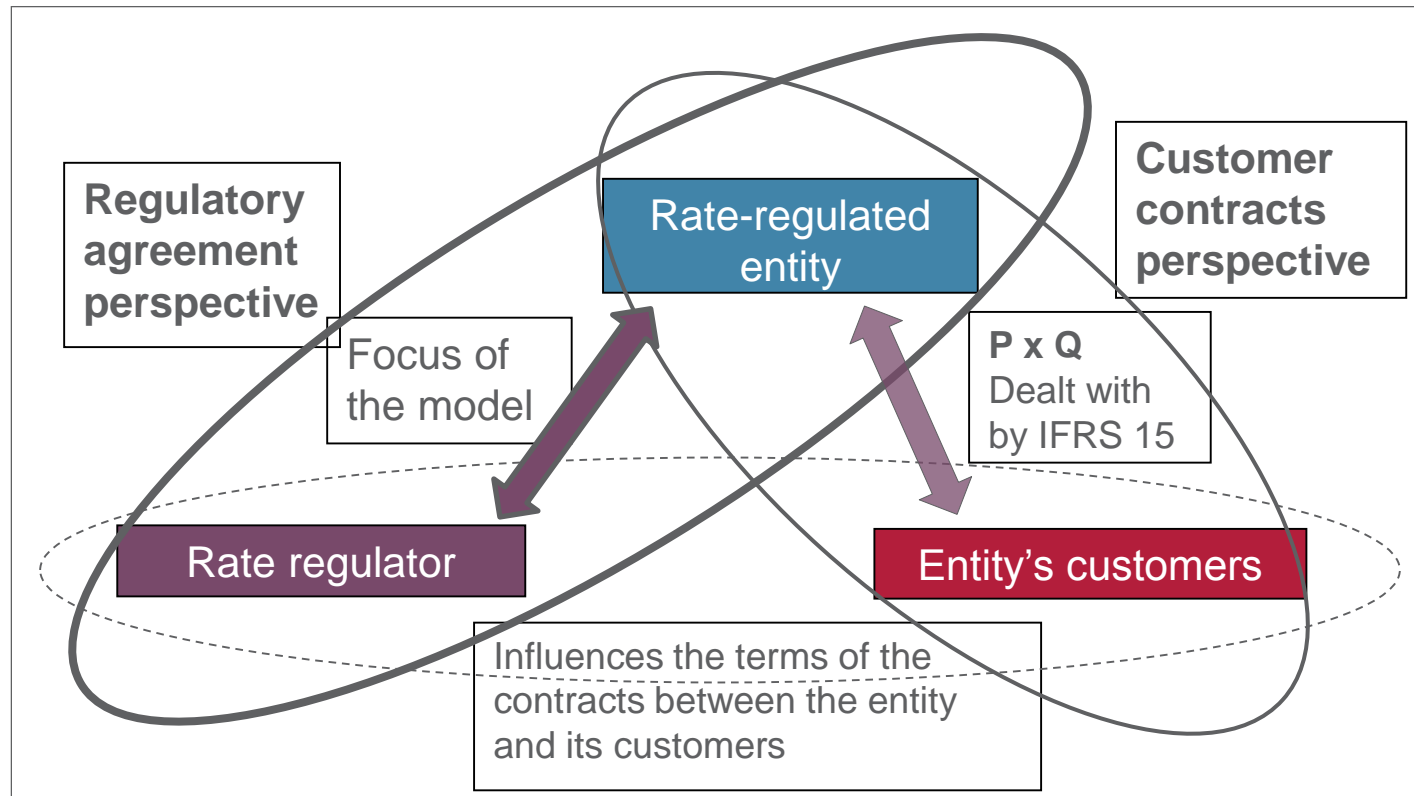
Measurement

Use of OCI

Rate-regulated activities

The regulatory agreement

- In **defined rate regulation**, the rate regulator intervenes to affect both the **amount** and the **timing** of the price (P) billed to customers.



Developing an accounting model for consultation

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Focus on 'rate-adjustment mechanism'

Creates **temporary differences** when the regulated rate in **one period** includes amounts relating to required activities carried out by the entity in a **different period**

Right to increase a future regulated rate

Obligation to reduce a future regulated rate

Analysing whether the right or obligation meets the revised *Conceptual Framework* definitions of an asset or liability

Supplementary model—would not amend existing IFRS Standards

Board discussions throughout 2017

Output:
Discussion Paper
or Exposure Draft
in 2018

Research programme

Active research projects*

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Project	Target
Financial instruments with characteristics of equity	DP H1 2018
Business combinations under common control	DP H2 2018
Dynamic risk management	DP H2 2018
Goodwill and impairment	DP H1 2018

* Also see slides on Better Communication. Primary Financial Statements and Principles of Disclosure are research projects.

Classification

- Still a single distinction (liability or equity)
- Underpin principles in IAS 32
- Consistency with the Conceptual Framework may need to be addressed

Presentation

- Separate presentation for those liabilities based on value of residual interest
- Expanded statement of changes in equity (including attribution of performance to classes of equity)

Disclosure

- Consider investor information needs re: dilution, liquidity, solvency
- Interaction with EPS?

Business combinations under common control (BCUCC)

BCUCC excluded from the scope of IFRS 3 *Business Combinations*



Project to address concerns about diversity in practice for BCUCC and group restructurings

- Predecessor method commonly used
- Acquisition method prescribed by IFRS 3 used in some cases

Diversity in applying the predecessor method

Particular focus on transactions that affect equity investors outside group

Business combinations under common control (BCUCC)

Board discussions to resume Q4 2017

Exploring two approaches:

- | | |
|--|---------------------------------------|
| <ul style="list-style-type: none">• Apply IFRS 3 for transactions with particular characteristics• Predecessor method used in other cases | Apply predecessor method in all cases |
|--|---------------------------------------|

Discussion paper expected in 2018

Key question

What should the information content of financial statements be regarding dynamic risk management activities?

Guiding principles

1. Is information content **improved** considering the objective of financial statements?
2. Can **users understand** the risk management objective? Are they able to **evaluate management** on its ability to **deliver against the stated goal**?
3. Does it allow risk managers to **faithfully** and **transparently** represent their activities in the financial statements?
4. Is the solution consistent with the *Conceptual Framework*?

Focused on solutions involving both measurement and disclosure

Feedback from PIR of IFRS 3 *Business Combinations*

- Complex and costly impairment test
- Delays in recognition of impairment
- Inadequate disclosures
- Question whether separation of particular intangibles is always useful

Board's research project

- Possible:
 - improvements to impairment test
 - amortisation of goodwill
 - subsuming particular intangibles into goodwill
 - additional disclosures

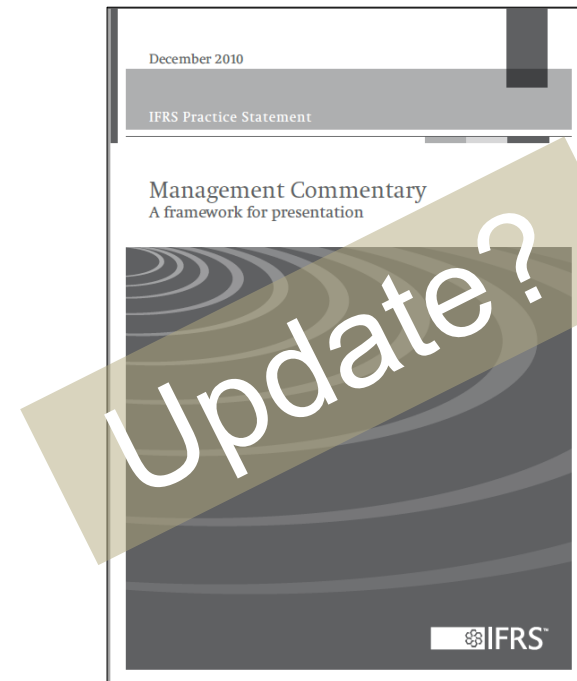
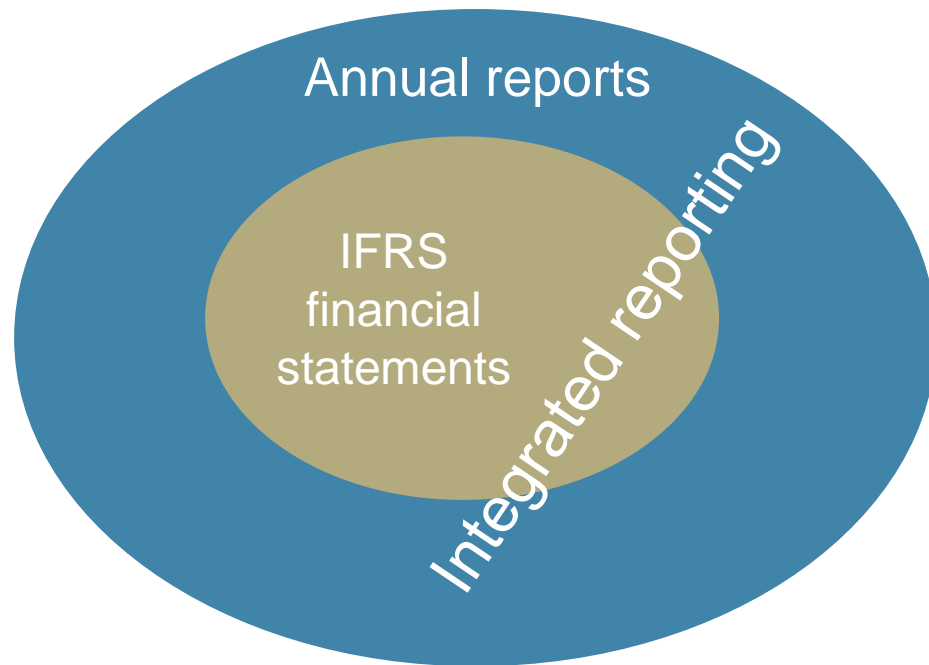
Board discussions
throughout 2017

Discussion Paper
H1 2018

Wider corporate reporting

Wider corporate reporting

- IASB participates in:
 - Corporate Reporting Dialogue
 - International Integrated Reporting Council



Supporting implementation

Making supporting activities visible and accessible



New website



Video



Leaflet
Supporting IFRS Standards

Supporting materials sorted by Standard

IFRS Standards

IFRIC Interpretations

News and events



For example, for IFRS 9 *Financial Instruments*



Webinars



Articles



Transition Resource Group



Agenda decisions

Contact us

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