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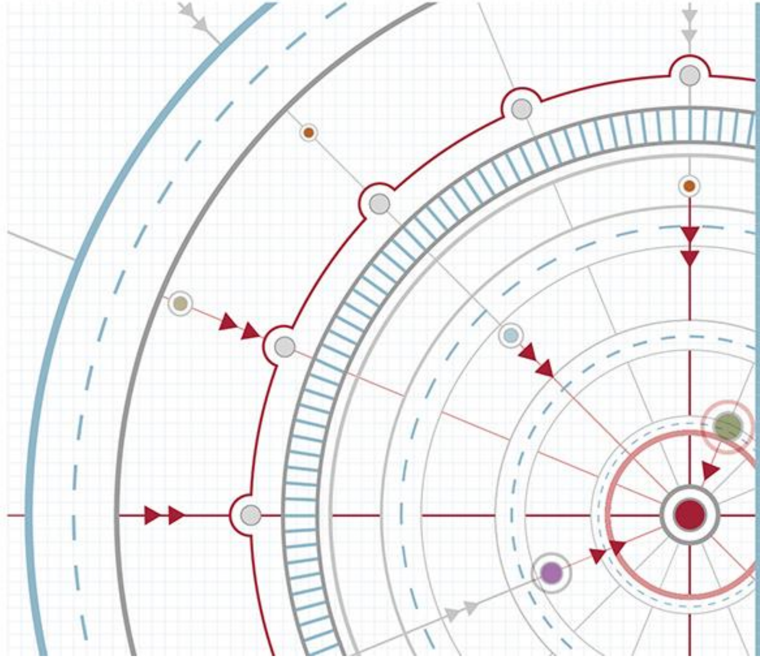

# IASB Update

## Emerging Economies Group

May 2017

The views expressed in this presentation are those of the presenter,
not necessarily those of the International Accounting Standards Board (the Board) or
IFRS Foundation.

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# Recently issued documents

## Status

- Issued mid-September 2016

## Expected effect of amendments

- Introduced to address concerns about the different effective dates of IFRS 9 and the new insurance contracts Standard

### A temporary exemption from applying IFRS 9

- Option available for reporting entities whose activities are predominantly connected with insurance
- Optional temporary exemption from applying IFRS 9 until 2021 (will continue to apply IAS 39)
- Only for a limited period

### An overlay approach

- Option available to all entities issuing IFRS 4 contracts and applying IFRS 9
- Allows reclassification of incremental volatility that arises when IFRS 9 is applied with IFRS 4, between P&L and OCI

## Amendment to IAS 40: *Investment Property—Transfers of investment property*



- **Clarifies** the requirements on transfers to, or from, investment property. Amends paragraph 57 of IAS 40 to reflect the principle that a change in use involves:
  - an assessment of whether a property meets, or has ceased to meet, the definition of investment property; and
  - supporting evidence that a change in use has occurred.
- Re-characterise the list of circumstances in paragraph 57(a)–(d) as a non-exhaustive list of examples.
- **Effective for periods** beginning on or after 1 January 2018, with early adoption permitted

- **Improvements to**:
  - IFRS 1 *First-time Adoption of International Financial Reporting Standards*
    - Deletion of short-term exemptions for first-time adopters because these amendments are no longer applicable
  - IFRS 12 *Disclosure of Interests in Other Entities*
    - Clarifies the scope of the Standard
  - IAS 28 *Investments in Associates and Joint Ventures*
    - Measuring an associate or joint venture at fair value on an investment-by-investment basis

# IFRIC 22: *Foreign Currency Transactions and Advance Consideration*



- **Clarifies** how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income when advance consideration is paid or received in a foreign currency

- **Effective for periods** beginning on or after 1 January 2018, with early adoption permitted

# Implementation and maintenance

Application Support

- Three agenda decisions include educative guidance on how to apply the relevant principles and requirements:
  - IFRS 10 *Consolidated Financial Statements*—Investment entities and subsidiaries (March 2017)
  - IAS 12 *Income Taxes*—Expected manner of recovery of indefinite life intangible assets when measuring deferred tax (November 2016)
  - IAS 12 *Income Taxes*—Recognition of deferred taxes when acquiring a single-asset entity that is not a business (March 2017)
  - Commodity loans (March 2017)

- In March 2017 the Interpretations Committee published seven tentative agenda decisions that include educative guidance on how to apply the relevant principles and requirements:
  - IFRS 1 *First-time Adoption of International Financial Reporting Standards*—Subsidiary as a first-time adopter
  - IFRS 9 *Financial Instruments*—Modifications or exchanges of financial liabilities that do not result in derecognition
  - IAS 12 *Income Taxes*—Interest and penalties related to income taxes
  - IAS 19 *Employee Benefits*—Discount rate in a country that has adopted another country’s currency

## Interpretations Committee: Tentative Agenda Decisions



- Tentative agenda decisions continued:
  - IAS 32 *Financial Instruments: Presentation*—Centrally cleared client derivatives
  - IAS 33 *Earnings per Share*—Tax arising from payments on participating equity instruments
  - IAS 41 *Agriculture*—Biological assets growing on bearer plants
- The comment period ends on 22 May 2017. Comments received will be discussed at a future Interpretations Committee meeting.

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# Out for comment

Application Support

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- Request to develop disclosure principles that apply across IFRS Standards

Help entities apply judgement and communicate effectively

Help users by improving disclosures

Help the Board improve disclosure requirements

IFRS

- Seek feedback on

Approaches to address identified disclosure issues

Whether there are other disclosure issues to consider

## *Principles of Disclosure:* Outline of Discussion Paper



**Principles of effective communication in preparing financial statements**

↓

**Principles on where to disclose information**

| Roles of the primary financial statements and the notes | Location of information |
| --- | --- |

↓

**Principles to address specific disclosure concerns of users of financial statements**

| Use of performance measures | Disclosure of accounting policies |
| --- | --- |

↓

**Principles for improving disclosure objectives and requirements**

| Centralised disclosure objectives | Drafting disclosure requirements |
| --- | --- |

# *Principles of Disclosure:* Expected project timetable

**30 March 2017**
Discussion Paper published

**2 October 2017**
Comments due

**2018**
Board redeliberations

Feedback on Discussion Paper will also inform

- Primary Financial Statements project
- Standards-level Review of Disclosures project

## Improvements to IFRS 8 *Operating Segments*

- IFRS 8 is converged with US GAAP equivalent guidance
- Board conducted a Post-implementation Review of IFRS 8 and concluded:
  - IFRS 8 was functioning as expected
  - but some areas should be investigated further
- Board decided, on the basis of that further investigation, to propose 9 amendments to IFRS 8 and IAS 34
- Board’s objectives, in proposing amendments:
  - Maintain convergence by adhering to the underlying principle of the ‘management approach’
  - Consider costs and benefits of proposed amendments

# Improvements to IFRS 8 *Operating Segments*



1. Emphasise that CODM makes operating decisions
2. Explain further that CODM may be an individual or a group
3. Explain the role of non-executive members in CODM
4. Require disclosure of the CODM: title and description
5. Explain difference in segments described within the annual reporting package
6. In the aggregation criteria: add further examples of economic characteristics
7. Clarify that an entity may disclose additional segment information, ie beyond information provided to CODM
8. Explain reconciling items in sufficient detail
9. Change in segmentation: earlier information in interim reports

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# Upcoming publications

Application Support

- **Final Interpretation**
  - IFRIC 23 *Uncertainty over Income Tax Treatments*

- **Exposure Drafts**
  - Amendments to IFRS 9
    - A proposal to permit financial assets with symmetric prepayment options to be measured at amortised cost or fair value through OCI depending on specific conditions.
  - Amendments to IAS 8
    - Aims to clarify the distinction between accounting policies and accounting estimates.

- **Exposure Drafts continued:**
  - Amendments to IAS 16
    - Proceeds from selling items produced while making an item of property, plant and equipment available for use are recognised in profit or loss.
  - Amendments to IAS 1 and IAS 8
    - The project objective is to refine the definition of materiality and clarify its characteristics (proposed clarifications).

- **Practice Statement**
  - Materiality Practice Statement
    - The objective of this project is to help preparers, auditors and regulators to use judgement when applying the concept of materiality.

- **Request for views**
  - IFRS 13 Fair Value Measurement
    - To seek input from stakeholders on specific areas of the Standard.

## Amendment to IFRS 9: Background



- In November 2016, the Interpretations Committee discussed a submission relating to the classification of financial assets that include symmetric prepayment options, applying IFRS 9.
- Most Interpretations Committee members were of the view that the prepayment options described in the submission do not meet the solely prepayments of principal and interest (SPPI) condition and suggested that the IASB consider changing the requirements in IFRS 9.
- In December 2016, the IASB decided to add a narrow-scope project on financial assets with symmetric prepayment options to its agenda, and asked the staff to explore the matter further.
- At the IASB meeting in January 2017, the board decided to propose a narrow-scope amendment to IFRS 9.

# Amendment to IFRS 9: Summary of the issue



- The financial assets described in the submission permitted the borrower to prepay the instrument at an amount that could be more or less than unpaid amounts of principal and interest on the principal amount outstanding.
- In other words, it could results in the lender being forced to accept an amount that is less than unpaid amounts of principal and interest ie compensate the borrower even though the option was exercised by the borrower .
- Applying IFRS 9, such contractual cash flows are not solely payments of principal and interest because paragraph B4.1.11(b) only accommodates a situation in which the party who initiates the early termination compensates the other party.

# Amendment to IFRS 9: The prepayment amount



- When developing the proposal, the IASB considered  the prepayment amounts that could arise from the financial instruments that would be consistent with paragraph B4.1.11(b).
- The IASB noted that the existing notion of 'reasonable additional compensation for the early termination of the contract' in B4.1.11(b) of IFRS 9 already accommodates a prepayment amount that is **more or less** than unpaid amounts of principal and interest.
- The IASB noted that the only additional aspect introduced by the symmetric nature of the option was that the prepayment amounts, although consistent with the requirements in B4.1.11(b), could represent 'negative compensation'.

# Amendment to IFRS 9: The prepayment amount—example



- Asset with one-way compensation (B4.1.11(b))

| | | **Prepayment amount** |
|---|---|---|
| Borrower prepays | Interest rate has increased | Unpaid P&I |
| | Interest rate has decreased | Unpaid P&I *plus* the effect of change in interest rate |
| Lender demands prepayment | Interest rate has increased | Unpaid P&I *minus* the effect of change in interest rate |
| | Interest rate has decreased | Unpaid P&I |

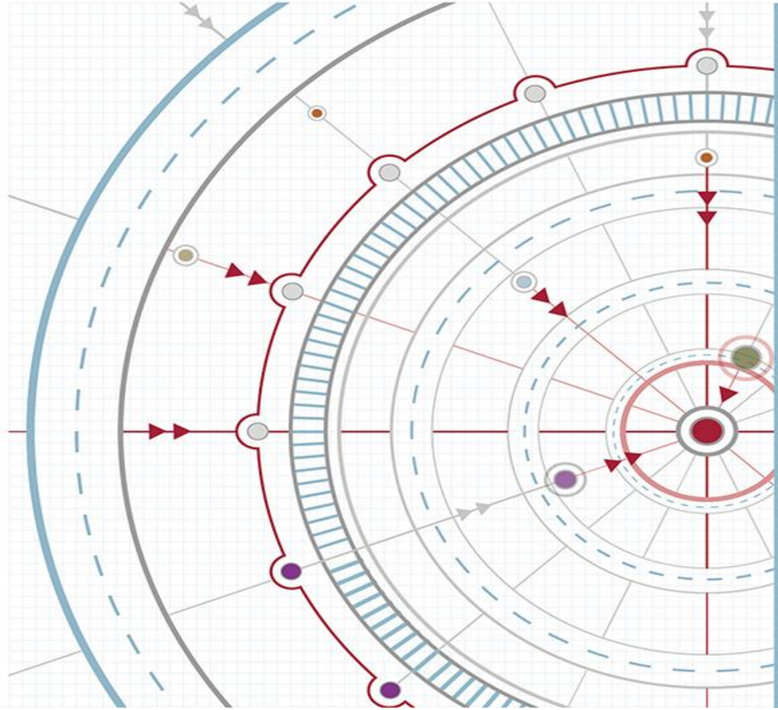
- Asset with symmetric prepayment option

| | | |
|---|---|---|
| Borrower prepays | Interest rate has increased | Unpaid P&I *minus* the effect of change in interest rate |
| | Interest rate has decreased | Unpaid P&I *plus* the effect of change in interest rate |
| Lender demands prepayment | Interest rate has increased | Unpaid P&I *minus* the effect of change in interest rate |
| | Interest rate has decreased | Unpaid P&I *plus* the effect of change in interest rate |

# Amendment to IFRS 9: Additional eligibility condition



- As an additional condition, the IASB proposes that a financial asset with symmetric prepayment option is eligible for measurement at amortised cost (or FVOCI) only if the fair value of the prepayment feature is insignificant when the entity initially recognises the financial asset.
- The IASB thinks this would be a straight-forward way to limit the scope of the exception and to ensure that financial assets are not measured at amortised cost if it is likely that non-SPPI cash flows will occur.
- Moreover, requiring this additional eligibility condition is consistent with the existing exception in IFRS 9 for another narrow group of prepayable assets in paragraph B4.1.12.



# Major projects update
# Insurance Contracts

*February 2017*

Joanna Yeoh, Senior Technical Manager

- All insurance contracts measured as the sum of:
  - **Fulfilment cash flows**
    - Present value of probability-weighted expected cash flows
    - Plus an explicit risk adjustment for insurance risk
  - **Contractual service margin**
    - The unearned profit from the contract

## Key effects

⇨ New framework replaces a wide range of different accounting treatments

⇨ Current measurement of liability

- Changes in estimates of future cash flows
  - If related to past coverage → P/L
  - If related to future coverage → adjust unearned profit
- Changes in financial market assumptions (eg interest rates)
  - Accounting policy choice for presentation of insurance finance expense: (i) in P/L or (ii) in P/L and OCI

**Key effects**

⇨ Changes in estimates and market prices will be reflected on a timely basis (including effects of options and guarantees)

⇨ Discount rates reflect characteristics of insurance contracts—risks not matched by assets will be visible

# IFRS 17: Where we are



In June 2013 **revised Exposure Draft** (2013 ED) published; **194 comment letters** received

**Q2 2013**


June 2013

Exposure Draft ED/2013/7

Insurance Contracts

Comments to be received by 25 October 2013

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In January 2014 **re-deliberations** begin

**Q1 2014**

**Re-deliberations complete** in February 2016

*(except effective date and sweep issues)*

**Q1 2016**

**Effective date and sweep issues** discussed in November 2016

To be discussed in February 2017

**Q4 2016 & Q1 2017**

Expected publication of **new insurance contracts Standard**

Replaces IFRS 4

**H1 2017**

**Field work**

June–October 2013 / August–October 2016

**Drafting**

## Process towards finalisation



**Oversight**

- Life cycle review with DPOC

**Quality control**

- Topic-based testing
- External editorial review
- Internal review processes

**Sweep issues**

- June 2016
- November 2016
- February 2017

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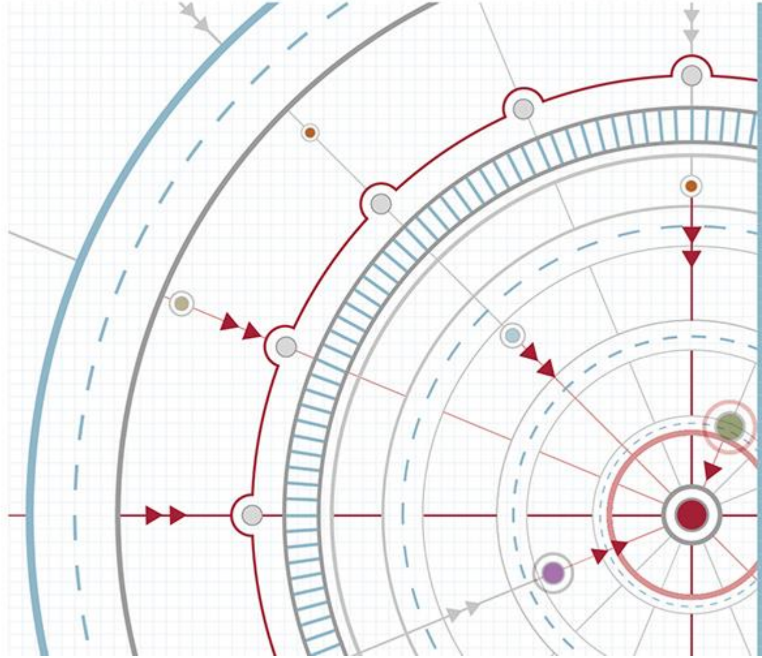

# Communications update

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- Encourage you to use in your own comms
  - Video: *IFRS for SMEs*® Standard
  - Video: International collaboration in standard-setting
  - Podcast: January update
  - Implementation article: *Leases*




January 2017

## Leases one year on—putting IFRS 16 into practice

- Trustees meeting and stakeholder event in Paris




- Appointments
  - Board members: Françoise Flores, Tom Scott
  - IFRS Interpretations Committee Chair: Sue Lloyd
  - Trustees: Else Bos, Su-Keun Kwak, Guangyao Zhu

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