

The work of the IASB

Update on the work of the IASB - April 2018

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Highlights of Recent Activities

- Issuance of revised Conceptual Framework
- IFRS 17 – Insurance in EU endorsement process
- Added project on Wider Corporate Reporting to agenda
- Research pipeline projects activated including:
 - Extractive Industries
 - Variable and Contingent Consideration
 - Pension Benefits that Depend on Asset Returns
- Greater focus on support and implementation of new standards

Conceptual Framework

Conceptual Framework at a glance

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What is it?



Underpins
developing and applying
IFRS Standards



Priority
project identified in the
Agenda Consultations

What changed?



Updated
concepts that will result in
better IFRS Standards



March 2018

We need a *Conceptual Framework*

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*?

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*

Why have we revised the *Conceptual Framework*?

Old *Conceptual Framework* useful but some improvements needed

Fill in the gaps

- Provides concepts on presentation and disclosure and measurement

Update

- Updates the definitions of assets and liabilities

Clarify

- 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

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

What changes?



More
useful and transparent
information



Better
information about
profitability

How did we get feedback?



600
comment letters



900
meetings, round-tables
and discussion forums



One
accounting model for all insurance contracts
in all IFRS jurisdictions



Who is affected?



450
listed insurers using
IFRS Standards

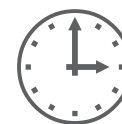


\$13 trillion
total assets of those
listed insurers

When?

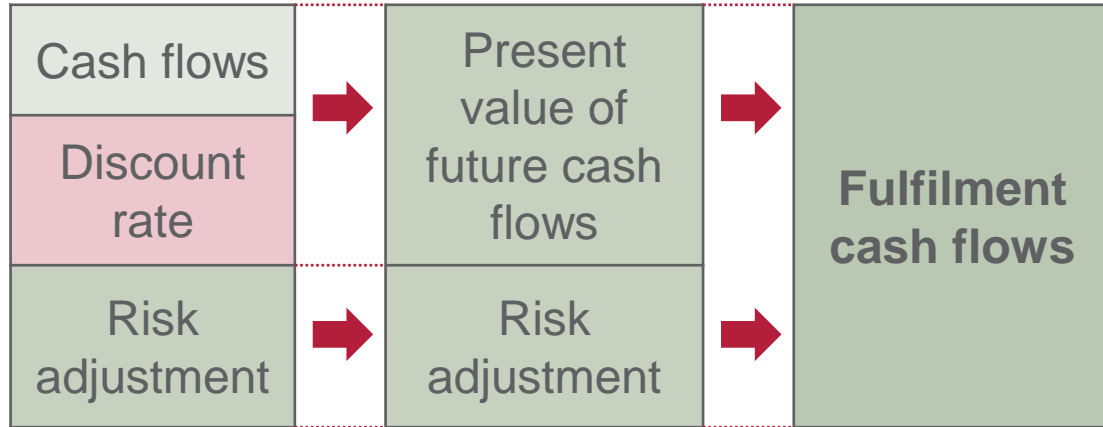


2021
mandatory effective date
of the new Standard



3.5
years for companies
to implement the new
requirements

IFRS 17 measurement model



Current value that incorporates all available information, in a way consistent with observable market information. Updated each period using updated assumptions about cash flows, discount rate and risk.



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.



IFRS 17 asset or liability

All insurance contracts are measured as the sum of:

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

Changes to financial performance presentation

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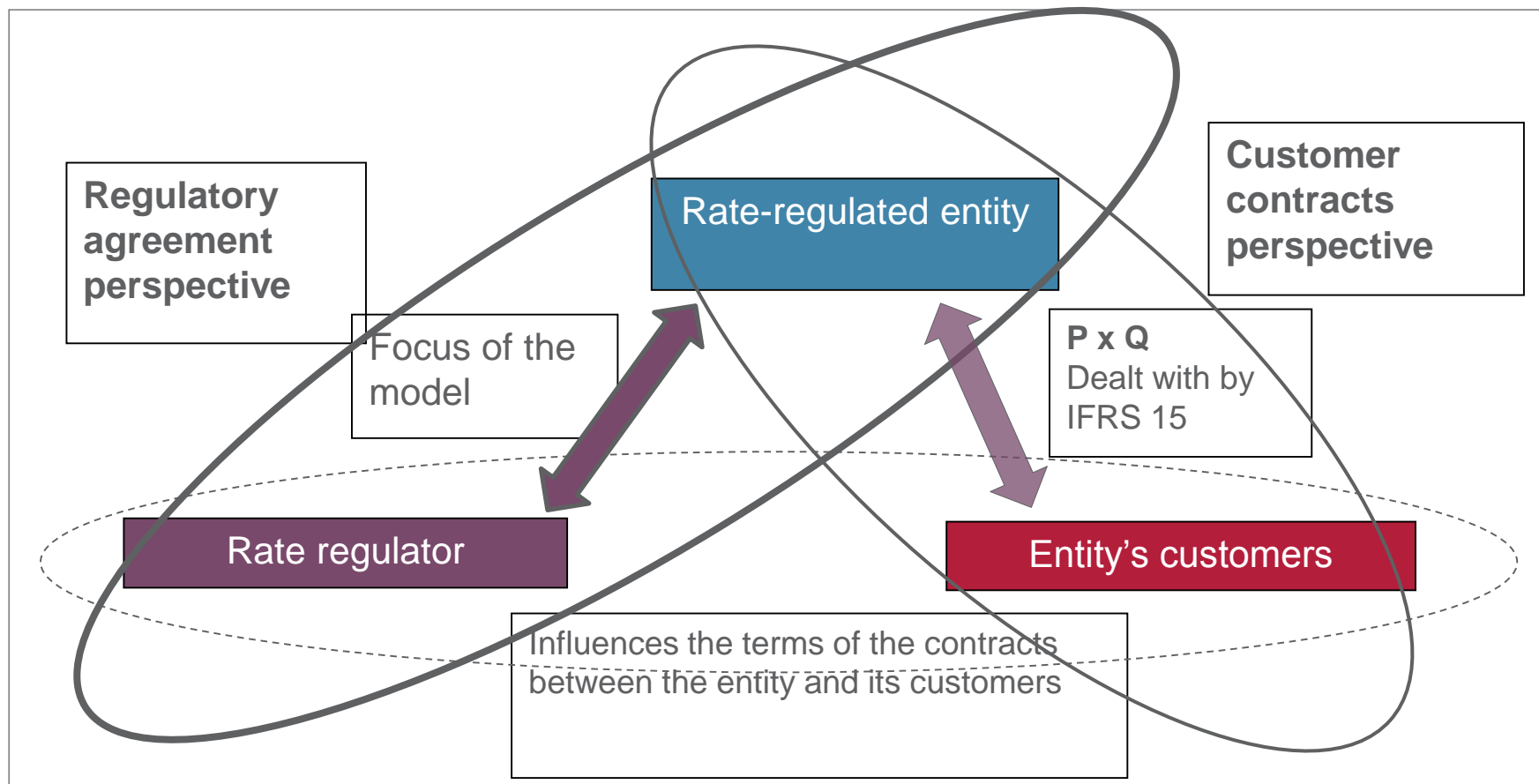
IFRS 4*	IFRS 17	Key changes
Premiums	Insurance revenue	- Two drivers of profit presented separately
Investment income	Incurred claims and expenses	
Incurred claims and expenses	Insurance service result	- Insurance revenue excludes deposits [written premiums disclosed in the notes]
Change in insurance contract liabilities	Investment income	- Revenue is recognised as earned and expenses are recognised as incurred
Profit or loss	Insurance finance expenses	
	Net financial result	- Insurance finance expenses are excluded from insurance service result and are presented (i) fully in P&L or (ii) in P&L and OCI, depending on accounting policy
	Profit or loss	
	Insurance finance expenses <i>(optional)</i>	
	Comprehensive income	

(*) Common presentation in the statement of comprehensive income in applying IFRS 4

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

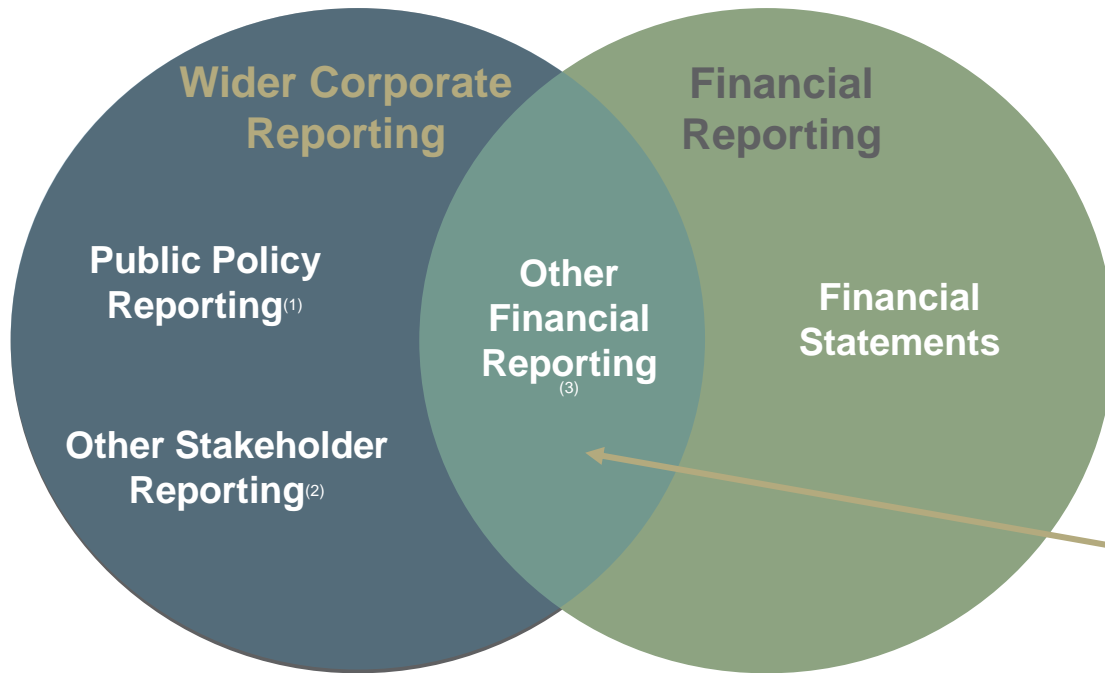
Supplementary model—would not amend existing IFRS Standards

Board discussions throughout 2018

Output:
Discussion Paper
or Exposure Draft
in 2019

Management Commentary

Scope of the Board's interest



‘Other financial’:
information outside the financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make better economic decisions.

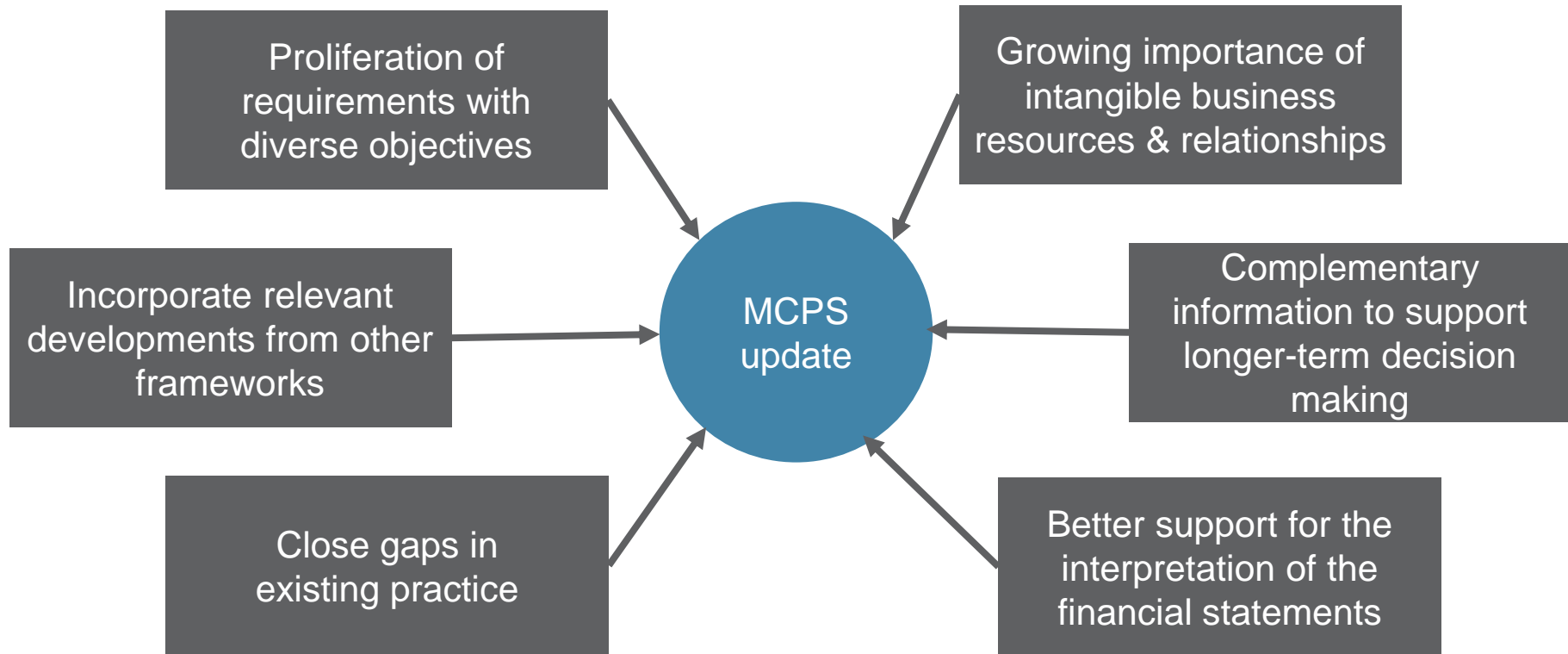
Management commentary:
a narrative report that provides financial and non-financial information useful to users of financial reports

⁽¹⁾ Reporting to support public policy objectives

⁽²⁾ Other frameworks (eg GRI Sustainability Reporting Standards) and regulation address the needs of a wider community of report users

⁽³⁾ International Integrated Reporting Framework and national narrative reporting frameworks, along with a number of subject matter (e.g. Carbon Disclosure Standards Board) and sector based (e.g. Sustainability Accounting Standards Board) frameworks, also target this space

Reasons for updating the MCPS



In November 2017 the Board added to its agenda a project to update the Management Commentary Practice Statement.

Staff's proposed approach to an update

The current Management Commentary Practice Statement:

A principles based non-binding framework for presenting investor-relevant narrative content based on the specific circumstances of the business

This is not expected to change, but the update could support a more rigorous approach to determining which matters to address and the information to provide in the management commentary



Recent developments:

- Innovations from International Integrated Reporting Framework and national narrative reporting frameworks build on MCPS
- Acknowledged gaps in practice, including:
 - inconsistent business model reporting
 - short-term strategic focus
 - continuing challenges in reporting pre-financial indicators
- Growing frustration with investment and management short-termism



Key concepts expected to drive the update:

Value creation puts more emphasis on long term prospects

Business model and strategy provide a focus for building the report

Integration and linkage ensure key issues are followed across the report

Key resources and intangibles further support a long-term focus

Materiality—when to report a matter and the information to provide

It is not envisaged that the update will prescribe detailed industry or subject-matter specific measures

What could a revised MCPS cover?

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Management commentary

Information relevant to understanding the future development of the financial statements

Business model, risk, strategy and operating environment

Qualitative and quantitative information on:

- the operational position of the business
- the factors affecting its future development

foundation for a performance discussion
focused on long-term business success

Current year financial analysis

- Explanation of current year financial performance and position
- Additional / non-GAAP financial analysis

Non-financial Information

Pre-financial information and explanations that provide insight into:

- business progress
 - implications for future financial performance
- Covers resources and relationships key to value creation

Forward-looking statements

Explaining statements of forecast and target financial and non-financial expectations (*where made*)

+ Linkage to governance and remuneration disclosures

Insight into the company's **strategy** for creating shareholder value over time, its **progress** in implementing it, and the **potential impact** on future financial performance **not yet captured** by the financial statements

Research programme

Active research

- Gather evidence: is there a problem?
 - Is it a significant financial reporting problem?
 - Can it be solved?
- 6 active research projects

Standard setting?

- Use evidence:
 - Start standard-setting?
 - If yes, set scope

Research pipeline

- Future research projects
- 2017-2021: 8 projects in pipeline

Active research projects*

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Project	Target
Financial instruments with characteristics of equity	DP Q2 2018
Business combinations under common control	DP H2 2018
Dynamic risk management	Outreach H1 2019
Goodwill and impairment	DP H2 2018

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

*Financial Instruments with
Characteristics of Equity*

FICE: challenges and response

The Board identified financial reporting challenges with financial instruments containing features of both liability and equity, and developed responses to those challenges.

Challenges identified with respect to IAS 32

IAS 32 works well for most financial instruments but it does not provide a clear rationale for its classification requirements. The lack of clarity leads to:

questions about whether some classification outcomes of IAS 32 provide useful information

difficulty in applying IAS 32 to complex financial instruments resulting in diversity in practice

Classification as liabilities or equity applying IAS 32 only provides some information about a wide variety of financial instruments

The Board's response

Articulate the classification principle with a clear rationale, without fundamentally changing the existing classification outcomes of IAS 32

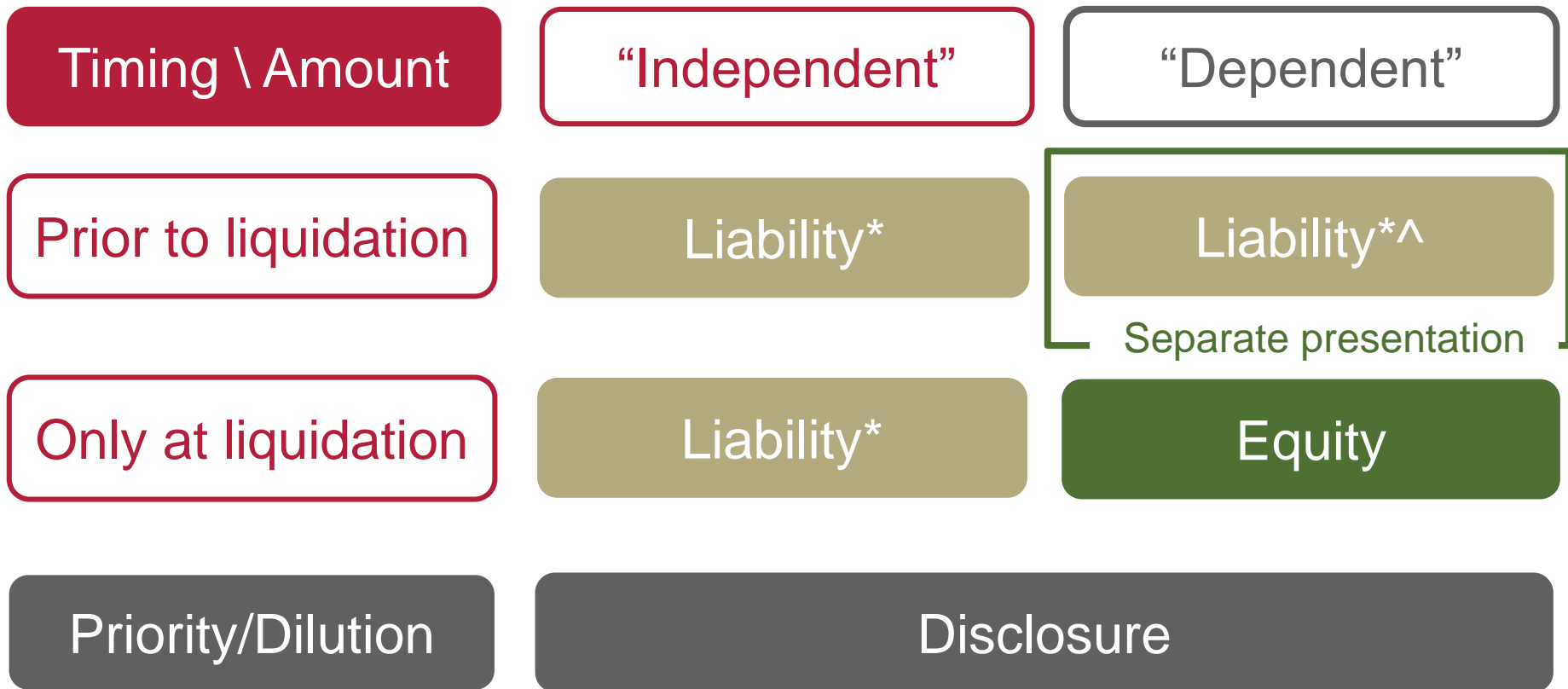
develop the underlying rationale based on the information needs of users of financial statements

improve the consistency, completeness and clarity of the requirements for classification

Provide information about the wide variety of financial instruments through presentation and disclosure in addition to classification

Overview of the proposed approach

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*IAS 1 requires presentation of assets and liabilities in the statement of financial position using current/non-current distinction or in the order of liquidity.

IFRS 7 requires disclosure of contractual maturity, which provides information about timing of the required transfer of economic resources.

^Puttables exception in IAS 32 would be retained.

Business Combinations under Common Control

Business Combinations under Common Control—the issue

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Business combinations under common control (BCUCC) are excluded from the scope of IFRS 3 *Business Combinations*



In practice entities account for BCUCC using:

acquisition method
as set out in IFRS 3

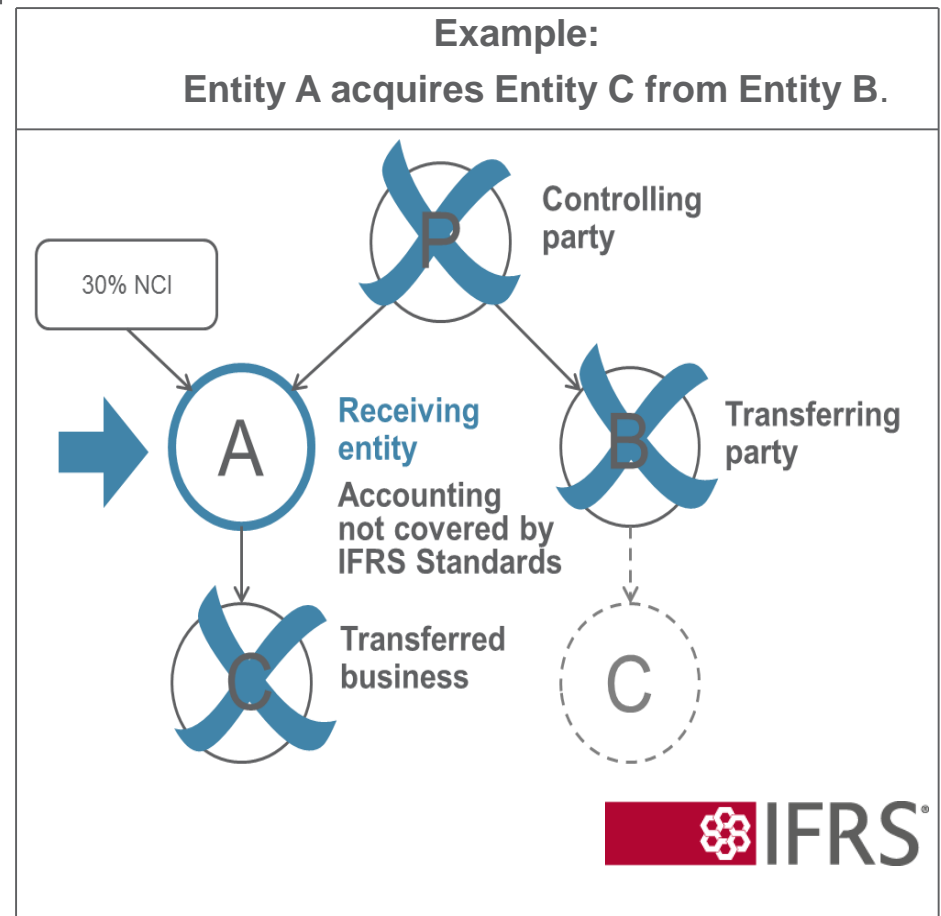
predecessor method
but there is diversity in practice in
how the method is applied

Concerns about the diversity in practice raised by various interested parties, notably security regulators

Business Combinations under Common Control—the scope

Accounting for transactions **under common control** that involve a transfer of one or more **businesses** from the perspective of the **receiving entity**, regardless of whether:

- the receiving entity can be identified as the ‘acquirer’, if IFRS 3 were applied to the transaction;
- the transaction is conditional on a loss of control over the combining parties, for example as a result of a future sale or an IPO;
- the transaction is either preceded by an external acquisition or followed by an external sale of one or more of the combining parties, or both.

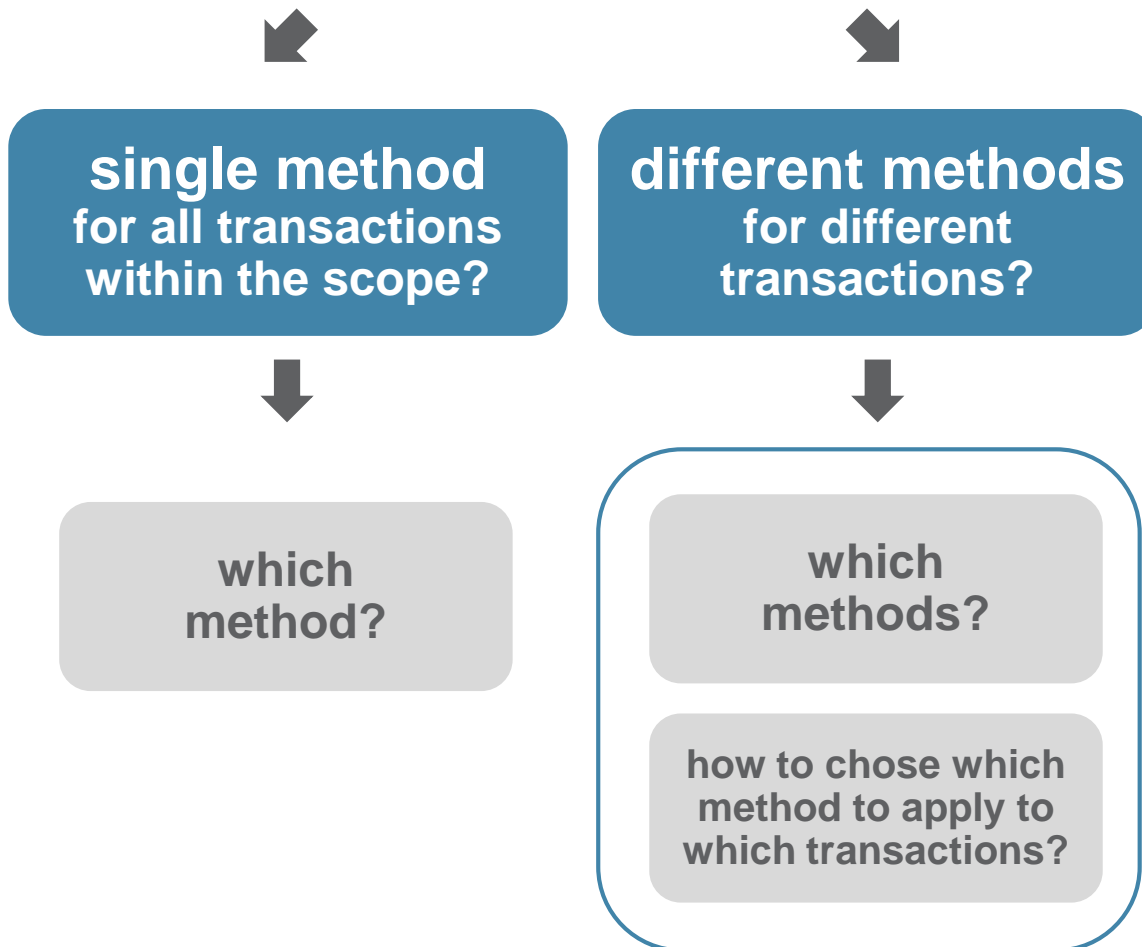


Business Combinations under Common Control—methods of accounting

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Decision process

Alternatives to explore



- Acquisition method, as in IFRS 3?
- Predecessor method? If yes, how to apply it?
- Other methods?

In February 2018, the Board decided to start its analysis from ...



the acquisition method set in IFRS 3

Using the acquisition method as a starting point does **NOT** mean that:

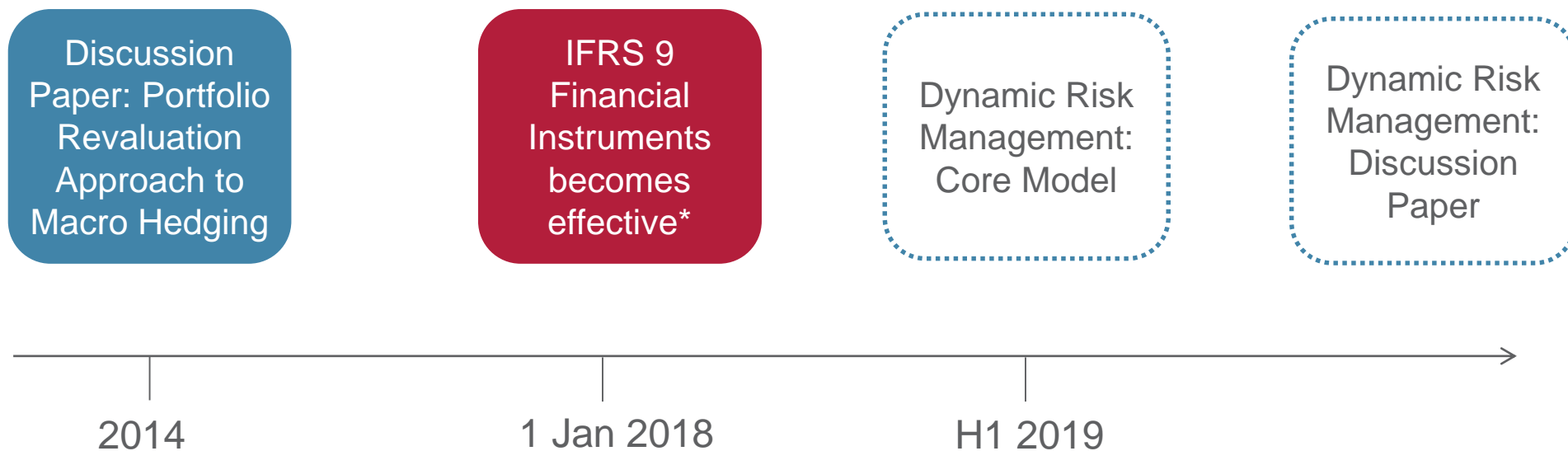


- the Board will propose applying that method to all or many transactions within the scope of the project. That method will just provide a starting point for discussions at future meetings; or
- that method will be treated as the ‘default’ method of accounting for transactions within the scope of the project.

Dynamic Risk Management

Dynamic risk management

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In December, the Board tentatively decided to focus on developing the most important areas of the DRM accounting model and then seek external feedback.

* Entities can use IFRS 9 hedging requirements or continue to use existing hedge accounting requirements in IAS 39 *Financial Instruments: Recognition and Measurement*

Objective

Improve information regarding risk management and how risk management activities affect the entity's current and future economic resources.

Guiding principles

1. Transparency
2. Capacity
3. Dynamic Nature
4. Performance Measurement

Focused on solutions involving both measurement and disclosure

Proposal

If an entity perfectly aligns the asset profile with the target profile by using derivatives, the change in fair value of the associated derivatives should be deferred in Other Comprehensive Income and recycled to the statement of profit or loss such that it reflects the target profile.

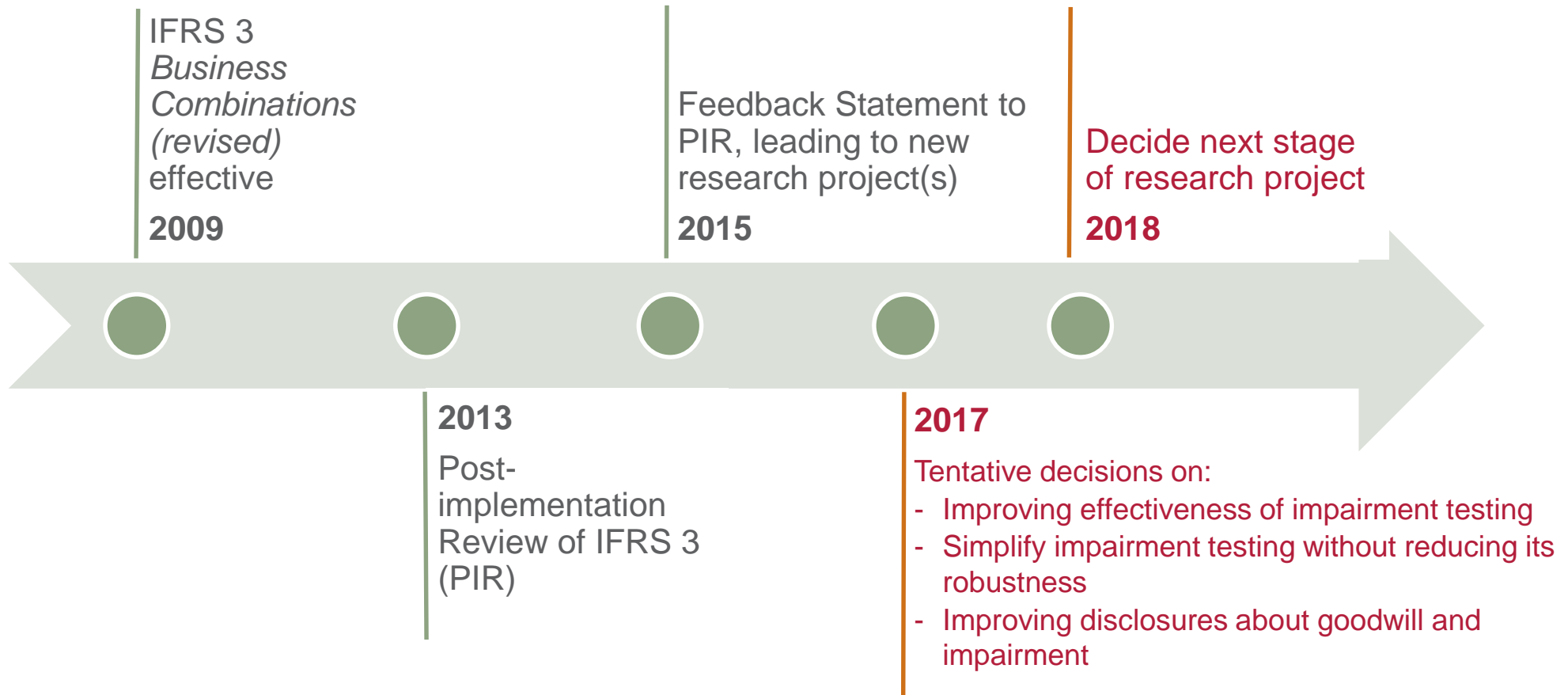
Summarised tentative decisions to date:

1. Designated financial assets and financial liabilities must be measured at amortised cost;
2. Future transactions can be designated but their occurrence must be highly probable; and
3. Formal designation and documentation are required and must be consistent with the entity's risk management policies and procedures.

Goodwill and Impairment

Goodwill and Impairment: project timeline

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Goodwill and Impairment: Board's tentative decisions

Feedback received	Topic for research	Board's tentative decisions
There are delays in recognition of impairments of goodwill.	Topic 1 —Improving effectiveness of impairment testing	Use the unrecognised headroom as an additional input in the impairment testing of goodwill. ¹
Impairment testing of goodwill is a costly process.	Topic 2 —Simplify impairment testing without reducing its robustness	Consider simplifying the value in use calculation. ²
Financial statements do not include information to assess performance of an acquired business.	Topic 3 —Improving disclosures about goodwill and impairment	Consider requiring entities to disclose: (a) the unrecognised headroom; (b) goodwill by past acquisition; and (c) value creation from new acquisitions. ¹

1. Members may refer to Agenda Papers 18C and 18F for the [December 2017](#) Board meeting for more information.

2. Members may refer to Agenda Papers 18–18B for the [January 2018](#) Board meeting for more information.

Goodwill and Impairment: Board's tentative decisions

Issue identified	Topic for research	Board's tentative decisions
Testing goodwill only for impairment without amortising it is not appropriate.	Topic 4 —Any new conceptual arguments or new information in support of amortising goodwill?	Not to consider reintroducing amortisation of goodwill. ³
Valuing some intangible assets on an acquisition is a costly process and does not provide useful information to investors.	Topic 5 —Allow inclusion of some acquired identifiable intangible assets within goodwill arising on an acquisition?	No decisions made, discussion scheduled April 2018

Next Step:

In its April 2018 meeting, the Board will be asked whether the next stage is to publish a Discussion paper or an Exposure Draft.

3. Members may refer to Agenda Paper 18B for the [December 2017](#) Board meeting for more information.

Primary Financial Statements

Statement(s) of financial performance

EBIT subtotal

'income/expenses from investments' category

Guidance on presentation of management performance measure and alternative EPS

Considering better ways to communicate OCI

removing options for presentation of income and expenses eg presentation of profit of associates/JVs

Statement of cash flows

Eliminating classification options (interest/dividends)

(Not) aligning the operating section between statement of cash flows and statement(s) of financial performance

Specifying the starting point for the indirect method

✓ Developing templates for the Primary Financial Statements

✓ Achieving greater disaggregation including minimum line items

Not in the Scope of this project:

Statement of financial position

No planned change, except for templates and greater disaggregation

Statement of changes in equity

Financial Instruments with Characteristics of Equity project looks at some issues

Principles of Disclosure

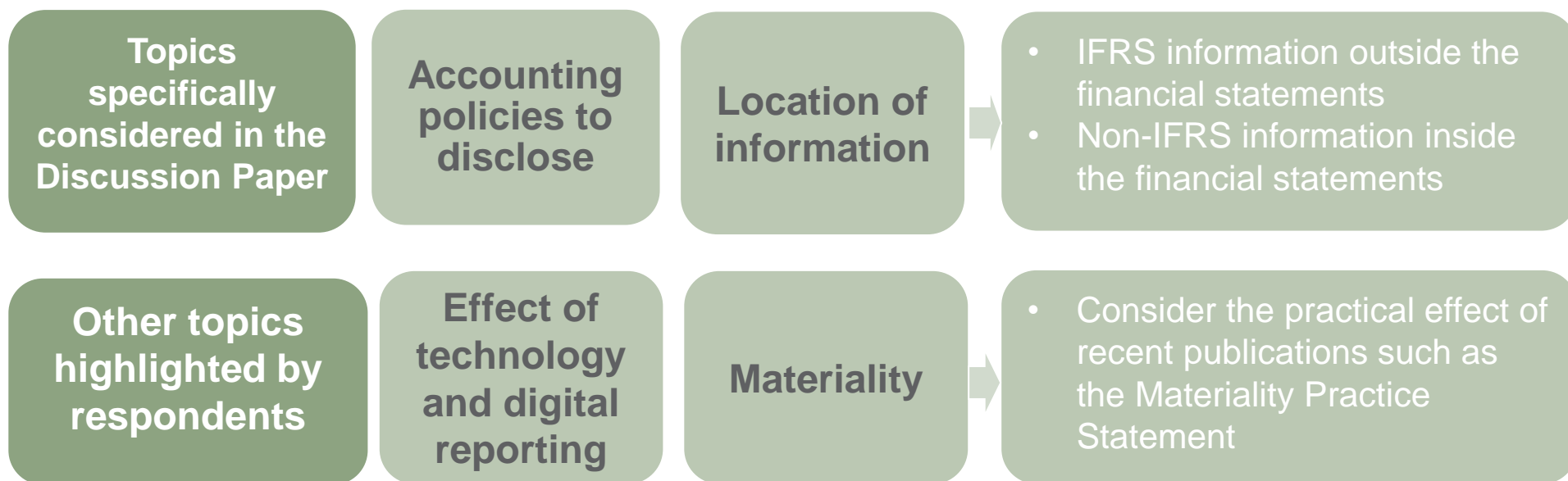
Principles of Disclosure—the disclosure problem

- The Board has identified three main concerns about disclosures in financial statements:
 - not enough relevant information
 - too much irrelevant information
 - ineffective communication



Principles of Disclosure—next steps

- The Board:
 - added a project to review disclosures in specific Standards (slides 11-12)
 - will perform further research and analysis on:



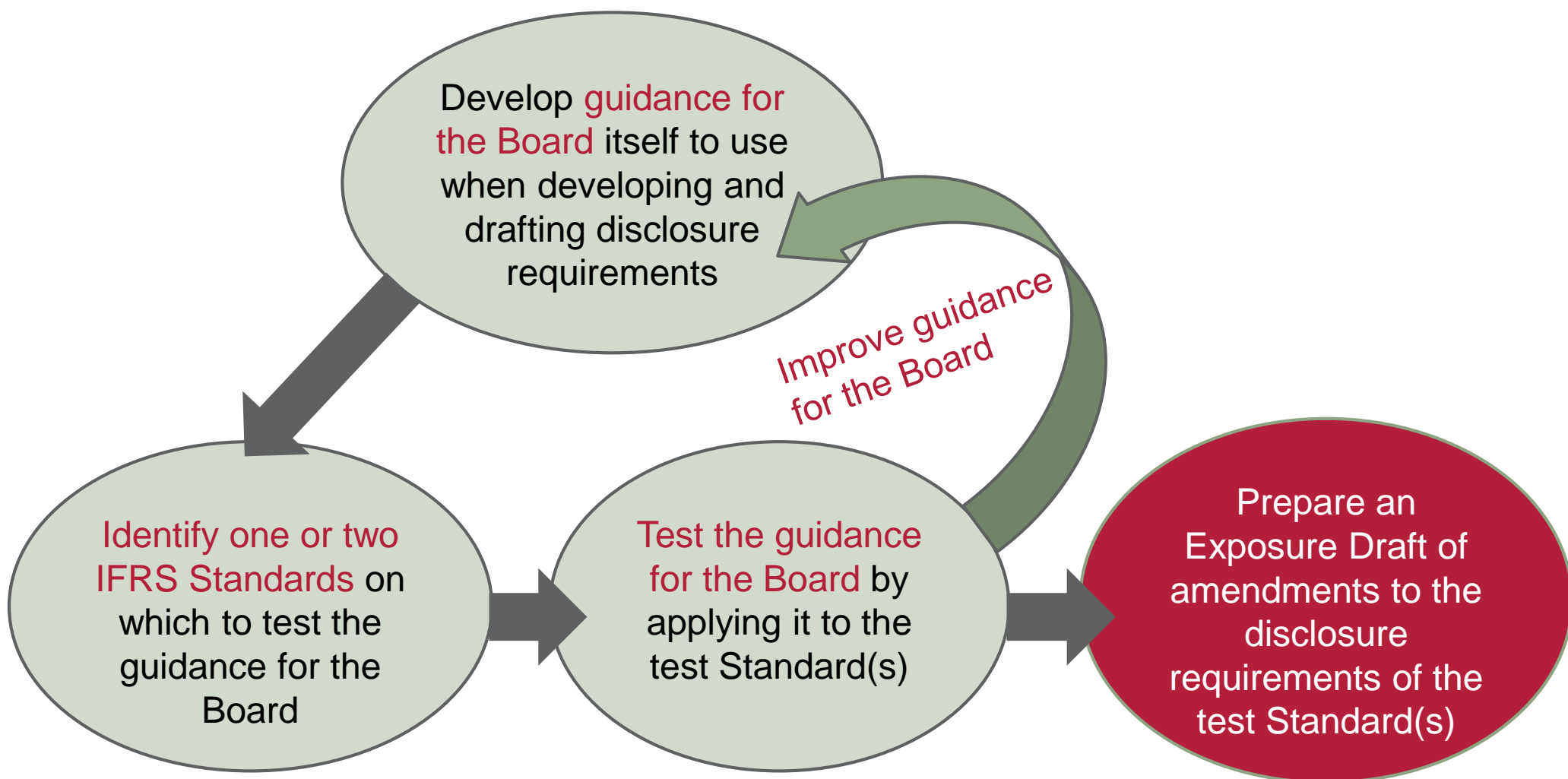
- The Board decided:

The Primary Financial Statements project should consider

- roles of the primary financial statements and the notes
- presentation of EBIT and EBITDA
- presentation of unusual or infrequently occurring items
- fair presentation of performance measures

The following topics unlikely to contribute significantly to addressing the disclosure problem

- use of formatting in the financial statements
- location of accounting policy disclosures
- location of disclosure objectives and requirements in IFRS Standards
- use of 'present' and 'disclose' in IFRS Standards



Guidance for the Board

- Will be developed as a set of Board decisions
- Formal stakeholder feedback will be obtained when subsequently used as part of standard-setting

Test the guidance for the Board

- The objective of the targeted standards-level review will be to **improve the disclosure requirements and hence, the usefulness of the disclosures** provided to the primary users of financial statements
- The objective will **not** be **to change the volume of disclosure requirements**, although this may be a consequence

Post-implementation reviews

Post-implementation reviews (PIRs)

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Completed PIRs

In progress

Future PIRs

IFRS 8 *Operating Segments*

- Improvements to IFRS 8 ED—**Feedback Statement expected H2 2018**

IFRS 3 *Business Combination*

- Definition of a business ED, finalise June 2018
- Research project: Goodwill and Impairment

IFRS 13 *Fair Value Measurement*

- Request for Information—**Feedback Statement expected H2 2018**

IFRSs 10-12

- consolidation
- joint arrangements
- disclosures

IFRS 5

- discontinued operations

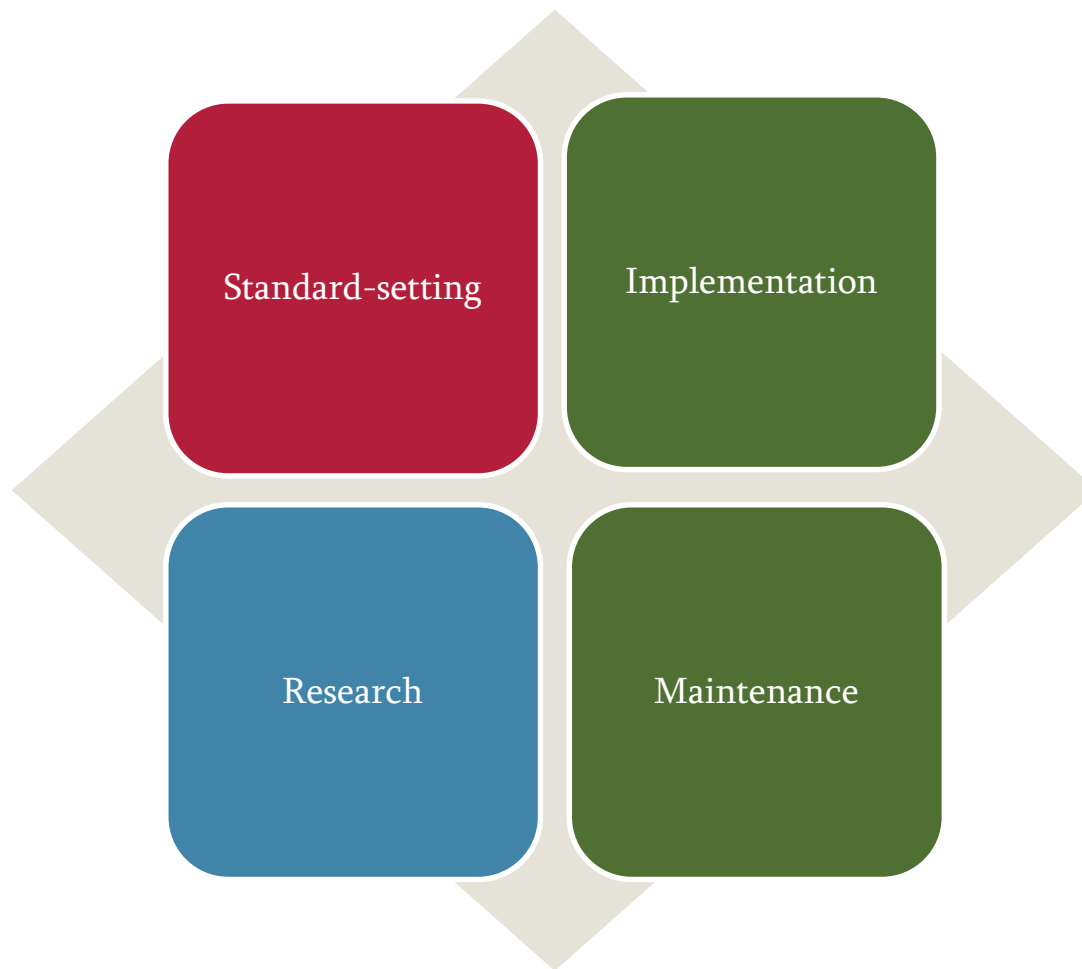
IFRS Foundation Implementation Support Activities

Objective: Discuss activities to support implementation in past year, focusing on work of the IFRS Interpretations Committee

Agenda:

- Context
- Narrow-scope amendments / IFRIC Interpretations
- Other implementation and maintenance projects
- Committee's approach in responding to questions submitted

Context



Objective in supporting the Standards

We...

help stakeholders understand the intent of the requirements - ie what they are aiming for

In order to...

support consistent application of IFRS Standards

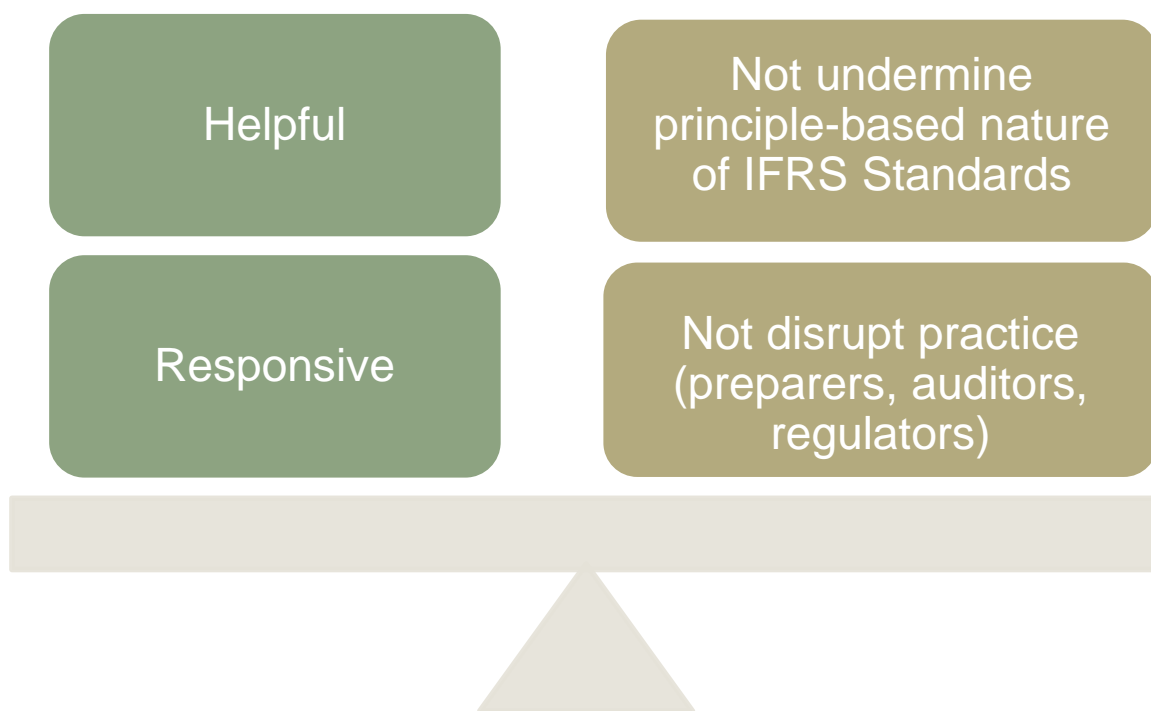
Because it...

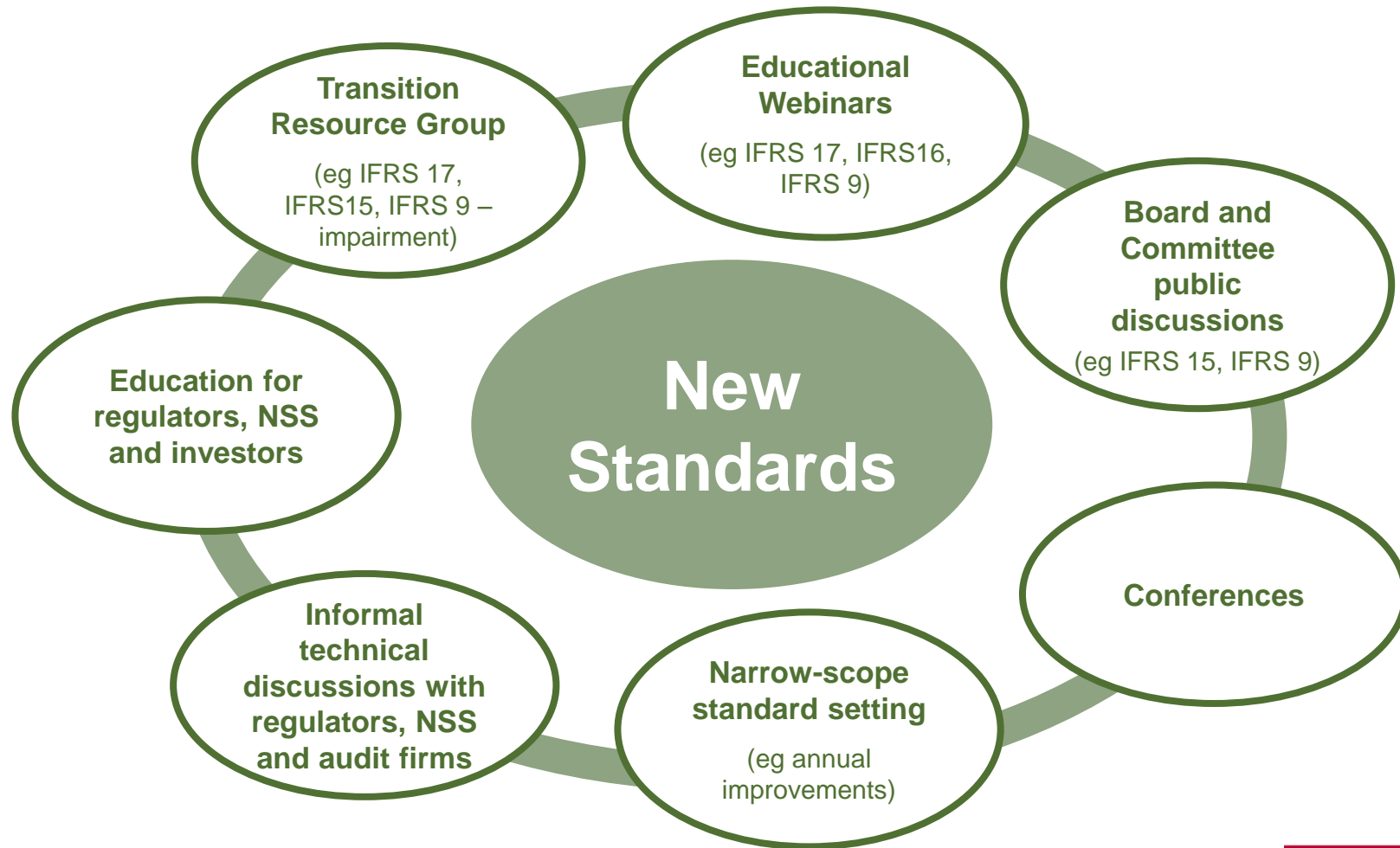
protects IFRS Standards as a single set of global Standards

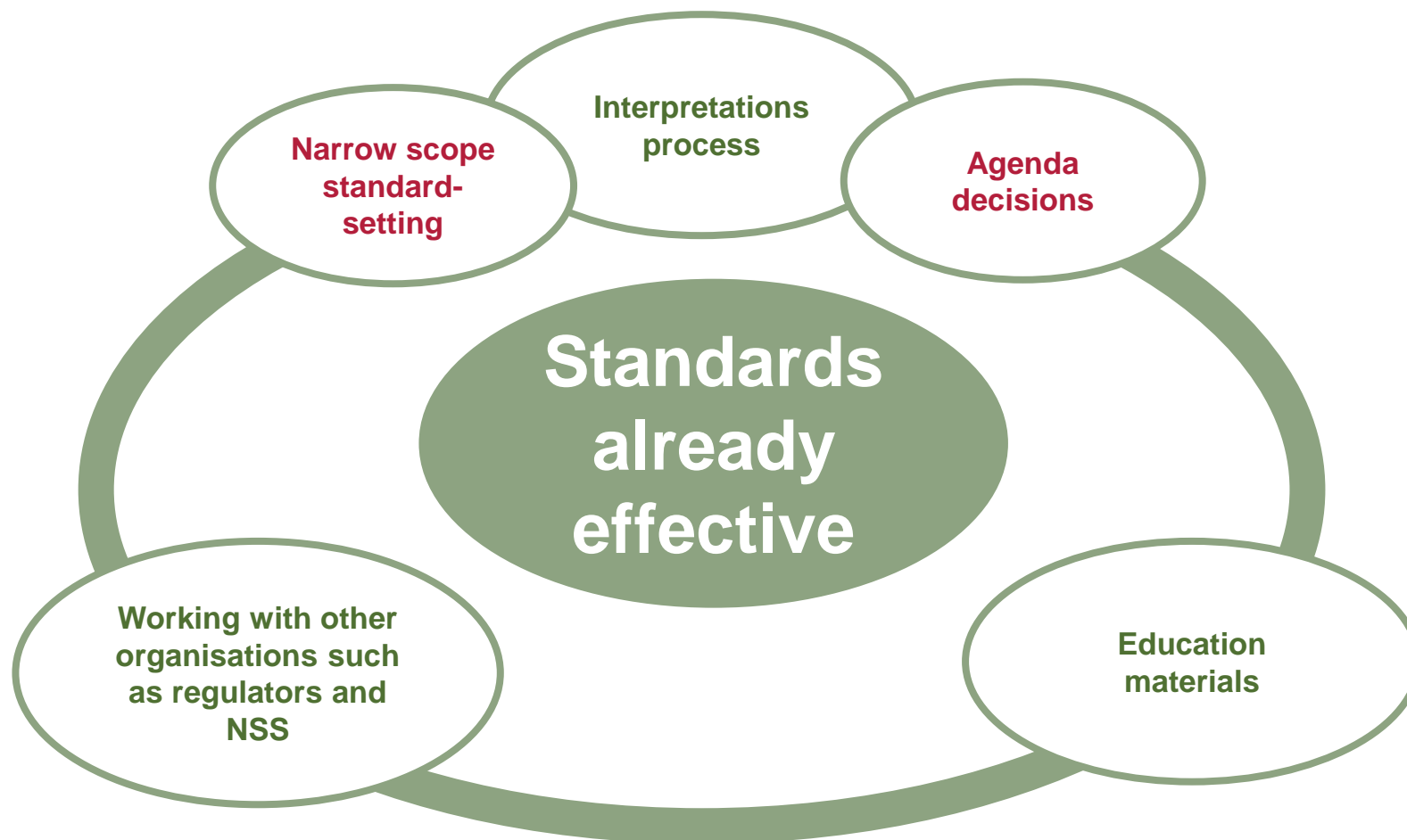
The challenge

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- In supporting implementation and application of the Standards, the challenge for a standard-setter is to balance:







Improvements to *IFRS 8 Operating Segments*

Amendments to IFRS 8 and IAS 34

- Targeted improvements to IFRS 8 responding to post-implementation review (PIR) of IFRS 8
- Exposure Draft published in March 2017
- Key areas of focus:
 - Identification of the Chief Operating Decision Maker (CODM)
 - Aggregation of operating segments
 - Linkage of segment information between the financial statements and the annual reporting package

- Board discussions March 2018.
- Board members supportive of some, but not all, of the amendments proposed in the Exposure Draft.
- The Board decided that, **when taken in aggregate**, the proposals would not result in sufficient improvements in information to investors to justify the costs that stakeholders would incur if the Board were to amend IFRS 8.
- The staff plan to publish a feedback summary in the second half of 2018.

Narrow-scope amendments / IFRIC Interpretations

Finalised since April 2017 or close to finalisation:

IFRIC 23 *Uncertainty over
Income Tax Treatments*¹

Amendment to IFRS 9
*Prepayment Features with
Negative Compensation*¹

Amendment to IAS 28
*Long-term Interests in
Associates and Joint
Ventures*¹

Annual Improvements
2015-2017 Cycle
(IFRS 3, IFRS 11,
IAS 12, IAS 23)¹

Amendment to IAS 19
*Plan Amendment,
Curtailment or Settlement*¹

Amendment to IFRS 3
Definition of a Business

Expected
around end
Q2 2018

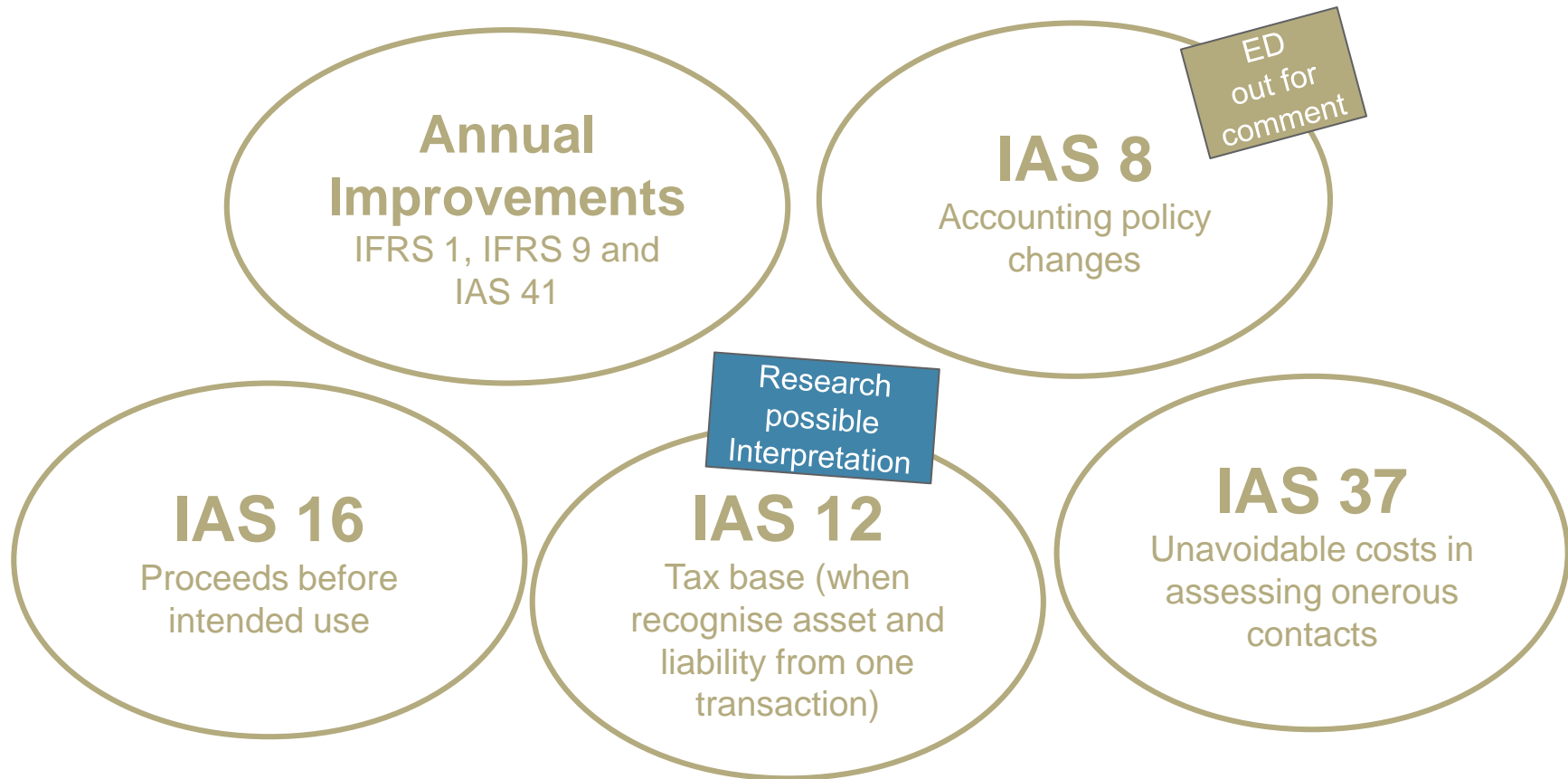
¹ Effective date: 1 January 2019

Other implementation and maintenance projects

Ongoing implementation and maintenance projects

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A sample:



IFRS Interpretations Committee's approach in responding to questions submitted

The Committee works with the Board in supporting implementation ¹

For each question submitted, the Committee considers whether narrow-scope standard-setting is required (due process requirement)

In all cases, the Committee aims to help stakeholders obtain a common understanding of the requirements and their application

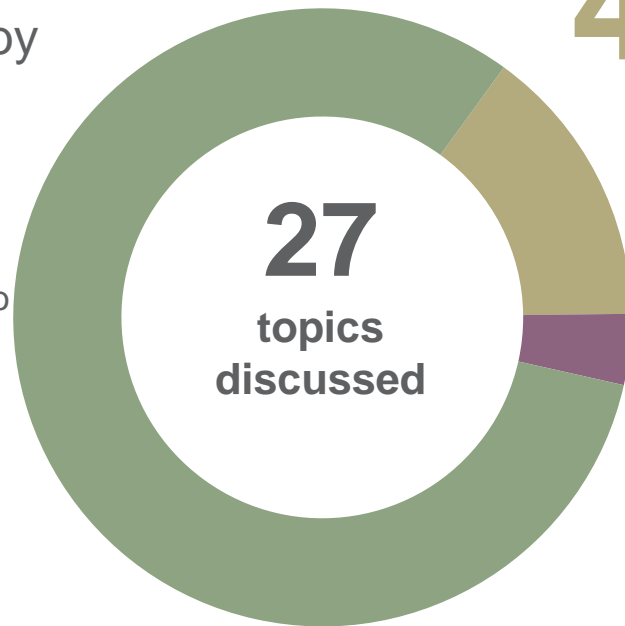
¹ See the Board's objective in supporting the Standards on slide 5

Overview of 2017 activities

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addressed by
Committee

- 16 agenda decisions with explanatory material amendments or additions to IFRS Standards
- 6



4

considered by the Board

- 2 considered by Board as part of research projects
- 1 addressed by Board as part of another narrow-scope amendment
- 1 being considered by Board

1

Committee provided input on Board project

5 Committee meetings held in 2017

If conclude that principles and requirements provide an adequate basis to determine accounting:

Include explanatory material in agenda decisions that aims to help stakeholders to obtain common understanding

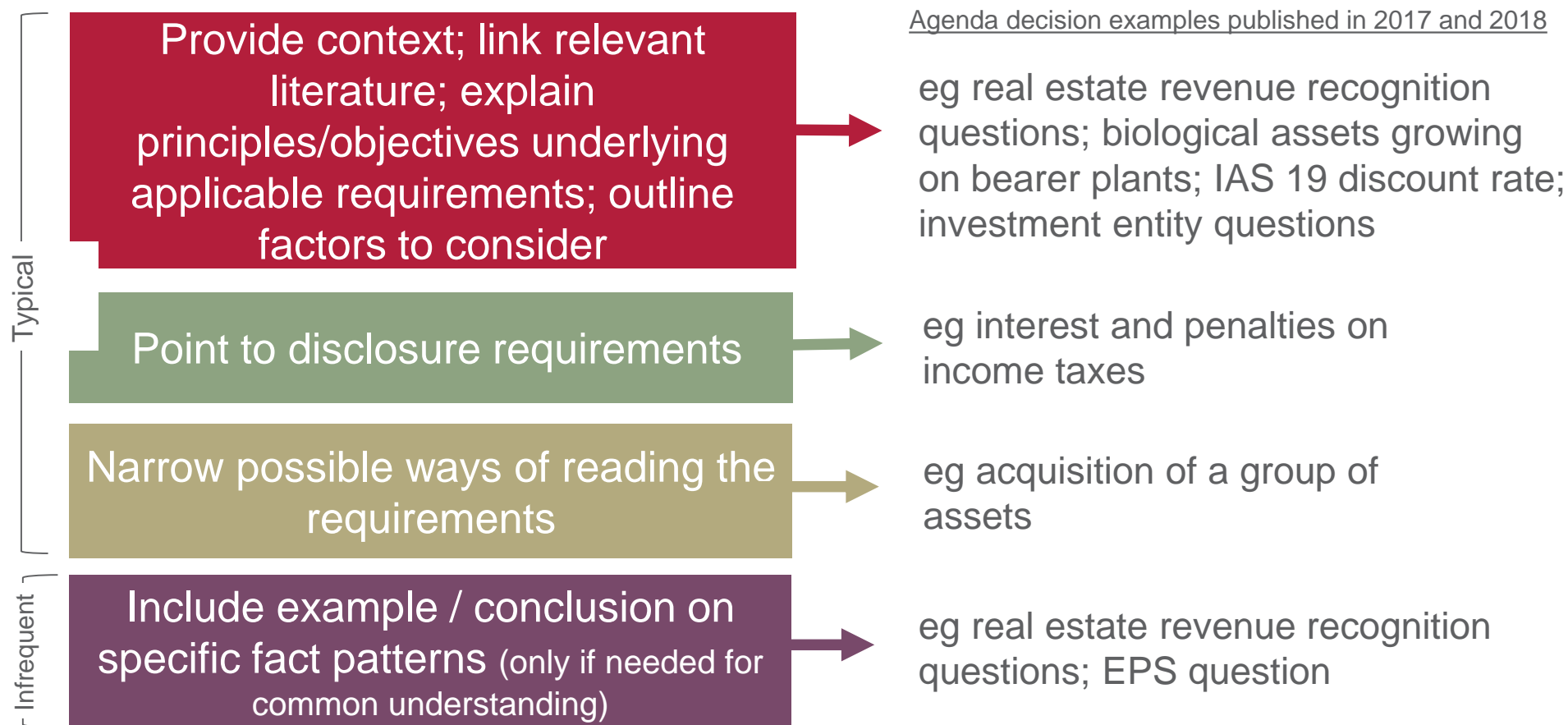
=> The explanatory material can shed additional light on a question by providing context and linking together relevant pieces of Board's literature



Often:
agenda decisions point to applicable principles and requirements, and provide context



Infrequent:
agenda decisions will go further and also provide examples or conclusions on specific fact patterns



When does the Committee not provide explanatory material in agenda decisions?

When the question is too broad for the Committee to address ¹

⇒ reported to the Board for it to consider

Eg fund manager's assessment of significant influence

OR

When the question is highly-specific and not widespread (ie when there is no wider question on which the Committee can helpfully provide explanation) ¹

Eg classification of a particular type of dual currency bond

In these cases, agenda decisions will still provide explanatory material where possible

Eg commodity loan transactions

¹ These scenarios are relatively uncommon

Agenda Decisions (cont.)

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- Recent examples of Agenda Decisions
- See attached: IFRIC Update March 2018 (Agenda paper 4.2(i))

IFRIC® Update

From the IFRS® Interpretations Committee

March 2018

Welcome to the March IFRIC Update

The IFRIC Update is a summary of the decisions reached by the IFRS Interpretations Committee (Committee) in its public meetings.

Decisions on an IFRIC Interpretation become final only after the Committee has taken a formal vote on the Interpretation. IFRIC Interpretations require ratification by the International Accounting Standards Board (Board).

The Committee met in London on 13 March 2018, and discussed:

- [Items on the current agenda](#)
- [Deferred tax – tax base of assets and liabilities \(IAS 12 Income Taxes\) — Agenda Paper 4](#)
- [Costs considered in assessing whether a contract is onerous \(IAS 37 Provisions, Contingent Liabilities and Contingent Assets\)—Agenda Paper 5](#)
- [Payments relating to taxes other than income tax \(IAS 37 Provisions, Contingent Liabilities and Contingent Assets\)—Agenda Paper 7](#)
- [Committee's tentative agenda decisions](#)
- [Classification of a particular type of dual currency bond \(IFRS 9 Financial Instruments\)—Agenda Paper 8](#)
- [Hedge accounting with lead following swaps \(IFRS 9 Financial Instruments and IAS 39 Financial Instruments—Recognition and Measurement\)—Agenda Paper 9](#)
- [Classification of short-term loans and credit facilities \(IAS 7 Statement of Cash Flows\)—Agenda Paper 6](#)
- [Committee's agenda decisions](#)
- [Presentation of interest revenue for particular financial instruments \(IFRS 9 Financial Instruments and IAS 1 Presentation of Financial Statements\)—Agenda Paper 3](#)
- [Revenue recognition in a real estate contract \(IFRS 15 Revenue from Contracts with Customers\)—Agenda Paper 2C](#)
- [Revenue recognition in a real estate contract that includes the transfer of land \(IFRS 15 Revenue from Contracts with Customers\)—Agenda Paper 2D](#)
- [Right to payment for performance completed to date \(IFRS 15 Revenue from Contracts with Customers\)—Agenda Paper 2E](#)
- [Other matters](#)
- [Responding to questions submitted—Agenda Paper 2B](#)
- [Committee work in progress—Agenda Paper 1Q](#)

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Next IFRS Interpretations Committee meeting

The next meeting is:
9 May 2018

Meeting dates, tentative agendas and additional details about the next meeting will be posted to the IFRS website before the meeting. Further information about the activities of the IFRS Interpretations Committee and instructions for submitting requests to the IFRS Interpretations Committee can be found [here](#).

Archive of IFRIC Update

For archived copies of past issues of IFRIC Update [click here](#).

Resources and communications



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

Join our team



a mission
that matters



working with global
accounting experts



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