



GPF meeting, 6 November 2018
Agenda Paper 1

IASB Technical Update Global Preparers Forum

July – October 2018

Michelle Sansom – Technical Staff

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

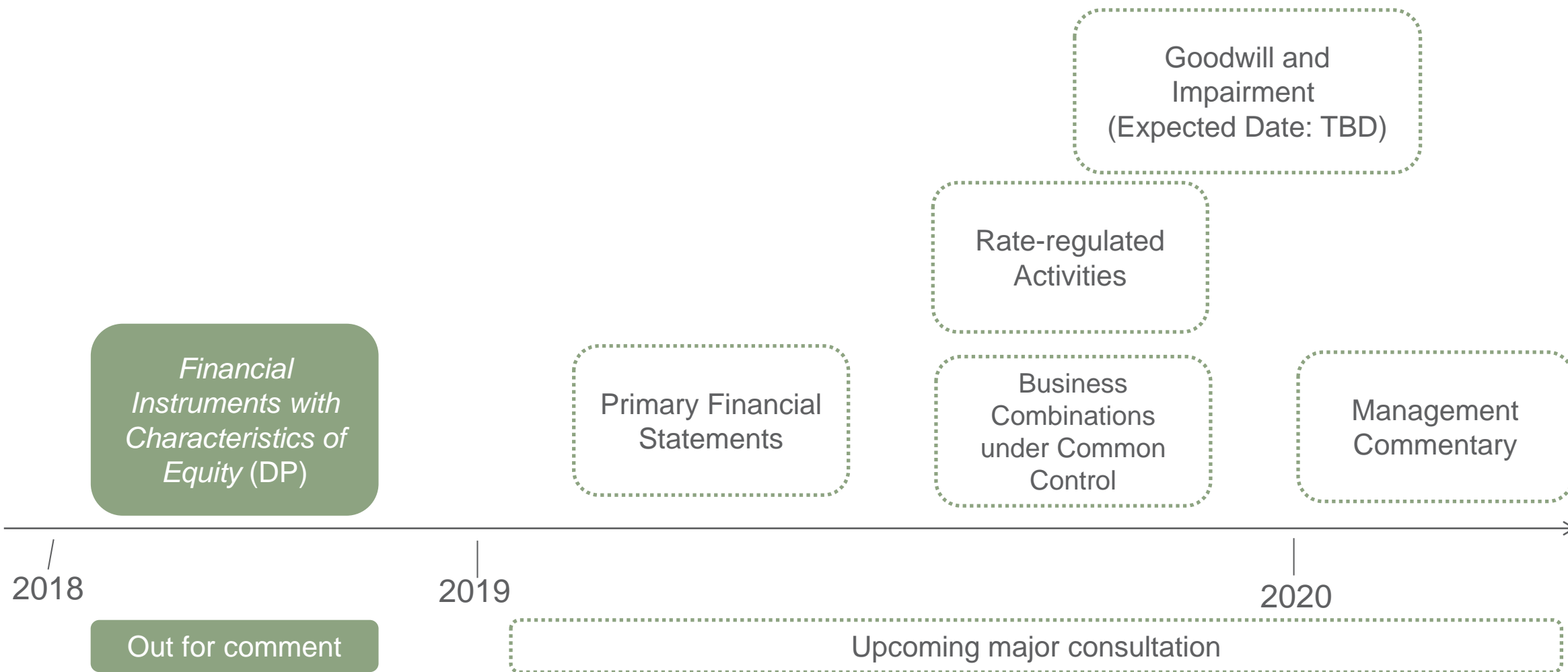


June – October 2018 activities & achievements

2018 publications

Final documents	Consultation documents
<p>Issued June – October</p> <ul style="list-style-type: none">• Definition of a Business (IFRS 3)	<ul style="list-style-type: none">• Proposed IFRS Taxonomy Update—Common Practice (IFRS13) (Comments due 19 November 2018)
<p>Upcoming</p> <ul style="list-style-type: none">• Definition of Material (IAS 1 and IAS 8)	<ul style="list-style-type: none">• <i>Costs Considered in Assessing whether a Contract is Onerous</i> (Exposure Draft: Q4 2018)
<p>Issued year-to-date</p> <ul style="list-style-type: none">• <i>Conceptual Framework for Financial Reporting</i>	<ul style="list-style-type: none">• <i>Financial Instruments with Characteristics of Equity</i> (Discussion Paper: comments due 7 January 2019)

Upcoming major consultations



Definition of a Business

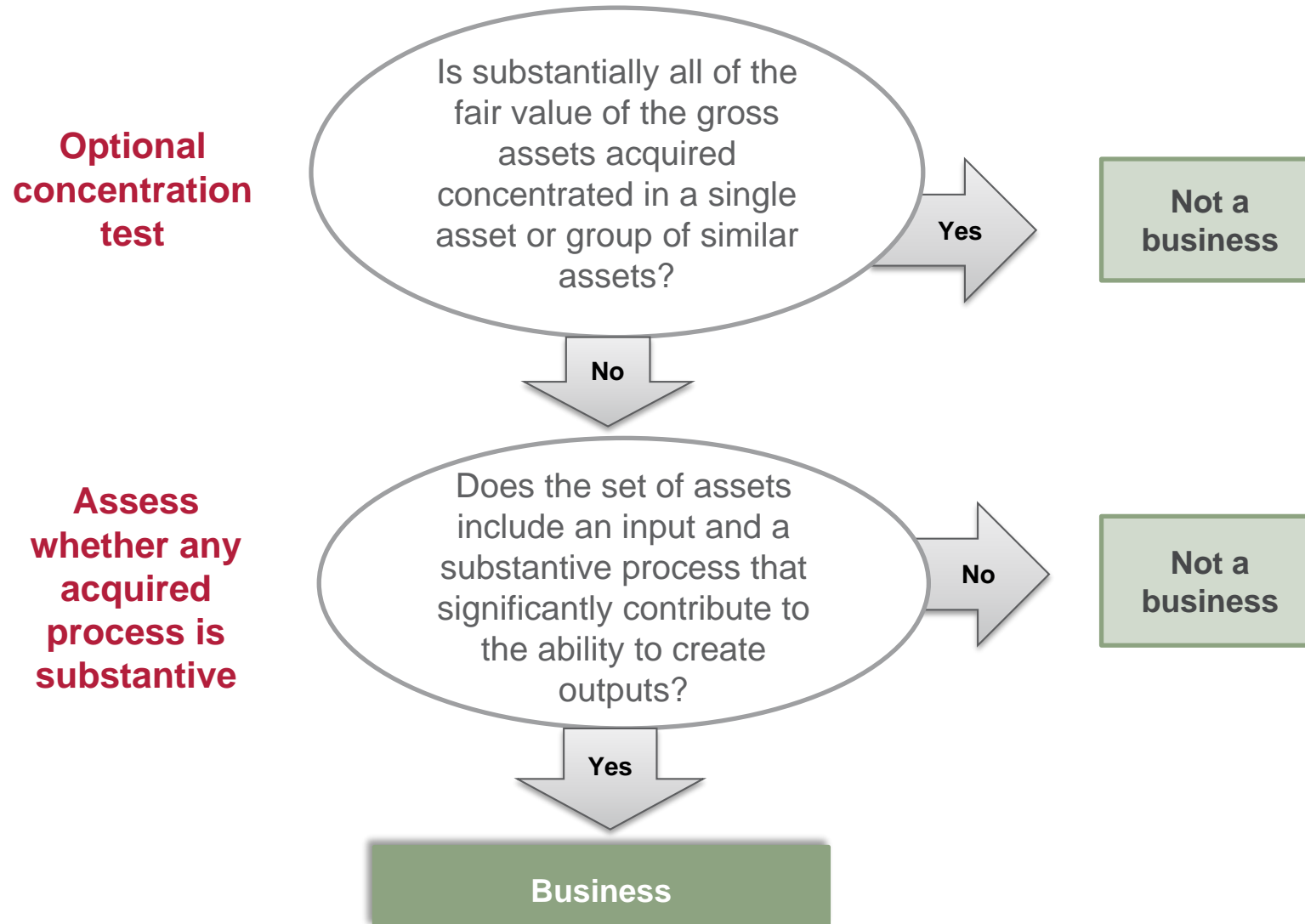
Problem

- Definition is broad
- Lack of guidance when a set of assets is not a business
- Assessing the relevance of processes acquired is difficult
- Set of assets may be a business for some market participants, but not for other market participants
- How to apply definition when acquired entity generates no revenue

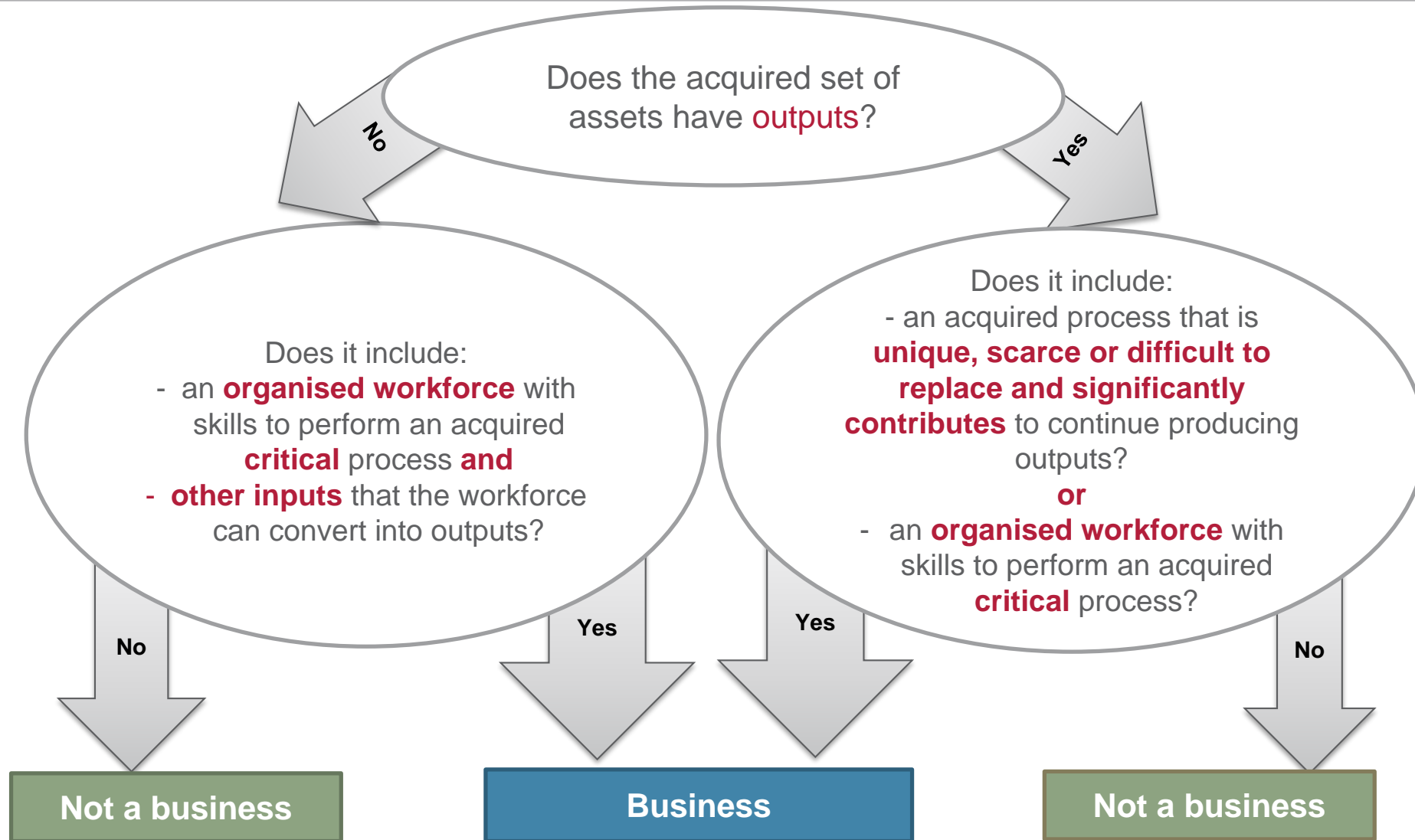
Board approach

- Simplifying and clarifying the application of IFRS 3

Definition of a Business - Solution



Definition of a Business - Assess whether an acquired process is substantive



Active projects

Active projects

Project	Next Milestones	When?
Business Combinations under Common Control	Discussion Paper	H2 2019
Disclosure Initiative—Targeted Standards-level Review of Disclosures	Exposure Draft	
Primary Financial Statements (Agenda item 2)	Discussion Paper or Exposure Draft	H1 2019
Management Commentary (Agenda item 3)	Exposure Draft	H1 2020
Rate-regulated Activities	Discussion Paper or Exposure Draft	H2 2019
Goodwill and Impairment (Agenda item 4)	Discussion Paper or Exposure Draft	
Dynamic Risk Management (DRM)	Core Model	H1 2019
Financial Instruments with Characteristics of Equity (Agenda item 5)	Out for comment	
Interbank Offered Rate (IBOR)	Decide Project Direction	December 2018
Pension Benefits that Depend on Asset Returns	Review Research	H2 2019
Extractive Activities	Review Research	

Business Combinations under Common Control (BCUCC) are excluded from the scope of IFRS 3 *Business Combinations*



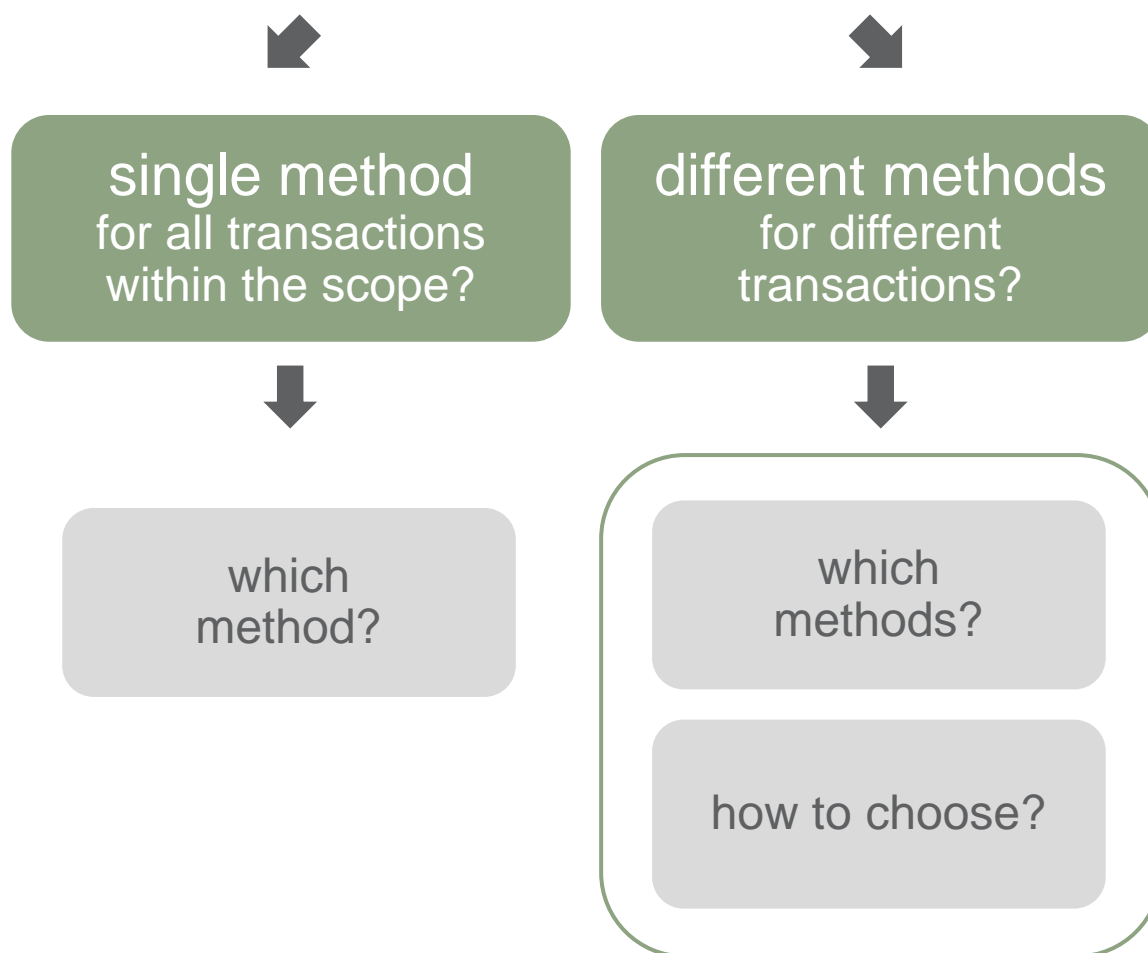
In practice, companies account for BCUCC using:

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

Decision process



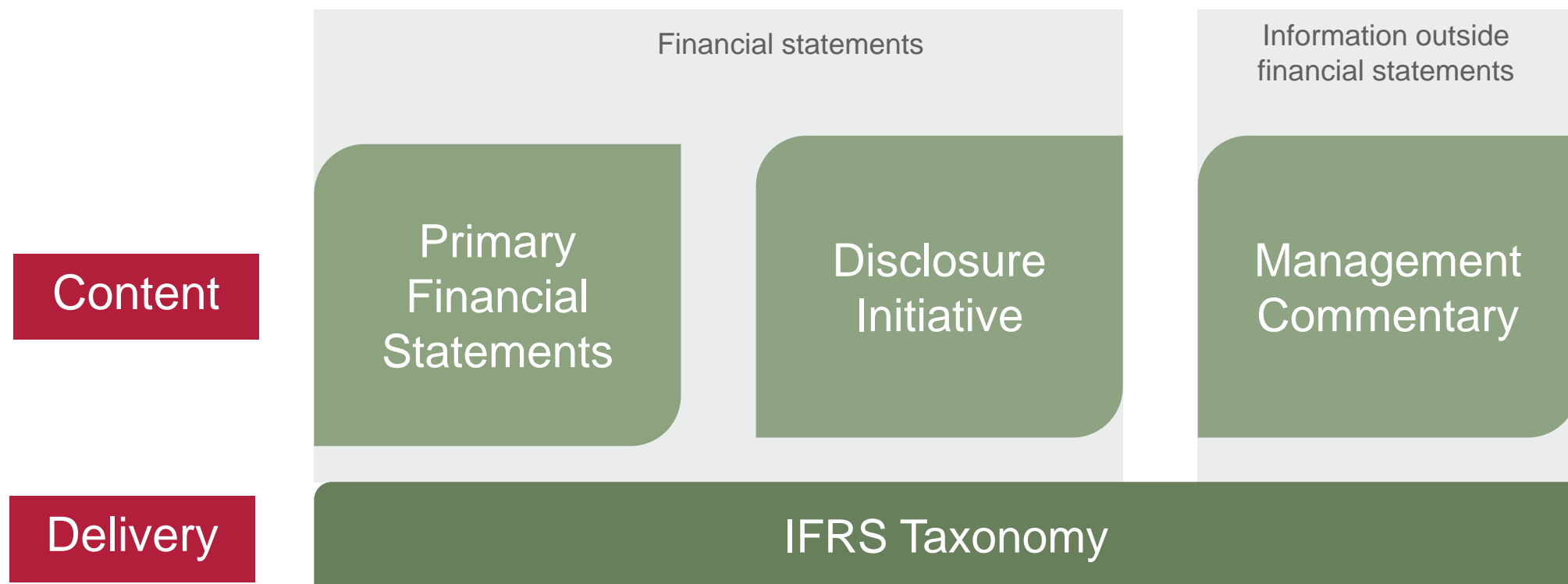
Alternatives to explore

- acquisition method, as in IFRS 3?
- predecessor method? If yes, how to apply it?
- other methods?



Better Communication in Financial Reporting

Better Communication in Financial Reporting





Objective

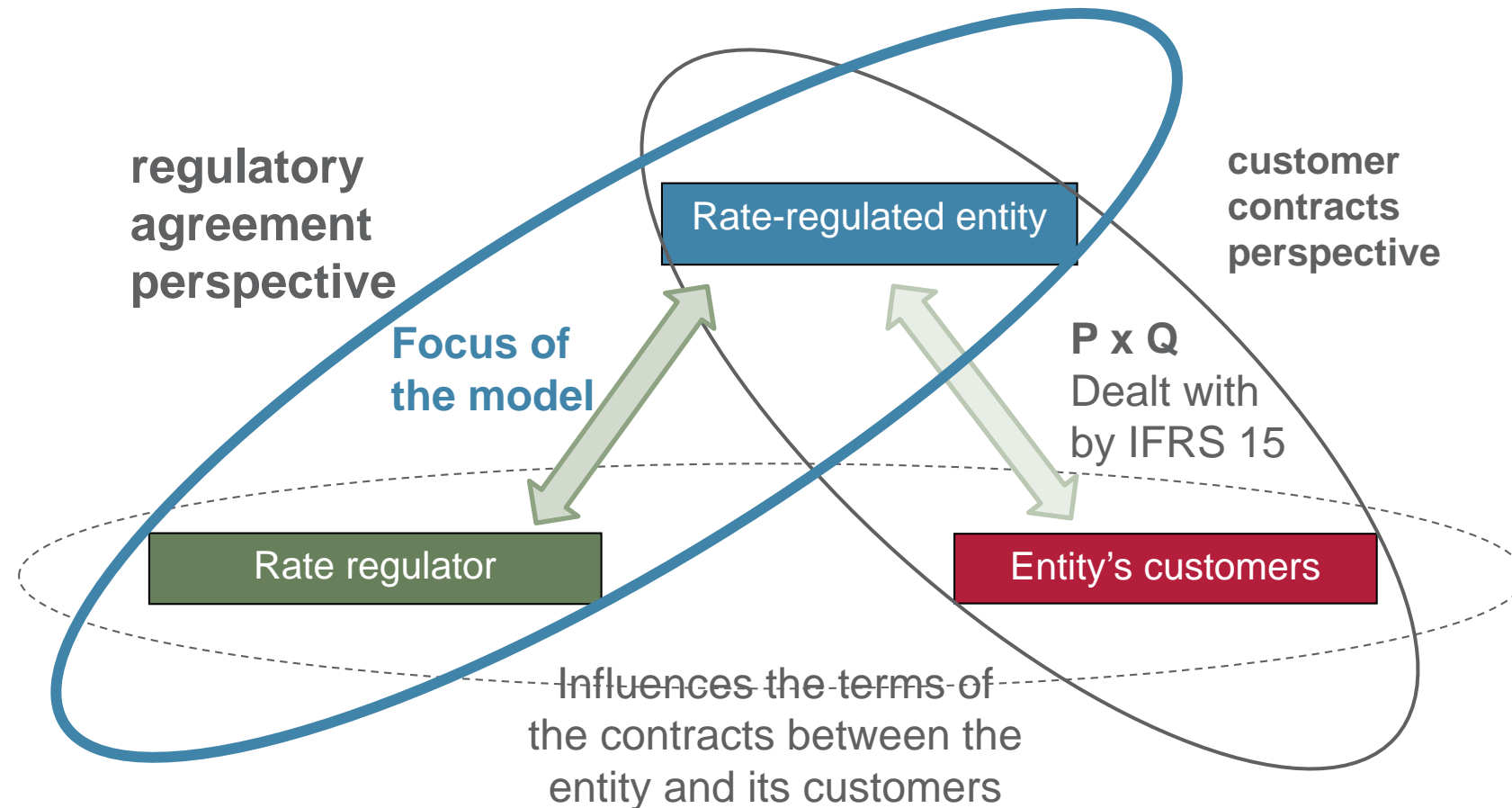
- help stakeholders improve the usefulness of disclosures for primary users
- not to change the volume of disclosure requirements, although this may be a consequence

Guidance for the Board

- the Board will develop the guidance through public discussion
- the Board has selected *IAS 19 Employee Benefits* and *IFRS 13 Fair Value Measurement* to test the draft guidance
- formal stakeholder feedback will be obtained when the guidance is subsequently used as part of standard-setting

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.



Financial instruments

Dynamic Risk Management (DRM)

Objective

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

Guiding principles

- transparency
- consideration of capacity constraints
- dynamic nature
- performance measurement

Focused on solutions involving both measurement and disclosure

Approach to developing the DRM model

Current stage (July 2018)

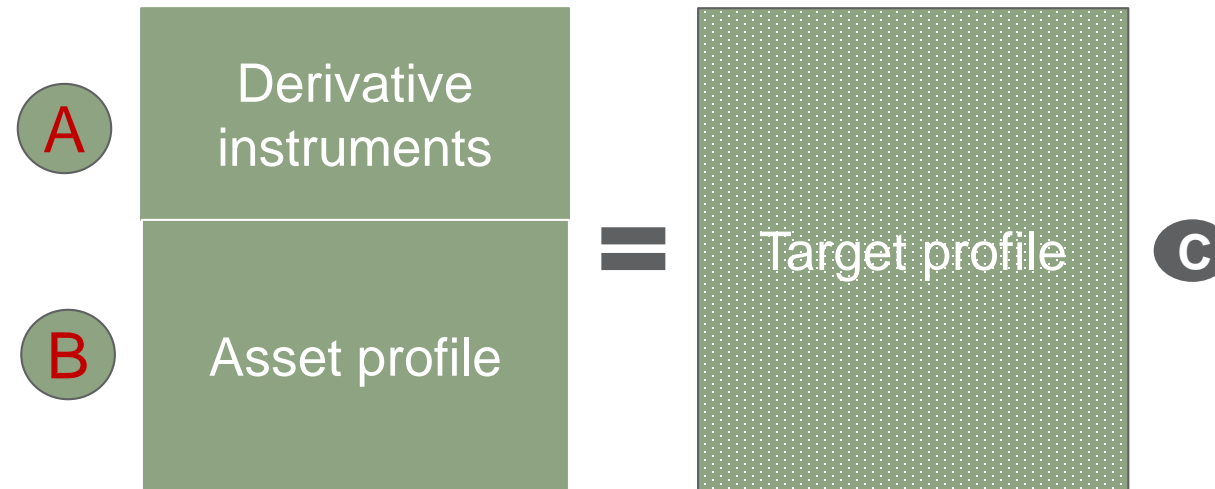
- develop the 'core areas' that will shape the fundamentals of the DRM model:
 - asset profile
 - target profile
 - derivatives used for DRM purposes
 - performance assessment → current stage

Next stage

- seek feedback on the 'core version' of the model before developing the 'non-core areas'. These include:
 - financial assets at FVOCI
 - equity as a source of funding

Outline of the DRM model

Assuming perfect alignment:



- Asset profile (B) measured at amortised cost (per IFRS 9)
- Changes in fair value of derivative instruments (A) are recognised in OCI and reclassified to P&L over the time horizon of the target profile
- P&L reflects the target profile

Definition

- financial assets managed on a portfolio basis for interest rate risk

Tentative Board Decision (February 2018)

- formal designation and documentation required
- portfolios must share similar risk characteristics, separate portfolios are required for:
 - different currencies
 - existence of prepayment features
- must comprise financial assets measured at amortised cost under IFRS 9
- designation of future transactions is permitted as long as they are highly probable

Definition

- defined by the entity's risk management strategy, which is influenced by an entity's financial liabilities (including demand deposits)
- target profile represents management's objective for a given asset profile

Tentative Board Decision (March & April 2018)

- formal designation and documentation is required
- portfolios must share similar risk characteristics, separate portfolios required for:
 - different currencies
 - core demand deposits
- must comprise financial liabilities measured at amortised cost under IFRS 9
- designation of future transactions is permitted as long as they are highly probable
- notional amount of asset profile and target profile must be equal

Interbank Offered Rate (IBOR)

Challenge

- market developments question the long-term viability of interest rate benchmarks, such as LIBOR

Objective

- monitor market developments and determine whether there are any implications for the existing accounting requirements; if so decide whether the Board should take action

Board's decision

- the discontinuance of IBOR could impact across financial markets and stakeholders are starting to ask about financial reporting implications
- at its June 2018 meeting, the Board decided to add a research project to its active research agenda



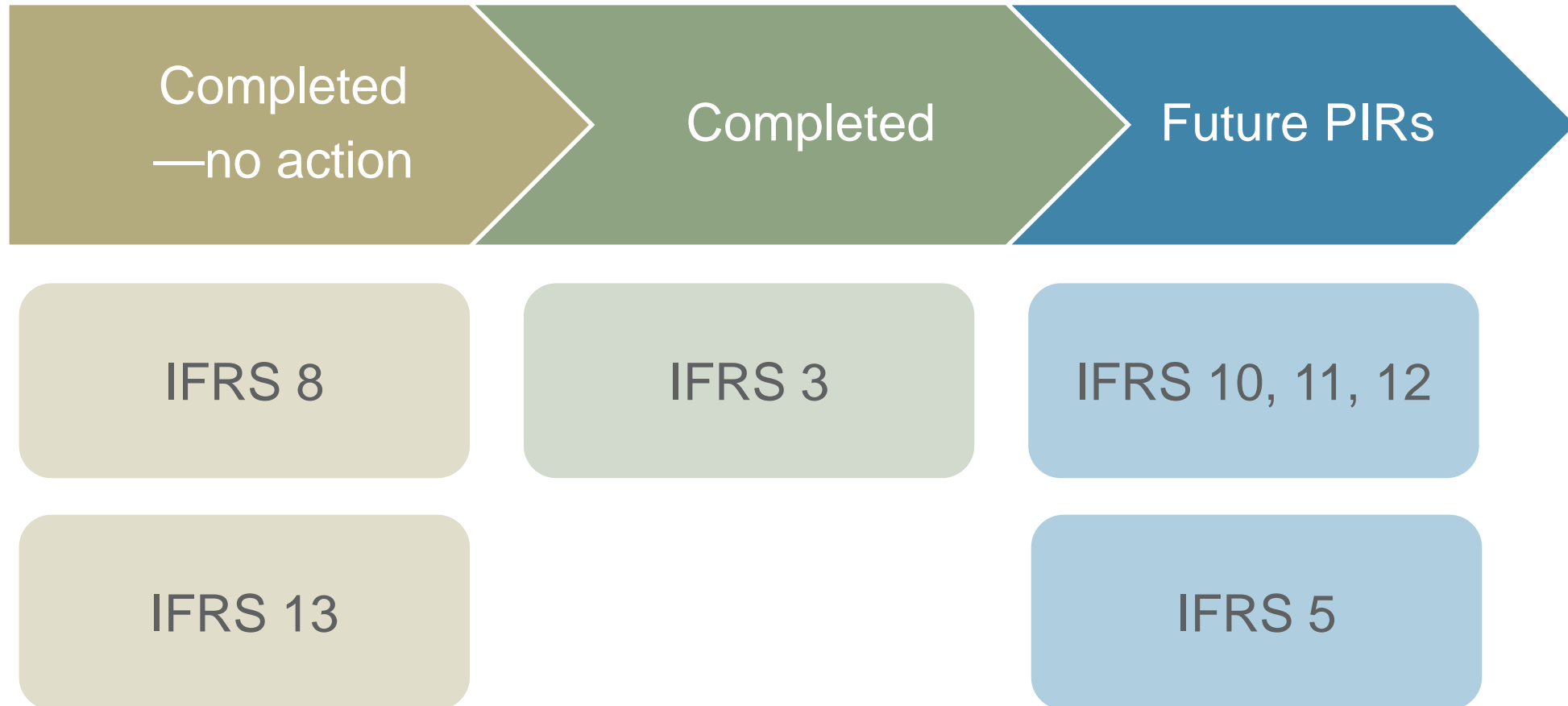
Research pipeline and post-implementation reviews



Research pipeline

Projects starting in coming months	Remaining pipeline projects (to start in 2019-2020)
<ul style="list-style-type: none">• Pension Benefits that Depend on Asset Returns• Provisions• Variable and Contingent Consideration• SMEs that are subsidiaries	<ul style="list-style-type: none">• Equity Method• Pollutant Pricing Mechanisms• High Inflation: Scope of IAS 29

Project	Comments
Provisions	Initial research on IAS 37 is largely complete, plan to update for revised <i>Conceptual Framework</i>
Variable and Contingent Consideration	Cross-cutting issue raised in agenda consultation and in earlier deliberations of other topics. This work may also lead to follow on work on risk-sharing and collaborative arrangements
SMEs that are subsidiaries	Assess whether it is feasible to permit subsidiaries that are SMEs to use: <ul style="list-style-type: none">• the recognition and measurement of IFRS Standards with• the disclosure requirements for SMEs
Equity Method	A number of queries over time. Topic to be investigated as part of PIR of IFRS 11 <i>Joint Arrangements</i>
Pollutant Pricing Mechanisms	An analysis of the common economic characteristics of the various mechanisms will be needed
High Inflation: Scope IAS 29	Assess whether it is feasible to extend the scope of IAS 29 to cover economies subject to high, rather than hyper, inflation. No other work is planned on IAS 29



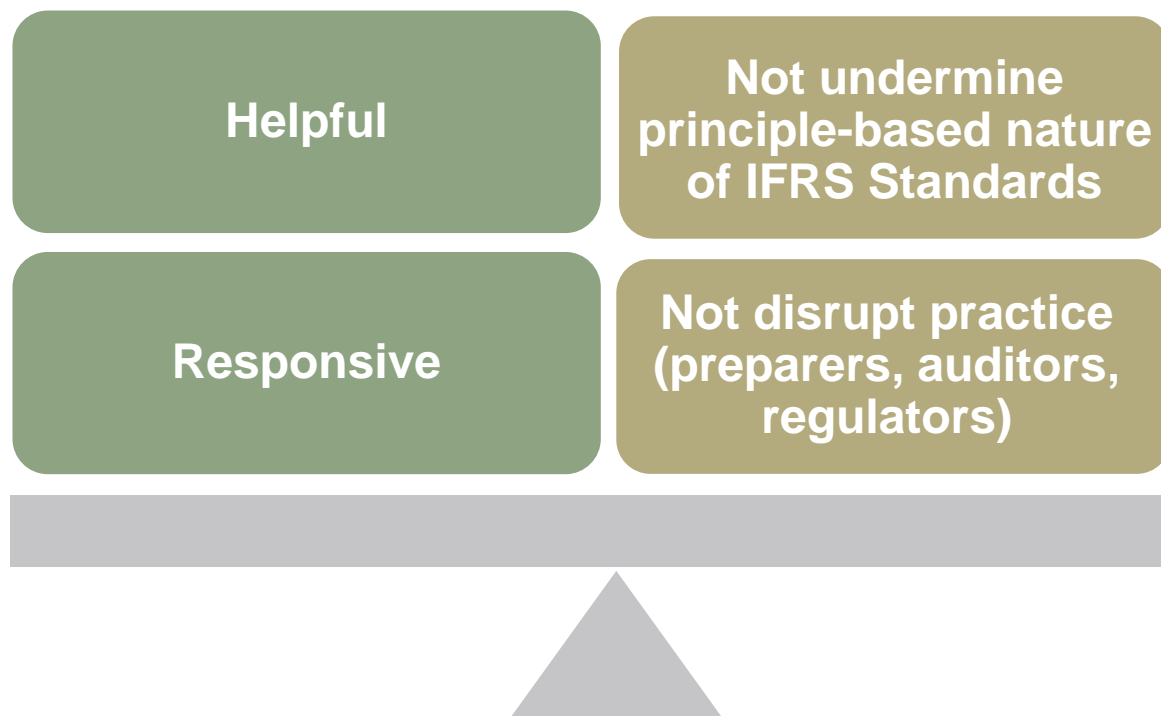
Supporting Implementation

Objective in supporting the Standards



The challenge

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



Maintenance projects—IFRS Standards



Resources available on our website



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

IASB support for IFRS 17 implementation

 <p>Webinars</p>	 <p>Education for</p> <ul style="list-style-type: none">• investors• regulators• standard-setters	Informal technical discussions with <ul style="list-style-type: none">• regulators• standard-setters• audit firms
 <p>Articles and other materials</p>		
 <p>Conferences</p>	Board discussions (annual improvements and implementation challenges)	 <p>Dedicated website page</p>
 <p>Transition Resource Group (TRG)</p>	IFRS Interpretations Committee discussions	go.ifrs.org/IFRS-17-implementation

Purpose of the IFRS 17 TRG

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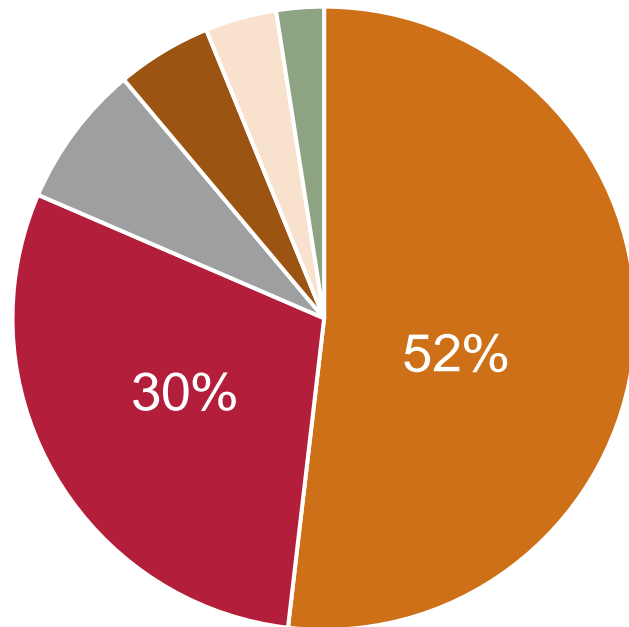
Public forum for discussion of submitted questions

Helps companies to implement IFRS 17

Helps the Board to identify if more support is needed

Webcasts, papers and summaries available on web site

Overview of submissions received on IFRS 17



- 42 - Topic specific TRG papers
- 24 - Answered applying only the words in IFRS 17
- 6 - Did not meet the submission criteria
- 4 - Implementation challenges
- 3 - Identified annual improvements or editorial corrections
- 2 - Resulted in educational materials

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submissions as at September 2018



Next steps on IFRS 17

- **October Board** meeting
 - understand concerns and implementation challenges
 - consider criteria **if** Board decides to explore amending IFRS 17
- **Future Board meetings**
 - consider **whether** any concerns and implementation challenges indicate that there might be a need to amend IFRS 17 (including effective date)
- Ongoing activities to support IFRS 17 implementation

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