

IASB Technical Update

Agenda ref: WSS2

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World
Standard-setters
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2018

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Overview

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- 2017–2018 activities & achievements
- Better Communication in Financial Reporting
- Active projects
- Supporting implementation
- The *IFRS for SMEs* Standard
- Technology Initiative



2017–2018 activities & achievements



2018 publications

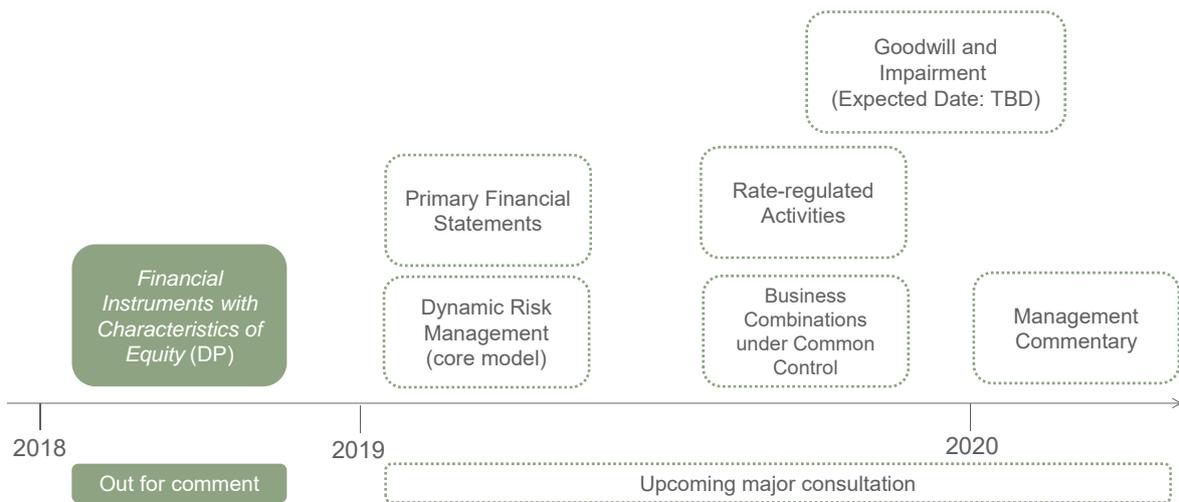
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Final documents	Consultation documents
<ul style="list-style-type: none">• <i>Conceptual Framework for Financial Reporting</i> <p>→ Upcoming</p> <ul style="list-style-type: none">• Definition of a Business (IFRS 3)• Definition of Material (IAS 1 and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

Conceptual Framework for Financial Reporting

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	 Issued March 2018

Upcoming major consultations



Better Communication in Financial Reporting



Central theme of our work

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Better Communication in Financial Reporting



Primary Financial Statements—in scope

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Statement(s) of financial performance

EBIT subtotal

'Income/expenses from investments' category

Guidance on presentation of management performance measure

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



Primary Financial Statements—out of scope

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Statement of financial position

No planned change, except for templates and greater disaggregation

Statement of changes in equity

But FICE project looks at some issues



Disclosure Initiative—the problem

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



Disclosure Initiative—projects

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Help at hand—disclosure case studies

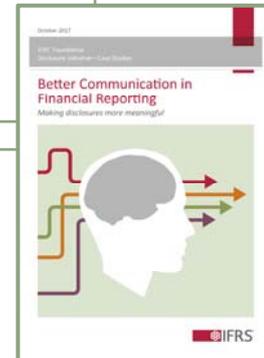
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Purpose

- demonstrate that **better communication is already possible**
- inspire others to improve communication

Content

- focuses on the **seven principles of effective communication** from the Principles of Disclosure Discussion Paper
- shows how companies disclosed information before and after enhancing communication in their financial statements
- **describes** how companies improved the way they communicate (**the process**)



Principles of Disclosure

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Objective

- identification of disclosure issues

Outcomes

- new project—**Targeted Standards-Level Review of Disclosures**
- develop guidance to help entities decide which **accounting policies** to disclose
- move presentation topics to **Primary Financial Statements**

Next Step

- publish feedback statement



Targeted Standards—level Review of Disclosures

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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



Help at hand—Making Materiality Judgements

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Purpose

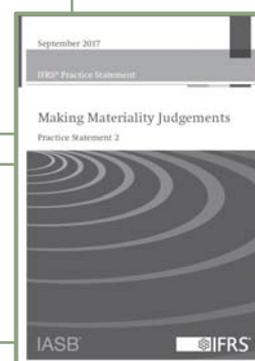
- provide guidance to companies on **making materiality judgements** when preparing financial statements using IFRS Standards

Content

- **'one-stop shop'** for all the requirements on materiality in IFRS Standards
- additional **practical guidance and examples**

Next Step

- guidance on which accounting policies to disclose



Management Commentary

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Management commentary—
a narrative report that provides broader financial value relevant information useful to primary users of financial statements

The IFRS Taxonomy

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The IFRS Taxonomy reflects the presentation and disclosure requirements of IFRS Standards/*IFRS for SMEs* Standard and related common reporting practice in a timely and accurate manner

consists of **'elements'** that are used by preparers to tag the information in IFRS financial statements

makes IFRS disclosures **more accessible to users** of structured electronic data

facilitates communication between preparers and users

The IFRS Taxonomy—areas of focus

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Common reporting practice

IFRS 13 *Fair Value Measurement*

research XBRL filings to identify additional common practice elements

Implementation support

update to materials, such as *Using the IFRS Taxonomy—A preparer's guide*

implementation guidance for specific elements

Entity-specific disclosures

working with XBRL International to improve accessibility of entity-specific disclosures in a structured report

The impact of new or amended IFRS Standards on the IFRS Taxonomy in the next 12 months is expected to be limited



Active projects



Active projects

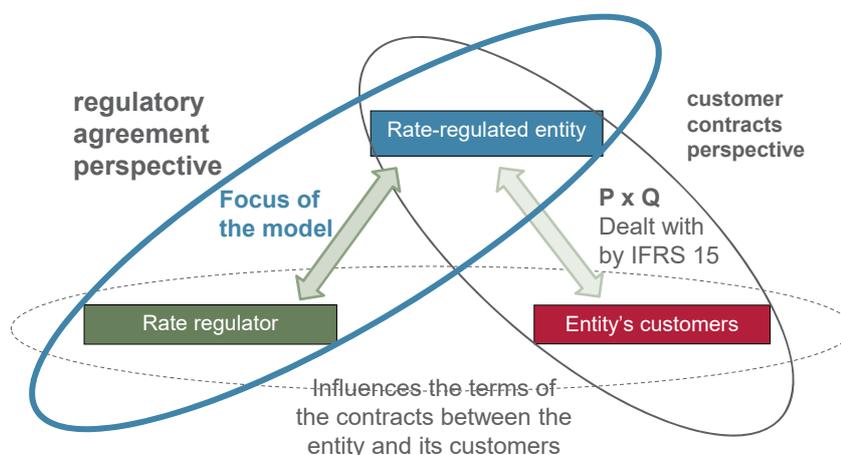
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Project	Target	Reference
Better Communication	see previous slides	Page 7-19
Rate-regulated Activities	DP or ED H2 2019	Page 22-23
Business Combinations under Common Control	DP H2 2019	Page 24-25
Goodwill and Impairment	DP or ED	Page 26
Financial Instruments with Characteristics of Equity (FICE)	DP Feedback H1 2019	Page 28-31
Dynamic Risk Management (DRM)	Core Model H1 2019	Page 32-36
Interbank Offered Rate (IBOR)	Decide Project Direction Q4 2018	Page 37

Rate-regulated Activities—the regulatory agreement

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



Rate-regulated Activities—the model being developed

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Challenge

- how should companies recognise assets and liabilities arising from the effects (timing and amount) of **defined rate regulation**?

Project scope

Regulatory framework that:

- is **binding** for both company and regulator
- establishes a **rate-setting mechanism** for goods or services that creates assets and liabilities due to **timing differences** arising when the regulated rate in **one period** includes amounts relating to required activities carried out by the entity in a **different period**

Supplementary model

would not amend existing IFRS Standards

Board discussions throughout 2018

Output
Discussion Paper or Exposure Draft in 2019



Business Combinations under Common Control

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



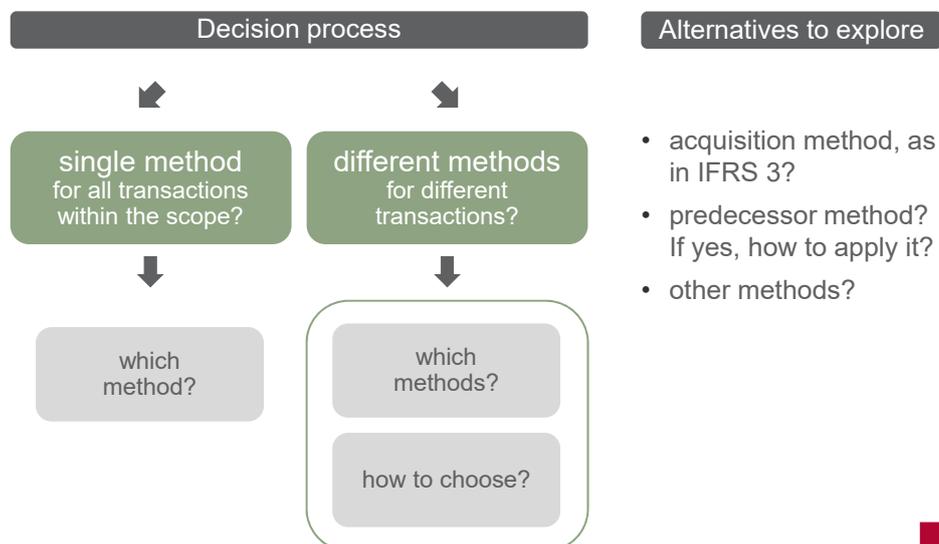
In practice, companies account for BCUCC using:

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





Goodwill and Impairment

- ✓ Three objectives the Board decided to pursue for addressing the interrelated problems identified in the research phase of this project:

Objective A	<p>identifying disclosures to enable investors to assess:</p> <ul style="list-style-type: none"> • management’s rationale for the business combination • if the post-acquisition performance of the business combination meets expectations set at the acquisition date
Objective B	<p>simplifying the accounting for goodwill by:</p> <ul style="list-style-type: none"> • permitting an indicator-only approach as to whether an impairment test is required • exploring whether to reintroduce amortisation of goodwill
Objective C	<p>improving the calculation of value in use by permitting:</p> <ul style="list-style-type: none"> • cash flow projections that may include future enhancements to the asset • the use of post-tax inputs in the calculation of value in use

Financial instruments



Financial Instruments with Characteristics of Equity (FICE)

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Challenges

- IAS 32 works well for most financial instruments, but challenges applying it to complex financial instruments
- limited information available to investors about equity instruments
- no clear rationale for classification

Response

- articulate classification principles—clear rationale
- limit changes to IAS 32
- propose additional information through presentation and disclosure

FICE—the Board’s preferred approach to classification (1)

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A financial instrument issued by an entity is a financial liability if the answer is yes to one or both of the following questions

Can the issuer be required to pay cash or to hand over another financial asset before liquidation?

Timing feature

Has the issuer promised a return to the instrument’s holder regardless of the issuer’s own performance or share price?

Amount feature

Otherwise, it is an equity instrument

FICE—the Board’s preferred approach to classification (2)

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	Amount feature		
Timing feature		contains obligation for <u>an amount independent</u> of the entity’s available economic resources	contains <u>no</u> obligation for an amount independent of the entity’s available economic resources
transfer of economic resources required at a specified time other than at liquidation		Liability	Liability
transfer of economic resources required <u>only at liquidation</u>		Liability	Equity

	Amount feature	contains obligation for <u>an amount</u> independent of the entity's available economic resources	contains <u>no</u> obligation for an amount independent of the entity's available economic resources	
	Timing feature			
	transfer of economic resources required at a specified time other than at liquidation	Liability	Liability	present income and expenses from this type of financial liabilities in OCI
	transfer of economic resources required <u>only at liquidation</u>	Liability	Equity	attribute P&L and OCI to derivative equity instruments to show value transfers

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

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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

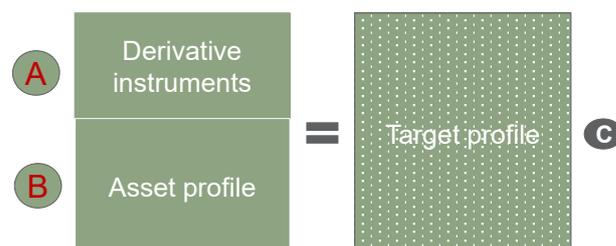
Next stage

- 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

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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

DRM—Asset profile

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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

DRM—Target profile

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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)

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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

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Projects starting in coming months	Remaining pipeline projects (to start in 2019-2020)
<ul style="list-style-type: none"> • Extractive Activities • 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

Research pipeline

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Project	Comments
Extractive Activities	Important globally and particularly in some jurisdictions. A permanent solution is needed to fill a gap
Pension Benefits that Depend on Asset Returns	Assess whether it is feasible to develop an approach for benefits that depend on asset returns: cash flows included in the measurement of the benefit would not exceed the discount rate. No other work is planned on IAS 19
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: the recognition and measurement of IFRS Standards with the disclosure requirements for SMEs

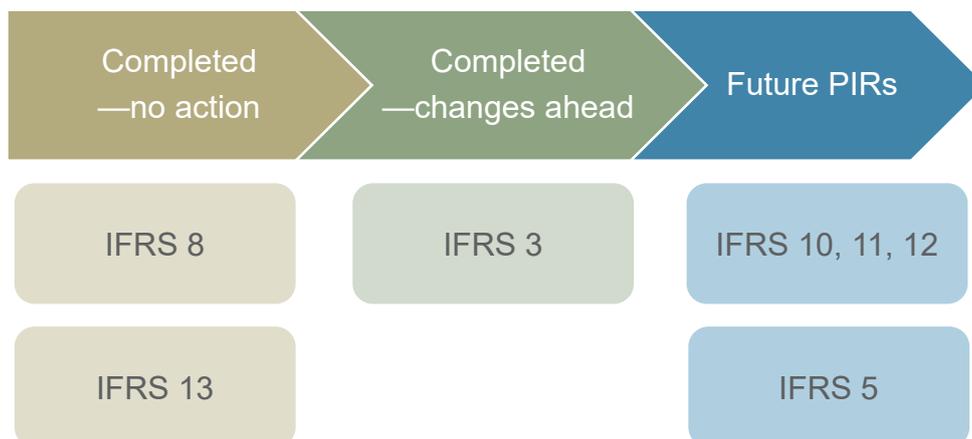
Research pipeline

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Project	Comments
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 of 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

Post-implementation reviews

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Supporting Implementation



Why we support implementation

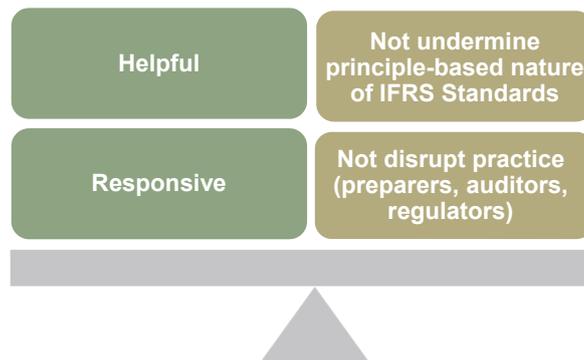
Objective in supporting the Standards



The challenge

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



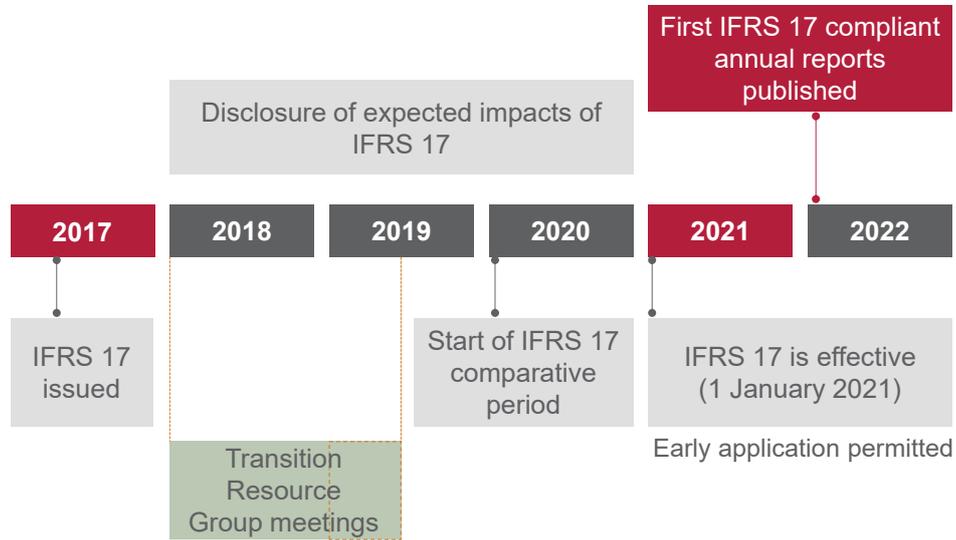
Support for new Standards

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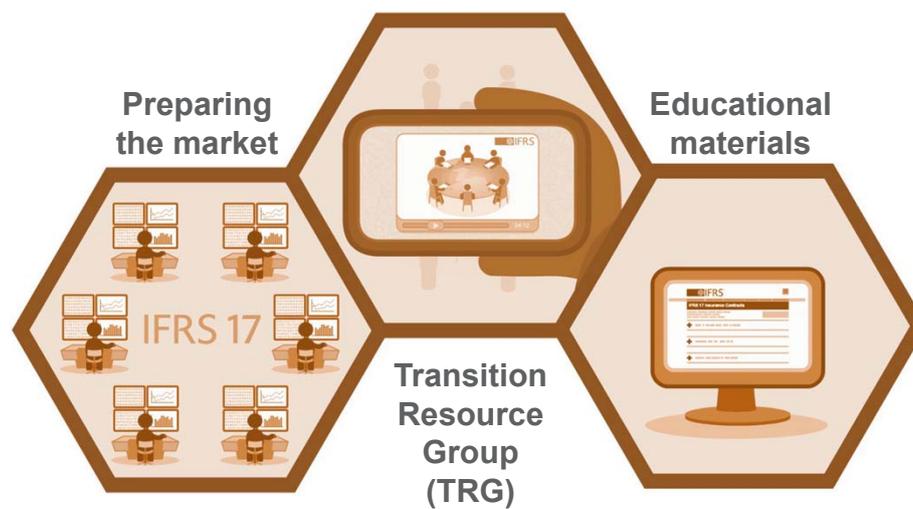
IFRS 17 timeline

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IASB support for IFRS 17 implementation

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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

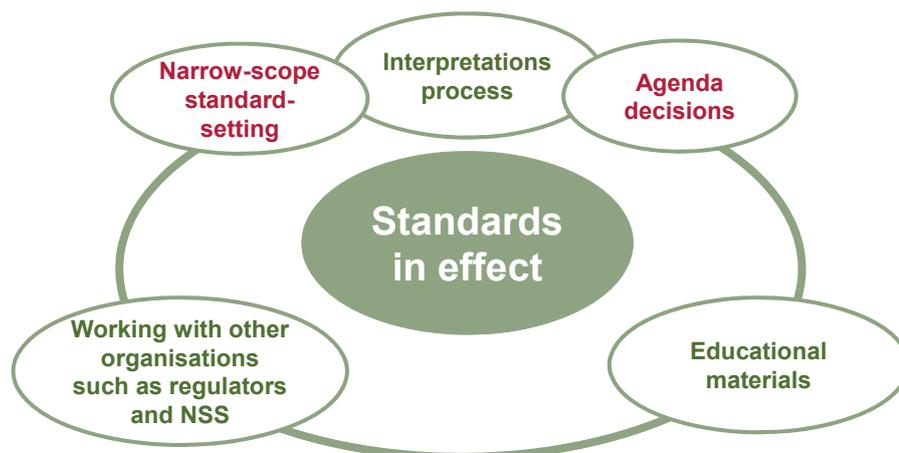
3 meetings to date

Webcasts, papers and summaries available for each meeting

Next meeting December 2018

Support for Standards in effect

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Overview of 2018 activities (to date)

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5 Committee meetings held in 2018 (to-date); one further meeting to be held in November 2018.

2017—2018 Amendments & Interpretations

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Topic	Effective date
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	1 January 2019
Plan Amendment, Curtailment or Settlement (Amendment to IAS 19)	1 January 2019
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019
Annual Improvements 2015-2017 <ul style="list-style-type: none"> • Amendments to IFRS 3 and IFRS 11: Previously Held Interests in a Joint Operation • Amendments to IAS 12: Income Tax Consequences of Payments on Instruments Classified as Equity • Amendments to IAS 23: Borrowing costs eligible for capitalisation 	1 January 2019

Maintenance Projects

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Project	Next milestone	Expected date
Definition of a Business (Amendments to IFRS 3)	IFRS Amendment	Imminent
Costs Considered in Assessing whether a Contract is Onerous (Amendments to IAS 37)	Exposure Draft	Q4 2018
Accounting Policies and Accounting Estimates (Amendments to IAS 8)	Decide project direction	October 2018
Accounting Policy Changes (Amendments to IAS 8)	Exposure Draft Feedback	Q4 2018
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	IFRS Amendment	TBD
Availability of a Refund (Amendments to IFRIC 14)	IFRS Amendment	TBD
Annual Improvements (next cycle) <ul style="list-style-type: none"> • Fees in the '10 percent' test for Derecognition (Amendments to IFRS 9) • Lease Incentives (Amendment to Illustrative Example 13 accompanying IFRS 16) • Subsidiary as a First-time Adopter (Amendments to IFRS 1) • Package of annual improvements (Amendments to IFRS 17) • Taxation in Fair Value Measurements (Amendments to IAS 41) 	Exposure Draft	TBD
Classification of Liabilities as Current or Non-current	Decide Project Direction	TBD

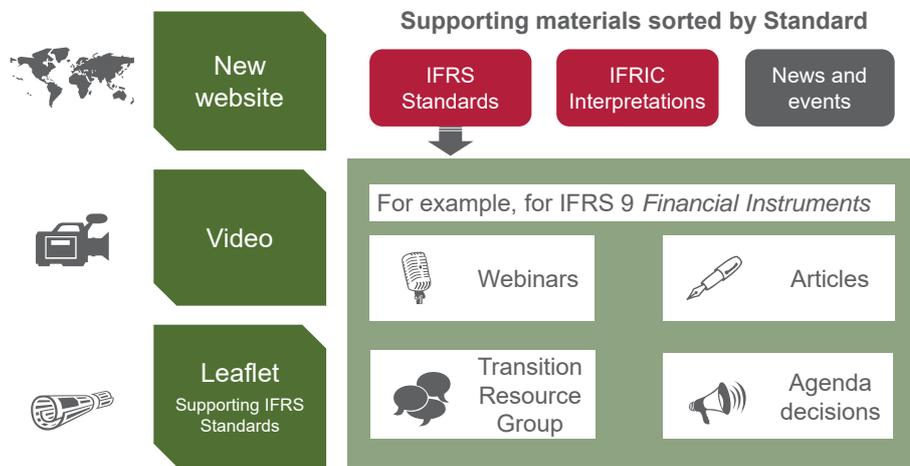


Supporting resources



Resources available on our website

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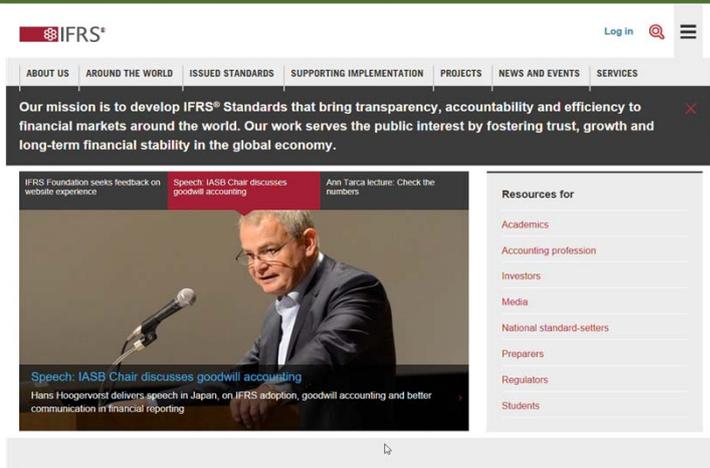
www.ifrs.org/supporting-implementation/supporting-materials-by-ifrs-standard/ifrs-9/



Finding agenda decisions—Path 1

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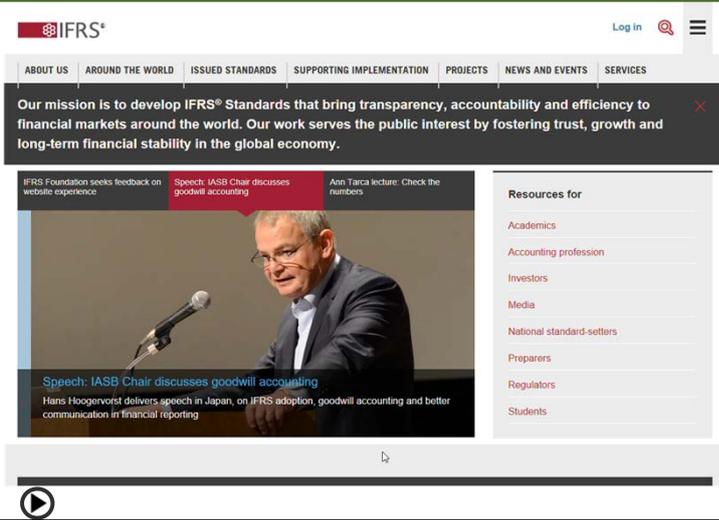
IFRS Home > Supporting Implementation > How the IFRS Interpretations Committee helps implementation > All Agenda Decisions



Finding agenda decisions—Path 2

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IFRS Home > Supporting Implementation > Supporting materials by IFRS Standard and IFRIC Interpretations > 'IFRS Standards' tab



The Annotated IFRS® Standards

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The Annotated IFRS® Standards—
Standards Issued 1 January 2018
(The Annotated Red Book)



The Annotated IFRS® Standards—
Required 1 January 2018
(The Annotated Blue Book)



The *IFRS for SMEs* Standard



The *IFRS for SMEs* Standard

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Current

- *IFRS for SMEs* published July 2009
- amendments May 2015 based on first comprehensive review
 - few significant issues were identified
 - a limited number of targeted improvements made

Next Stage

- comprehensive review starting 2019
- SMEs that are subsidiaries

Other *IFRS for SMEs* Implementation Support

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Implementation Support

- implementation questions can be submitted at any time
 - referred to SME Implementation Group (SMEIG) if likely to meet criteria in paragraph 15 of SMEIG Terms of Reference and Operating Procedures; or
 - considered when updating education materials

The *IFRS for SMEs* Standard—training materials

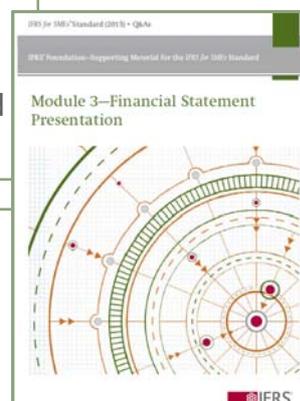
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Purpose

- one module for each section of the Standard
- designed to support anyone learning about, applying, or reading financial statements prepared using, the *IFRS for SMEs* Standard.

Each module includes

- the Standard requirements
- significant estimates and other judgements
- comparison with full IFRS Standards
- comprehensive examples and activities

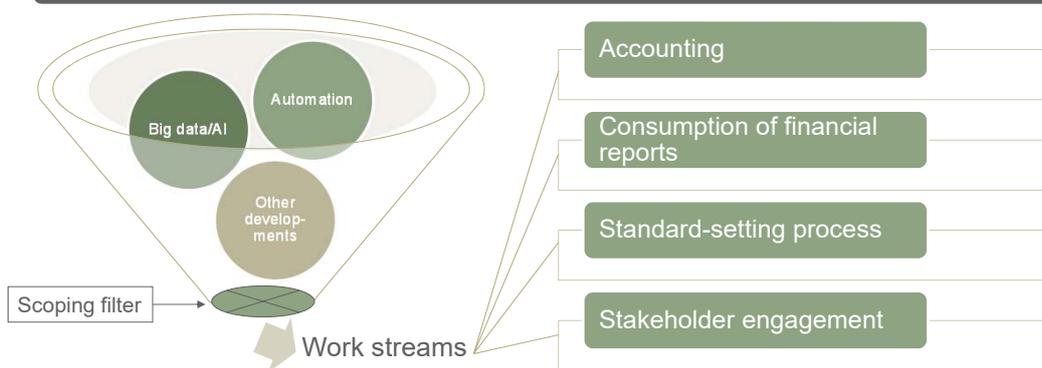




Technology Initiative

IFRS Foundation Technology Initiative

1. Scoping



2. Strategy development

3. Execution

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