IASB Update December 2018

This IASB *Update* highlights preliminary decisions of the International Accounting Standards Board (Board). The Board's final decisions on IFRS® Standards, Amendments and IFRIC® Interpretations are formally balloted as set forth in the *Due Process Handbook* of the IFRS Foundation and the IFRS Interpretation Committee.

The Board met on Tuesday 11 and Thursday 13 December 2018 at the IFRS Foundation's offices in London.

The topics, in order of discussion, were:

- Insurance Contracts
- Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)
- Provisions
- Dynamic Risk Management
- Business Combinations under Common Control
- Primary Financial Statements
- Research Programme
- Pension Benefits
- IBOR Reform and its Effects on Financial Reporting
- Rate-regulated Activities
- Disclosure Initiative: Accounting Policies
- Implementation matters—Accounting Policy Changes

Insurance Contracts (Agenda Paper 2)

The Board held an education session on 11 December 2018 to discuss the treatment of future cash flows in the measurement of reinsurance contracts held in IFRS 17 *Insurance Contracts*. The Board was not asked to make any decisions.

The Board met on 13 December 2018 to continue its discussions on IFRS 17.

The Board tentatively decided to amend the requirements in IFRS 17 so that the presentation of insurance contract assets and liabilities in the statement of financial position is determined using portfolios of insurance contracts rather than groups of insurance contracts.

Thirteen of 14 Board members agreed and one disagreed with this decision.

The Board tentatively decided not to amend the requirements in IFRS 17 relating to the following topics:

- the presentation and measurement of premiums receivable and claims payable. All 14 Board members agreed with this decision.
- the discount rates used to determine the adjustments to the contractual service margin. All 14 Board members agreed with this decision.
- the risk adjustment for non-financial risk in consolidated financial statements. Thirteen of 14 Board members agreed and one disagreed with this decision.
- the principle-based approach to determining the discount rates used to measure insurance contracts, or to limit the number of risk adjustment techniques an entity can use. All 14 Board members agreed with this decision.
- the option to present specified amounts of insurance finance income or expenses in profit or loss or other comprehensive income. Thirteen of 14 Board members agreed and one disagreed with this decision.
- the definition of an insurance contract with direct participation features. All 14 Board members agreed with this decision.
- non-transitional requirements relating to risk mitigation activities. All 14 Board members agreed with this decision.
- the classification, applying IFRS 17 and IFRS 3 *Business Combinations*, of contracts acquired in a business combination as insurance contracts. All 14 Board members agreed with this decision.
- the determination of the insured event for insurance contracts acquired in a business combination. Thirteen of 14 Board members agreed and one disagreed with this decision.
- future cash flows in the measurement of reinsurance contracts held. All 14 Board members agreed with this decision.
- the treatment of accounting estimates in interim financial statements. All 14 Board members agreed with this decision.

The Board will discuss the prohibition of retrospective application of the risk mitigation option at a future meeting. No decision was made in this meeting.

Next steps

At future Board meetings the Board will consider the remaining topics discussed in Agenda Paper 2D *Concerns and implementation challenges* for the October 2018 Board meeting. After the Board has considered all individual topics, the Board plans to consider the package of amendments as a whole, before concluding whether the benefits of making the amendments outweigh the costs.

Updating a reference to the *Conceptual Framework* (Amendments to IFRS 3) (Agenda Paper 10)

The Board met on 12 December 2018 to discuss updating a reference to *the Conceptual Framework for Financial Reporting* in IFRS 3 *Business Combinations* and to review the due process for any such update.

The Board tentatively decided in November 2018 to update the reference. It also tentatively decided to avoid any resulting conflicts between IFRS 3 and other IFRS Standards by adding an exception to the recognition requirements in IFRS 3 for levies within the scope of IFRIC 21 *Levies* and for other obligations within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

On 12 December the Board discussed:

a. harmonising the wording of the proposed exception with existing IFRS 3 requirements for contingent liabilities;
b. clarifying existing IFRS 3 requirements for contingent assets*;* and
c. creating transition arrangements for the proposed amendments, including allowing early application.

Harmonising the exception with existing IFRS 3 requirements for contingent liabilities

The Board tentatively decided to specify that levies within the scope of IFRIC 21 and other obligations within the scope of IAS 37 should be recognised on the acquisition of a business only if they would be identified as present obligations by an entity applying IFRIC 21 or IAS 37.

Thirteen of 14 Board members agreed with this decision. One member was absent.

Contingent assets

The Board tentatively decided to make it clear that, in applying the IFRS 3 recognition principle, an acquirer does not recognise contingent assets.

Thirteen of 14 Board members agreed with this decision. One member was absent.

Transition arrangements and early application

The Board tentatively decided:

a. to require entities to apply the amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after a date to be decided at the completion of the due process.
b. to permit earlier application, without requiring entities that apply the amendments early to disclose that they have done so.
c. if it issues the proposed amendments before 1 January 2020, to permit entities to apply them for annual reporting periods beginning before 1 January 2020 if at the same time they also apply all the amendments made by *Amendments to References to the Conceptual Framework in IFRS Standards*.

Thirteen of 14 Board members agreed with these decisions. One member was absent.

Due process steps and preparation of Exposure Draft

The Board tentatively decided that the proposed amendments should be exposed for comment for 120 days.

Thirteen of 14 Board members confirmed they were satisfied that the Board has complied with applicable due process steps for developing an exposure draft; and the Board authorised the staff to prepare an exposure draft for balloting. One member was absent.

None of the 13 Board members present indicated an intention to dissent from the proposed amendments to IFRS 3.

Next step

The staff will prepare an exposure draft, with a view to publishing it for comment in the first half of 2019.

Provisions (Agenda Paper 22)

The Board met on 12 December 2018 to receive an update on its Provisions research project. This project, previously in the research pipeline, has now become active.

The Board was not asked to make any decisions.

Next step

The staff will update the research summary the Board discussed in July 2015.

Dynamic Risk Management—Minimum Performance Requirements (Agenda Paper 4)

The Board met on 12 December 2018 to discuss the Dynamic Risk Management (DRM) research project.

The Board discussed how the minimum performance requirements discussed at the September 2018 Board meeting would be applied in the context of the DRM accounting model.

The Board tentatively decided that an entity can apply the DRM model if designation of the asset profile, target profile and designated derivatives does not reflect an imbalance that would create misalignment that could result in an accounting outcome inconsistent with the purpose of the DRM model. All 14 Board members agreed with this decision.

The Board also tentatively decided that, subject to further articulation, there must be an economic relationship between the target profile and the combination of the asset profile and designated derivatives. The Board emphasised its previous tentative decision not to define a quantitative threshold. All 14 Board members agreed with this decision.

In addition, the Board also instructed the staff to seek feedback on the articulation of the strength of the economic relationship during outreach on the Core Model.

Next step

The Board will continue deliberations on the DRM model.

Business Combinations under Common Control (Agenda Paper 23)

The Board met on 12 December 2018 to discuss the research project on Business Combinations under Common Control.

The Board discussed whether a current value measurement approach based on the acquisition method set out in IFRS 3 *Business Combinations* should be applied to all or only some business combinations under common control that affect a non-controlling interest in a receiving entity. The Board also discussed how any such distinction should be made.

The Board received a summary of the discussion of the topic held by the Accounting Standards Advisory Forum at its December 2018 meeting.

The Board was not asked to make any decisions.

Next step

At future meetings, the Board expects to continue its discussions on methods of accounting for transactions within the scope of the project.

Primary Financial Statements (Agenda Paper 21)

The Board met on 12 December 2018 to discuss:

a. whether management performance measures can be presented using columns in the statement(s) of financial performance; and
b. the use of the measure EBITDA and whether it should be added to the list of measures that are not considered to be management performance measures.

***Presenting management performance measures using columns* (Agenda Paper 21A)**

The Board tentatively decided to prohibit the use of columns to present information about management performance measures in the statement(s) of financial performance. Twelve of 14 Board members agreed and two disagreed with the decision.

***EBITDA* (Agenda Paper 21B)**

The Board tentatively decided:

a. to add operating profit before depreciation and amortisation to the list of measures that are not considered to be management performance measures. Ten of 14 Board members agreed and four disagreed with this decision.
b. not to provide examples of when it is potentially misleading for an entity to use the label ‘EBIT’ or the label ‘EBITDA’ to describe performance measures included in the financial statements. This tentative decision revises a previous tentative decision on the use of the label ‘EBIT’. Twelve of 14 Board members agreed and two disagreed with this decision.

The Board instructed staff to ask in the consultation document whether it should provide guidance on the use of the label 'EBITDA'.

Next step

The Board will continue discussing topics within the scope of the project at future Board meetings.

Research update (Agenda Paper 8)

The Board met on 12 December 2018 for an update on its research programme. Information on the Board’s work plan, including its research programme, is available here.

The Board was not asked to make any decisions.

Next step

The Board expects to receive the next update on its research programme in around three or four months.

Pension Benefits that Depend on Asset Returns (Agenda Paper 29)

The Board met on 12 December 2018 to receive an update on the narrow-scope research project and an outline of the next steps. The Board was not asked to make any decisions.

Next step

The Board will discuss the findings from outreach activities at a future meeting.

IBOR Reform and its Effects on Financial Reporting (Agenda Paper 14)

The Board met on 12 December 2018 to discuss the staff research findings on the IBOR Reform and its Effects on Financial Reporting project. The Board decided:

a. to add the IBOR Reform and its Effects on Financial Reporting project to the Board's standard-setting programme. Thirteen of 14 Board members agreed and one disagreed with this decision.
b. that the IBOR Reform and its Effects on Financial Reporting project will prioritise the analysis of accounting issues affecting financial reporting leading up to IBOR reform. The project will then focus on issues that affect financial reporting when IBOR reform is enacted. Thirteen of 14 Board members agreed and one disagreed with this decision.

Next step

The Board will discuss the issues affecting financial reporting leading up to IBOR reform at future Board meetings.

Rate-regulated Activities (Agenda Paper 9)

The Board met on 13 December 2018 to discuss the accounting model being developed for activities subject to 'defined rate regulation'. Agenda Paper 9A provided, for information only, a summary of the Board's tentative decisions to date.

Discount rate (Agenda Paper 9B)

The Board discussed the discount rate to be used when measuring regulatory assets or regulatory liabilities arising from regulatory timing differences, identifying three categories:

a. those that relate to items forming part of the regulatory capital base;
b. those that relate to items forming part of the regulatory operating expenditure; and

c. those that do not fall within (a) or (b) but relate to items of expense or income that will form part of the regulatory operating expenditure or the regulatory capital base when cash is paid or received.

Regulatory timing differences that relate to items forming part of the regulatory capital base

For regulatory timing differences that relate to items forming part of the regulatory capital base, the Board tentatively decided that an entity should include only the estimated future cash flows arising from the original regulatory timing difference and discount them at a rate of 0%—that is, the entity should exclude the cash flows relating to the regulatory overall return and recognise that overall return as revenue in profit or loss as it is included in the rate charged to customers.

Eight of 14 Board members agreed and six disagreed with this decision.

Regulatory timing differences that relate to items forming part of the regulatory operating expenditure

For measuring regulatory assets resulting from regulatory timing differences that relate to items forming part of the regulatory operating expenditure, the Board tentatively decided that:

a. an entity should use a discount rate that reflects, at least, compensation for the time value of money and uncertainty inherent in the cash flows; but
b. when the regulatory interest rate or regulatory return rate provides an additional return above the compensation in (a), an entity should use that regulatory interest rate or regulatory return rate as the discount rate unless there is clear evidence that the excess relates to an identifiable transaction or event.

Thirteen of 14 Board members agreed and one disagreed with this decision.

The Board asked the staff to bring to a future meeting further analysis on the implications of this decision for measuring regulatory liabilities relating to items forming part of the regulatory operating expenditure.

Regulatory timing differences relating to items of expense or income that will form part of the regulatory operating expenditure or the regulatory capital base when cash is paid or received

The Board discussed what discount rate to use when measuring regulatory assets or regulatory liabilities resulting from regulatory timing differences relating to items of expense or income that will form part of the regulatory operating expenditure or the regulatory capital base when cash is paid or received. The Board tentatively decided to reject the staff's recommended approach.

Eight of 14 Board members agreed and six disagreed with this decision.

The Board expressed concerns about how the staff's recommendations would apply to particular cases such as deferred tax and asked the staff to provide further analysis.

Next step

The Board expects to continue deliberations on these issues at a future meeting.

Disclosure Initiative (Agenda Paper 11)

The Board met on 13 December 2018 to discuss accounting policy disclosures.

Significance and materiality **(Agenda Paper 11A)**

The Board tentatively decided to amend paragraphs 117–124 of IAS 1 *Presentation of Financial Statements* to require entities to disclose their material accounting policies rather than their significant accounting policies.

Thirteen of 14 Board members agreed and one disagreed with this decision.

Next step

The Board expects to continue its discussion about accounting policy disclosures at a future meeting.

Implementation matters (Agenda Paper 12)

The Board met on 13 December 2018 to discuss implementation and maintenance matters.

Accounting Policy Changes—Proposed amendments to IAS 8 (Agenda Papers 12A–12C)

The Board discussed feedback on the Exposure Draft *Accounting Policy Changes—Proposed Amendments to IAS 8*.

The Board tentatively decided not to amend IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to specify when entities apply accounting policy changes resulting from Agenda Decisions published by the IFRS Interpretations Committee. All 14 Board members agreed with this decision.

Next step

The Board will continue its discussions on other aspects of the proposed amendments to IAS 8 at a future meeting.

Annual Improvements to IFRS Standards 2018–2020 Cycle (Agenda Paper 12D)

The Board discussed the transition for the proposed amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. One proposed amendment would require a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS Standards. The Board tentatively decided not to permit or require previous first-time adopters of IFRS Standards to apply the proposed amendments retrospectively.

The Board also discussed the due process steps taken in developing the proposed amendments to be included in the Exposure Draft *Annual Improvements to IFRS Standards 2018–2020 Cycle* (Exposure Draft).

The Board tentatively decided that the comment period for the Exposure Draft should be at least 90 days. All 14 Board members agreed with this decision.

All 14 Board members confirmed they were satisfied that the Board has complied with the applicable due process requirements and that it has undertaken sufficient consultation and analysis to begin balloting on the Exposure Draft. No Board members indicated an intention to dissent from the proposed amendments to be included in the Exposure Draft.

Next step

The Board plans to publish an exposure draft in the second quarter of 2019.