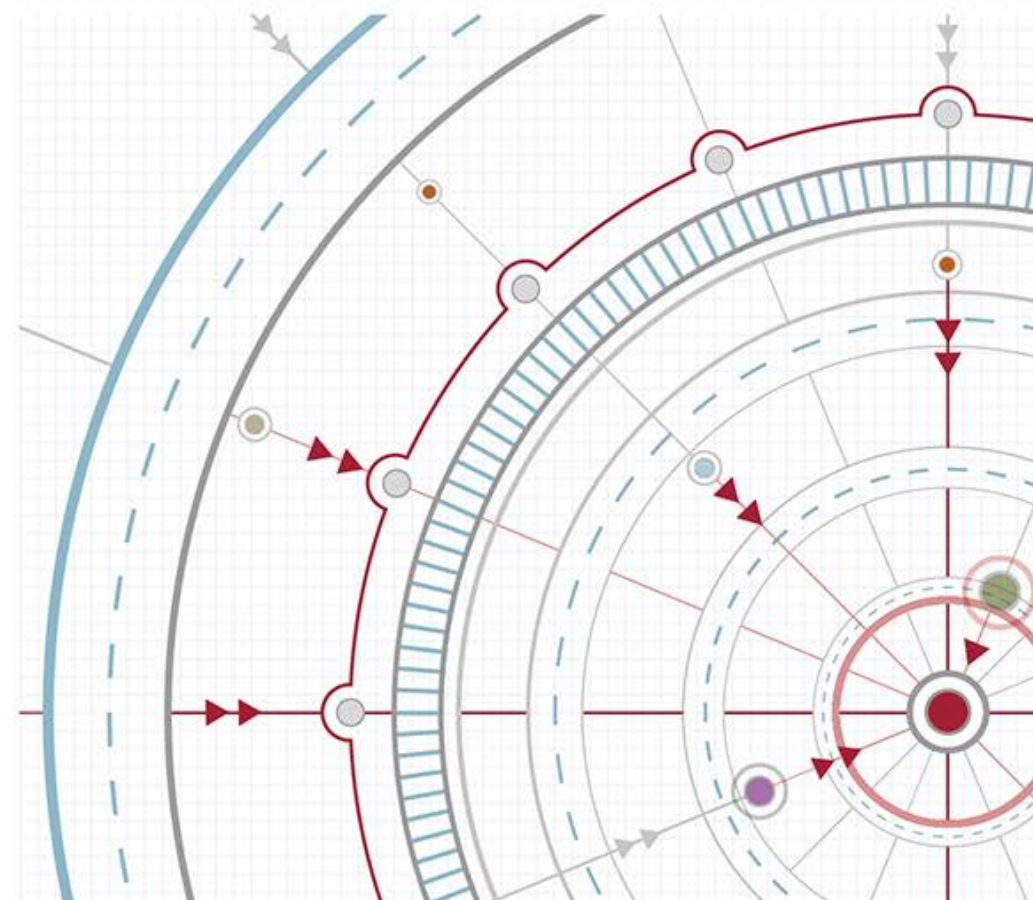


GPF meeting
March 2019


IASB Technical Update Global Preparers Forum

November 2018 – February 2019

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 IFRS Foundation.



2019 Amendments and consultations

IFRS Amendments expected 2019

3

The Board expects to issue the following IFRS amendment in 2019:

Classification of Liabilities as Current or Non-current

The Board expects to issue the following Exposure Draft and IFRS amendment in 2019:

IBOR Reform and its Effects on Financial Reporting

Consultation documents

4

The Board expects to issue the following consultation documents:

H2 2019

Primary Financial Statements

Rate-regulated Activities

Goodwill and Impairment

2019 Comprehensive Review of the
IFRS for SMEs Standard

H1 2020

Management Commentary

Business Combinations under
Common Control

Maintenance projects—issued and upcoming Exposure Drafts

5

Exposure Draft out for comment

Onerous Contracts—
Cost of Fulfilling a
Contract
*(comment period due
by 15/04/19)*

Upcoming Exposure Drafts (expected 2019)

Amendments to IFRS 17 *Insurance Contracts*

Deferred tax related to assets and liabilities arising from
a single transaction

Disclosure Initiative—Accounting Policies

Updating a reference to the Conceptual Framework

Annual Improvements (2018-2020)

Completed projects

6

The Board expects to issue the following project summaries in 2019:

Discount rates

Improvements to IFRS 8 *Operating Segments*

Disclosure Initiative—Principles of Disclosure

Active projects

7

Project	Next Milestones	When?	Reference
Business Combinations under Common Control	Discussion Paper	H1 2020	<i>Slides 8-10</i>
Disclosure Initiative—Targeted Standards-level Review of Disclosures	Exposure Draft	2020	Agenda item 6
Extractive Activities	Review Research		<i>Slides 36-37</i>
Goodwill and Impairment	Discussion Paper	H2 2019	<i>Slides 22-27</i>
Management Commentary	Exposure Draft	H1 2020	Agenda item 5
Pension Benefits that Depend on Asset Returns	Review Research	H2 2019	<i>Slides 34-35</i>
Primary Financial Statements	Discussion Paper or Exposure Draft	H2 2019	<i>Slides 11-21</i>
Provisions	Review Research	H2 2019	Agenda item 4
Rate-regulated Activities	Discussion Paper or Exposure Draft	H2 2019	
Dynamic Risk Management (DRM)	Core Model	H2 2019	<i>Slides 28-30</i>
Financial Instruments with Characteristics of Equity	Out for comment		
Interbank Offered Rate (IBOR) and the Effects on Financial Reporting	Decide Project Direction	Q2 2019	<i>Slides 31-33</i>

Business Combinations under Common Control

Business Combinations under Common Control (BCUCC)

9

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



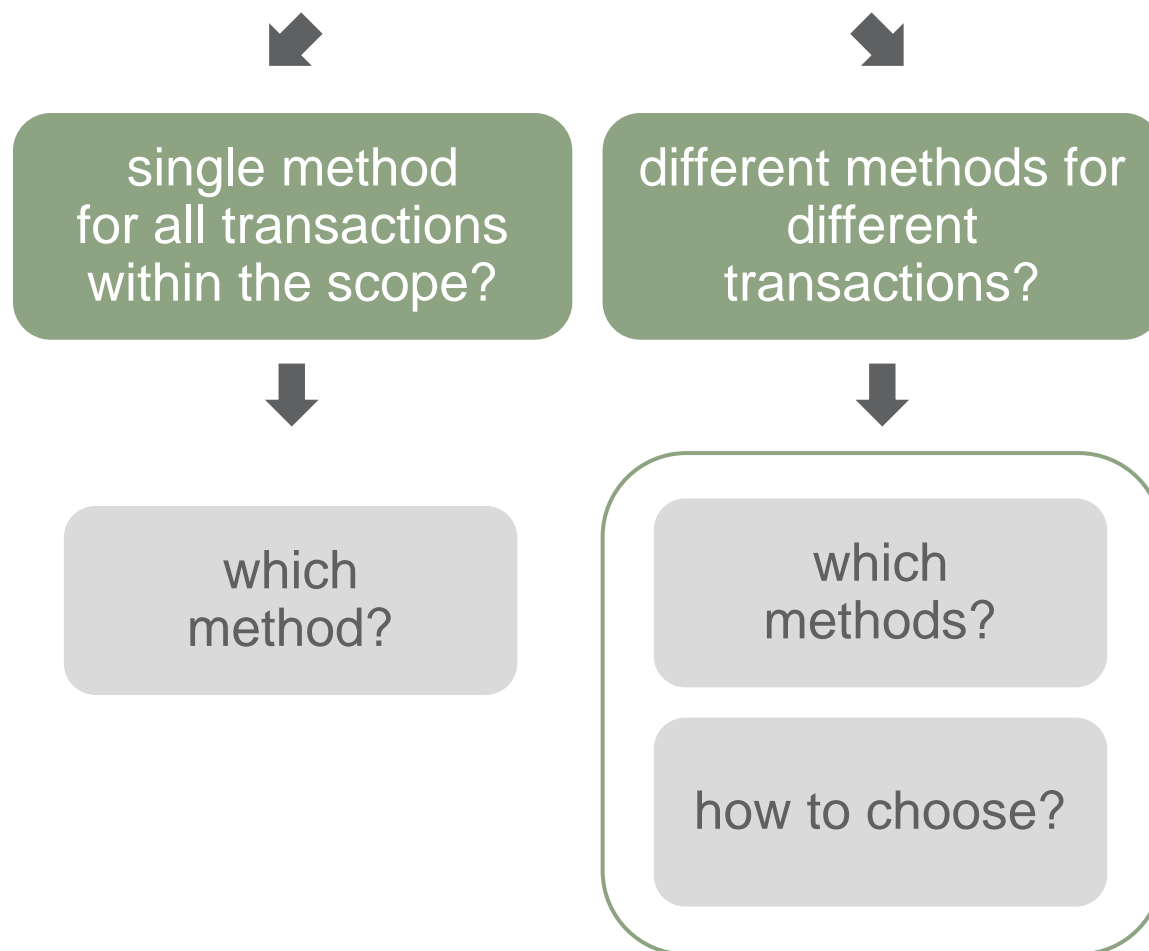
In practice, companies account for BCUCC using:

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

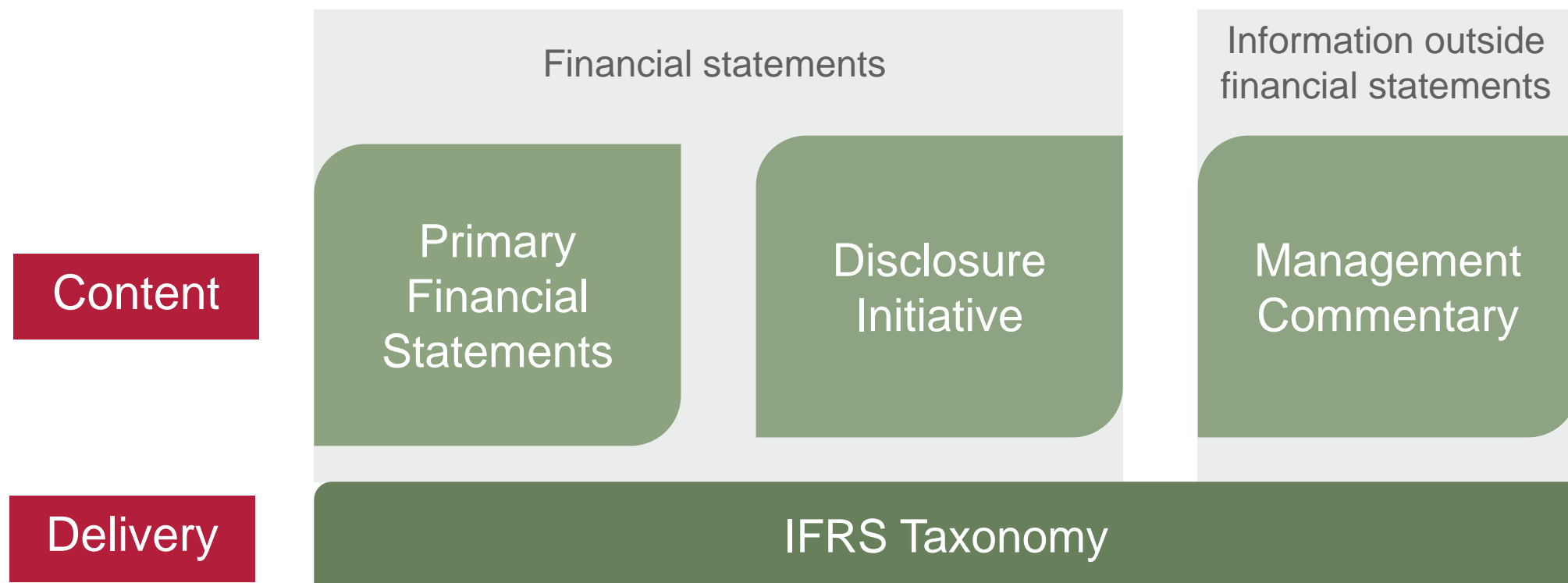


Alternatives to explore

- 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



Primary Financial Statements

Primary Financial Statements (PFS)—Overall project objective

14



Objective of the Primary Financial Statements project

Targeted improvements to the primary financial statements with a focus on the statement(s) of financial performance



Primary Financial Statements

Statement(s) of
financial
performance

Statement of
financial position

Statement of cash
flows

Statement of
changes in equity

PFS—Stakeholder feedback and key tentative Board decisions

15



Users

Statements of financial performance are not sufficiently comparable between different companies

Introduce **defined subtotals** in the statement(s) of financial performance



Users

Non-GAAP measures can provide useful information, but transparency needs to be improved

Introduce disclosure of **Management Performance Measures**



Preparers

I need flexibility to tell my company's story

Improve **disaggregation**



Users

There is insufficient disaggregation in financial statements

PFS—Introduce three defined subtotals in the statement of profit or loss

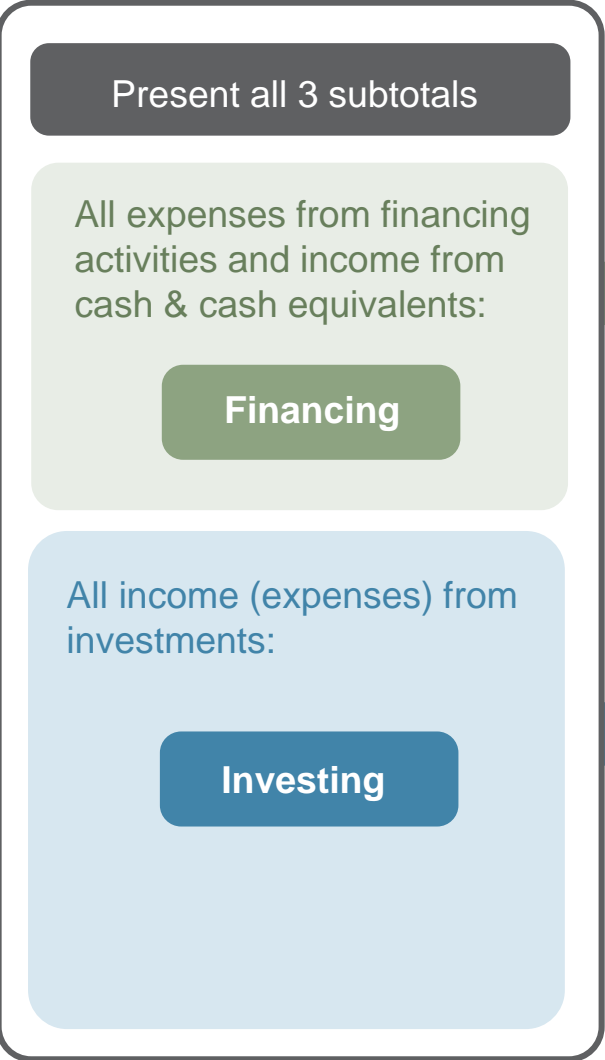
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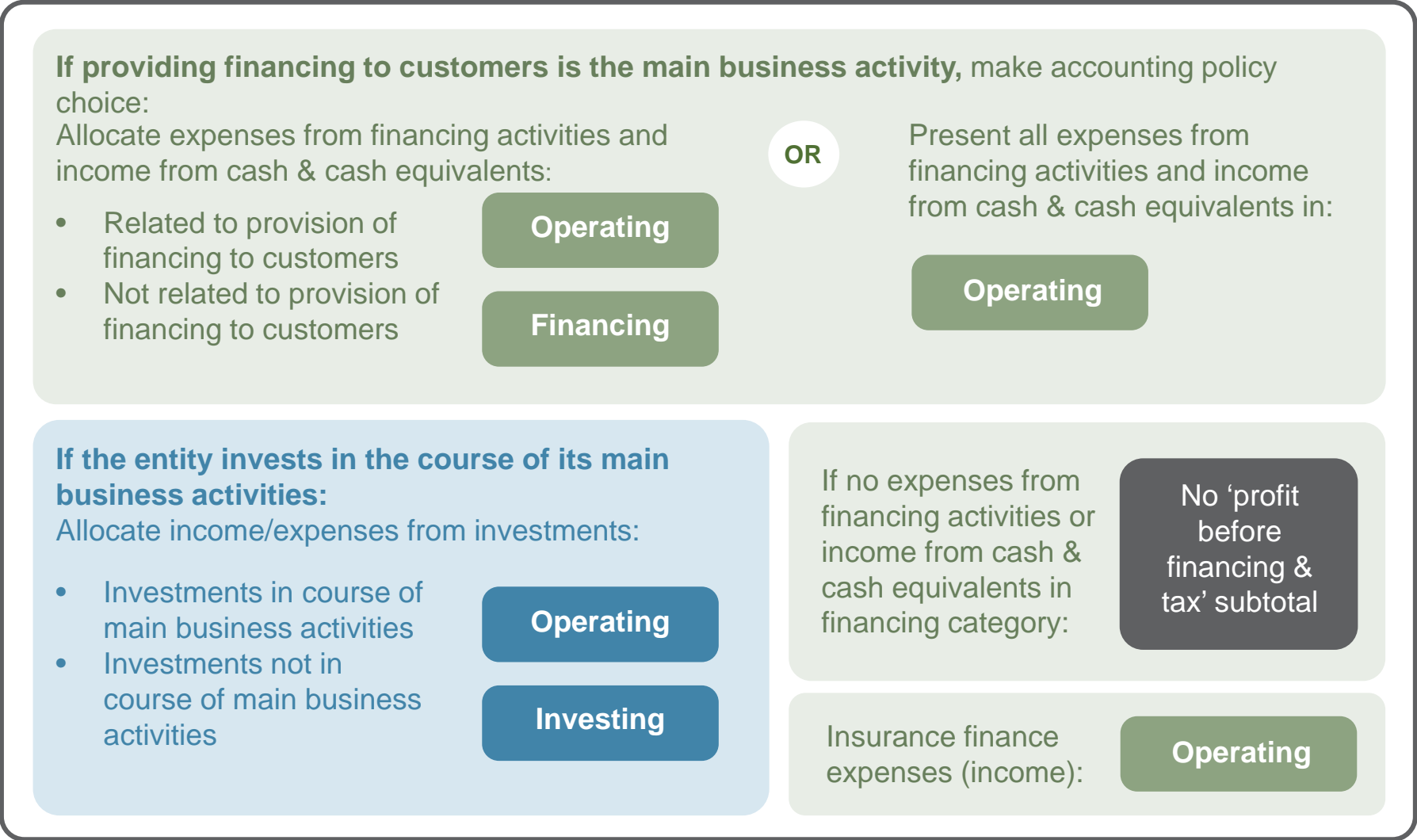
Defined
bottom-up

PFS—Classification of income/expenses for financial entities

Starting point (Tentative Board decisions for non-financials)



Tentative Board decisions for financial entities



PFS—Management performance measures

18



Preparers

I need flexibility to tell my company's story

Tentative Board decisions

Identify a measure (or measures) of profit that, in management's view, communicates the financial performance of the entity.

This measure will often be a subtotal or total specified by IFRS Standards, but could be a **management performance measure** (MPM) that complements those subtotals or totals.

If entities identify MPMs, they will usually be disclosed in the **notes**, because few will fit the structure of the statement(s) of financial performance

No specific constraints on the calculation of MPMs.



Users

Non-GAAP measures can provide useful information, but transparency needs to be improved

Tentative Board decisions

- Disclose a **reconciliation** in the **notes** between the MPM and the most directly comparable subtotal/total specified by IFRS Standards (*not* as a column on the face)
- Disclose the **effect on tax and non-controlling interests** separately for each reconciling item
- Explain any **differences** between MPMs and **segment** measures
- **Describe why** the MPMs provide management's view of performance and **how** they have been **calculated**
- **Label** MPMs in a **clear** and **understandable** way
- Explain any **changes over time** in calculation of MPMs

Tentative Board decisions

Single starting point for the indirect reconciliation: **Operating profit**

Removal of classification options for interest and dividends



Cash flow item	IAS 7 classification	Tentative Board decision— non-financial entities	Tentative Board decision— financial entities
Interest paid	Operating or financing	Financing	Operating or financing*
Dividends paid	Operating or financing	Financing	Financing
Interest received	Operating or investing	Investing	Operating, investing or financing*
Dividends received	Operating or investing	Investing	Operating or investing* (always investing for equity-accounted investments)

* Depends on classification of related income/expenses in P&L



Users

There is insufficient disaggregation in financial statements

Tentative Board decisions

Introduce improved principles, definitions and guidance on aggregation and disaggregation including specific principles to address large 'other' balances.

Require entities to disclose information about unusual and infrequent items in the notes, attributed to line items in the statement(s) of financial performance.

Require entities to present their primary analysis of expenses by nature **or** by function in the statement(s) of financial performance.

Develop illustrative examples for the primary financial statements for a small number of industries.

Board still to consider

Expanding the list of minimum required line items in the primary financial statements

Developing principle-based guidance for identifying unusual or infrequent items

Goodwill and Impairment

Goodwill and Impairment—Objectives for the project

23

- ✓ The Board has tentatively decided to pursue three objectives to address the interrelated problems identified in the research. The objectives are:

Objective A	Identifying disclosures to enable investors to assess: <ul style="list-style-type: none">• management’s rationale for the business combination; and• whether the post-acquisition performance of the business combination meets expectations set at the acquisition date
Objective B	Simplifying the accounting for goodwill by exploring whether to: <ul style="list-style-type: none">• permit an indicator-only approach to determine when an impairment test is required; and/or• reintroduce amortisation of goodwill
Objective C	Improving the calculation of value in use by exploring whether to: <ul style="list-style-type: none">• remove the prohibition on the inclusion in cash flow projections of future enhancements to the asset; and• permit the use of post-tax inputs in the calculation of value in use

Goodwill and Impairment—

Objective A - Work in progress: Disclosures

24

- ✓ Staff's ideas to improve disclosures for business combinations are as follows:

Improving existing disclosure objectives of IFRS 3 to meet research objective A

Making targeted improvements to existing disclosure requirements of IFRS 3

Developing additional disclosure requirements on subsequent performance of business combinations

Performing limited review of IFRS 3 disclosures in the light of the disclosure objectives

Goodwill and Impairment—

Objective B - Work in progress: Indicator-only approach

25

- ✓ Exploring possible relief from mandatory annual quantitative impairment test
 - requiring impairment testing of goodwill only when there are indicators of possible impairment (indicator-only approach)

Basis of the indicator-only approach

- assesses whether the carrying amount of the unit is recoverable;
- shielding limits the effectiveness of the impairment test;
- focus of the test if the unit does not include goodwill is the same but required if indicator present; and
- frequency of quantitative impairment test should not depend on whether the unit contains goodwill – mandatory annual test does not make test significantly more robust

Pros

- is consistent with impairment testing for other assets, other than indefinite life intangibles;
- reduces the cost and complexity of current test without any significant information loss; and
- reduces disclosure burden (eg disclosing inputs to the quantitative test each year)

Cons

- increases concerns about timely recognition of impairments of goodwill;
- Further increases management (and auditors') judgement in impairment testing; and
- risks loss of good governance mechanism and useful disclosures

Goodwill and Impairment—

Objective B - Work in progress: Amortisation of goodwill

26

✓ Rationale for reconsidering amortisation of goodwill

Not possible to make impairment test effective enough to solve “too little too late” issue

Improved information about post-acquisition performance to be provided through better disclosures

Amortisation of goodwill

Some still concerned by increasing amounts of goodwill

Amortisation could be a pragmatic way to reduce the acquired goodwill balance

✓ Amortisation with impairment model vs Impairment-only model


- Stakeholder views during the post implementation review were polarised
- No significant new arguments or evidence to support the reintroduction of amortisation identified during the research project
- Amortisation being reconsidered on cost-benefit grounds
- Decision is whether to change IFRS 3
- Staff think there needs to be a strong argument to reintroduce amortisation

Goodwill and Impairment—Objective C - Work in progress: Improving calculation of value in use

27

- ✓ Pursuing targeted changes to the value in use calculation by removing the requirement of IAS 36:

- | | |
|---|---|
| ▪ To exclude from the calculation of value in use those cash flows arising from a future restructuring or from a future enhancement | ▪ To use pre-tax inputs in calculating value in use |
|---|---|

- 
- ❖ Relatively straightforward improvements.
 - ❖ Reduce the costs and complexity of the impairment test in IAS 36.
 - ❖ Need to address concerns over ensuring cash flows from future restructuring or enhancement reasonable

Dynamic Risk Management

Dynamic Risk Management (DRM)

29

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 Dynamic Risk Management model

30

Current stage

- Develop 'core areas' that will underpin the DRM model ('core model'):
 - asset profile
 - target profile
 - derivatives used for DRM purposes
 - performance assessment

Next steps

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

Interbank Offered Rate (IBOR) and the Effects on Financial Reporting

Identified problem

- The potential discontinuation of interest rate benchmarks (ie IBOR reform) could have a significant and widespread impact across financial markets as they are embedded in a variety of financial instruments

Approach

- Assess the nature and extent of the issues affecting financial reporting before IBOR reform is enacted
- A later phase will address issues arising when IBOR reform is enacted

Board's decisions

- Address concerns related to the uncertainties arising from IBOR reform by providing relief on the application of the following hedge accounting qualifying criteria required by IFRS 9 and IAS 39:
 - ‘highly probable’
 - ‘prospective assessment’ and
 - ‘separately identifiable risk components’
- That relief does not affect the actual economics of the transactions which should continue to be reflected in financial reporting

Next steps

- The Board is planning to issue an Exposure Draft in Q2 2019

Pension Benefits that Depend on Asset Returns

Pension Benefits that Depend on Asset Returns

35

The challenge

- To address the mismatch that arises when:
 - pension benefits are promised on the return of a specified pool of assets, whereas
 - the pension liability is determined using a discount rate that is determined by reference to high quality corporate bond rates

Approach being explored

- The staff are exploring whether it is feasible to cap the asset returns so that the estimate of asset returns does not exceed the discount rate.

Next steps

- The staff will report their findings to the Board in H2 2019.

Extractive Activities

Objective

- The Board is gathering evidence to decide whether to start a project to develop proposals to replace IFRS 6 *Exploration for and Evaluation of Mineral Resources*
- IFRS 6 allows diversity in recognition and measurement which can affect primary users' understanding of financial statements

Current stage

- The Board has asked National Standard-setters (NSS) that contributed to a 2010 Extractive Activities Discussion Paper to make the Board aware of developments since 2010
- The staff is also undertaking research on developments since 2010

Next steps

- The Board will:
 - discuss national standard-setters' feedback
 - set the project's scope

Supporting Implementation

Resources available on our website

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New website
www.ifrs.org



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

40



Webinars



Articles and
other materials



Conferences



Transition Resource
Group (TRG)



Education for

- investors
- regulators
- standard-setters
- preparers



IASB discussions

- deferral of effective date to 2022*
- targeted amendments to ease implementation*



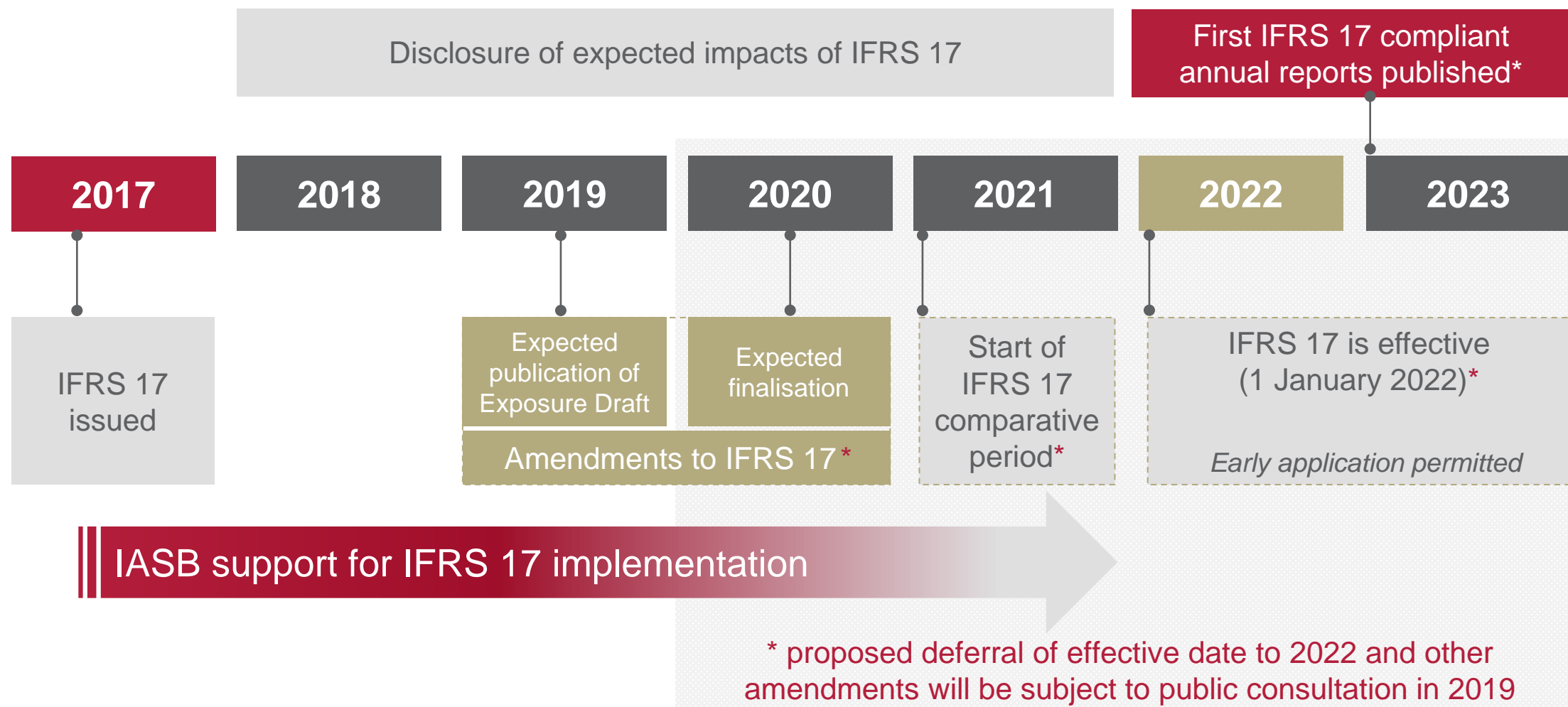
Informal technical
discussions with

- regulators
- standard-setters
- audit firms
- preparers

* proposed deferral of effective date to 2022 and proposed targeted amendments will be subject to public consultation in 2019

IFRS 17 timeline

41



- The Board is expected to:
 - complete its discussions on potential amendments to IFRS 17 to help implementation of the Standard at the end of the first quarter 2019
 - publish the Exposure Draft on the proposed amendments at the end of June 2019
- Ongoing activities to support IFRS 17 implementation
 - TRG meeting scheduled on 4 April 2019

Maintenance projects

Maintenance projects—issued and upcoming Exposure Drafts

44

Board considering feedback on Exposure Drafts	Exposure Draft (expected 2020)	Upcoming Exposure Drafts (expected 2019)
Accounting Policies and Accounting Estimates	Targeted Standards-level Review of Disclosures	Amendments to IFRS 17 <i>Insurance Contracts</i>
Accounting Policy Changes		Deferred tax related to assets and liabilities arising from a single transaction
Availability of Refund		Disclosure Initiative—Accounting Policies
Property, Plant and Equipment: Proceeds before Intended Use		Updating a reference to the Conceptual Framework
		Annual Improvements (2018-2020)

Onerous contracts—costs of fulfilling a contract

45

Identified problem

Diverse views on which costs to include in the cost of fulfilling a contract when assessing whether a contract is onerous.

Exposure Draft *Onerous Contracts—Cost of Fulfilling a Contract* (Proposed amendments to IAS 37) published in December 2018

The Board proposes to amend IAS 37 to:



1. Specify that when assessing whether a contract is onerous, the cost of fulfilling the contract includes both:
 - ✓ the **incremental costs**; and
 - ✓ an **allocation of other costs** that relate directly to contract activities.

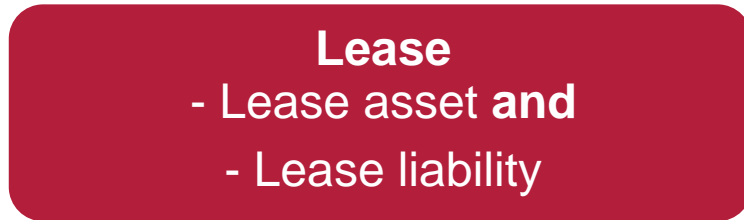


2. Include **examples** of costs that relate and do not relate directly to a contract.

Comments due by 15 April 2019.

Deferred tax related to assets and liabilities arising from a single transaction

46



Does a company recognise deferred tax?

The Board has proposed an amendment to IAS 12 that would narrow the initial recognition exemption in paragraphs 15 and 24. The exemption would no longer apply to the extent that, on the initial recognition of a transaction, an entity would recognise equal amounts of deferred tax assets and liabilities.

Exposure Draft expected in Q2 2019

Completed projects

Amendments and Interpretations (effective date)

Topic	Effective date
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	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: <i>Previously Held Interests in a Joint Operation</i> • Amendments to IAS 12: <i>Income Tax Consequences of Payments on Instruments Classified as Equity</i> • Amendments to IAS 23: <i>Borrowing costs eligible for capitalisation</i> 	1 January 2019
Definition of a Business (Amendments to IFRS 3)	1 January 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
<i>Conceptual Framework for Financial Reporting</i>	1 January 2020

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a mission
that matters



working with global
accounting experts



access to network of
influential people



small organisation
with a big impact



unique development
opportunities



intellectually
stimulating



international
environment

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