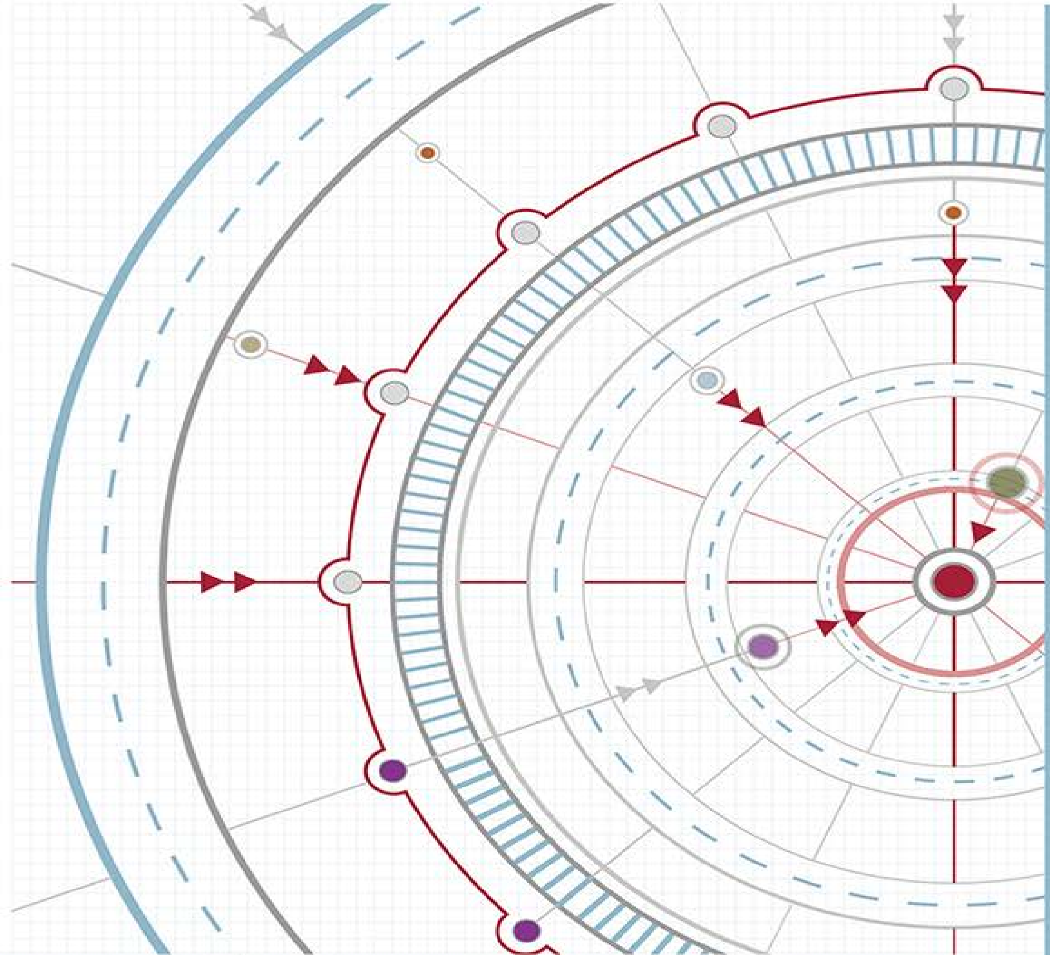
IFRS® Foundation

Agenda Paper 5



Update on the Board's Work Plan

IFRS Advisory Council

September 2019

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

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Update on the Board’s work plan—contents

- IFRS amendments expected 2019
- Updates on current major projects
- Maintenance projects
- Maintenance projects
- Research
- Post-implementation reviews (PIRs)

IFRS amendments expected in 2019

IFRS Amendments expected 2019

The Board expects to issue an IFRS amendment in 2019:

Interest Rate Benchmark Reform

Classification of Liabilities as Current or Non-current

IBOR Reform and its Effects on Financial Reporting

Problem

The potential discontinuation of interest rate benchmarks (ie IBOR reform) could affect the usefulness of information provided in IFRS financial statements

Approach

Phase 1 – Assess the nature and extent of the issues affecting financial reporting before IBOR reform is enacted ('pre-replacement issues')

Finalising the amendments

Phase 2 – Address issues arising when IBOR reform is enacted ('replacement issues')

Deliberations to start in October

IBOR Reform and its Effects on Financial Reporting—Phase 1 final amendments

Final Amendments

Phase I

Address concerns related to the uncertainties arising from IBOR reform by providing relief when applying the following qualifying criteria for hedge accounting required by IFRS 9 and IAS 39:

- highly probable
- prospective assessment
- retrospective assessment
- separately identifiable risk components

Disclosure requirements have been significantly reduced compared to the ED

That relief does not affect the actual economics of the transactions which should continue to be reflected in financial reporting

Next steps Final amendments to IFRS 9 and IAS 39 to be published in Q3 2019

Updates on current major projects

Updates on current major projects

2019

- Comprehensive Review of the IFRS for SMEs Standard
- Dynamic Risk Management
- Primary Financial Statements
- Goodwill and Impairment

2020

- Business Combinations under Common Control
- Targeted Standards-level Review of Disclosures
- Management Commentary
- Rate-regulated Activities

Financial Instruments with Characteristics of Equity

Expected consultation dates

IFRS

IFRS for SMEs 2019 Review

Objective

- To develop a Request for Information setting out the Board approach on whether and how to align *IFRS for SMEs* Standard with new and amended IFRS Standards

Current stage

- Board has agreed:
  - scope of the 2019 Review
  - approach to aligning the *IFRS for SMEs* Standard with IFRS Standards
- Board is currently deliberating whether and how to align *IFRS for SMEs* Standard with new and amended IFRS Standards

Next steps Issue Request for Information in Q4 2019

Dynamic Risk Management

Problem

An entity manages interest rate risk positions that change frequently with open portfolio of changing financial assets and financial liabilities. Difficult to depict applying existing IFRS requirements

Approach

Develop an accounting model that enables financial statements to:

- reflect management's dynamic interest rate risk management activities; and
- enable investors to evaluate effectiveness of those activities

Dynamic Risk Management (continued)

Board's Tentative Decisions

Develop a **core model** to be tested before addressing detailed areas

Core model components:

- identify eligible financial assets
- define 'target profile' (eg want to achieve 3 year floating rate profile)
- define derivatives included in model
- set out how to reflect performance

Next steps

Plan to test core model Q4 2019

Primary Financial Statements addresses 3 issues

Users: Statements of financial performance are not sufficiently comparable between different companies	Introduce **required and defined subtotals** in the statement(s) of financial performance
Users: Non-GAAP measures can provide useful information, but transparency and discipline need to be improved	Introduce disclosure of **management performance measures (MPMs)**
Users: Level of disaggregation does not always provide the information I need	Introduce **requirements to improve disaggregation**

Next steps Issue Exposure Draft in Q4 2019

Goodwill and Impairment

Problems

Post-implementation review of IFRS 3:

1. Impairments not timely (‘too late’ issue)
2. Impairment test costly
3. Users need information to assess subsequent performance of acquisitions

Goodwill and Impairment (continued)

Tentative decisions to date

1 Impairments not timely ('too late' issue)

- Retain impairment-only model and not reintroduce amortisation of goodwill
- Present a sub-total or memo line on balance sheet for total equity before goodwill

2 Impairment test costly

Simplify impairment test process:

- permit relief from mandatory annual quantitative test
- include restructuring/enhancement cash flows in value in use estimates
- allow post-tax inputs in value in use estimates

3 Information on subsequent performance

Improve disclosures to explain:

- strategic rationale and key objectives for acquisition (replacing primary reasons)
- post-acquisition performance – are key objectives being achieved?

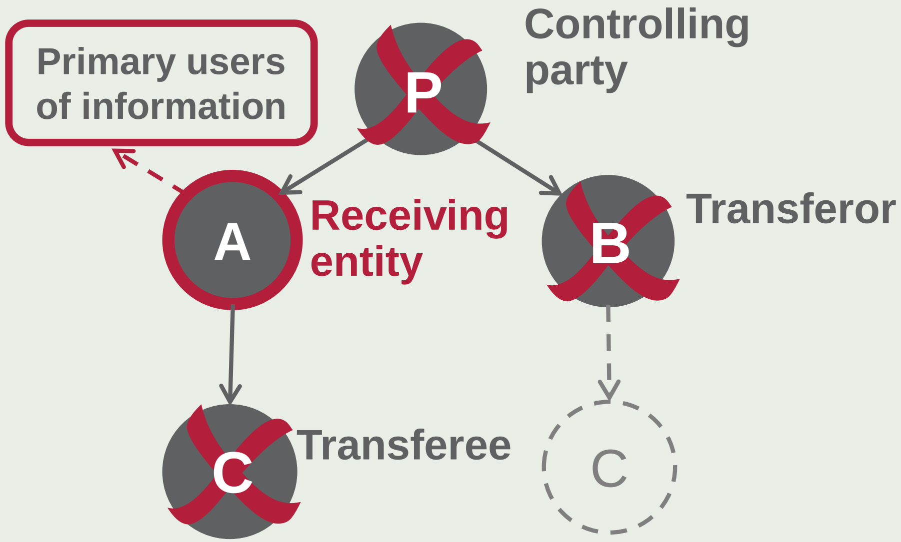
Next steps Discussion Paper expected around end of 2019

Business Combinations under Common Control

Problem

Absence of IFRS requirements reduces comparability and understandability of financial information

Approach



Entity A acquires Entity C

The project addresses reporting by the receiving entity in a business combination under common control

In determining when and how a current value approach or a predecessor approach should be applied, consider:

- whether and how transactions in the scope of the project can be different from business combinations addressed in IFRS 3 *Business Combinations*;
- information needs of primary users; and
- costs of providing and using information.

Business Combinations under Common Control

Board's Tentative Decisions

No need to pursue a single approach for all transactions in the scope of the project

Transactions that affect non-controlling shareholders of the receiving entity	**Transactions that do *not* affect non-controlling shareholders**
Start with the acquisition method and consider whether and how to modify it	Consider requiring a different approach, such as a form of predecessor approach

Next steps **Discussion Paper is planned for the first half of 2020**

Disclosure Initiative—Targeted Standards-level Review of Disclosures

Objective

- help stakeholders improve the usefulness of disclosures for the primary users of financial statements
- develop guidance for the Board to use when developing and drafting disclosure objectives and requirements (as a set of Board decisions)
- **not to change the volume of required disclosures**, although this may be a consequence

Next steps

- test the draft guidance for the Board by applying it to **IAS 19 *Employee Benefits*** and **IFRS 13 *Fair Value Measurement***
- publish an exposure draft of amendments to the disclosure requirements in IAS 19 and IFRS 13, where formal stakeholder feedback on the draft guidance for the Board will be obtained

What is management commentary?

- A narrative report that gives context for the financial statements and additional insight into the company’s long-term prospects
- Sits within the boundaries of financial reporting and is aimed at primary users of financial reports—existing and potential investors, lenders and other creditors

Environmental, social and governance (ESG) matters—normally part of wider corporate reporting—are discussed in management commentary if necessary for primary users to make economic decisions

Management commentary—project focus

Why revise?

Developments in narrative reporting

Gaps in current reporting practice

Increasing need for additional information

Focus of revision

Meet primary users' information needs

Retain a principles-based approach but expand the guidance to:
- consolidate innovations
- address gaps in reporting
- support rigorous application

Particular emphasis on:
- company-specific matters
- intangibles and ESG matters
- matters that underpin long-term success
- coherent discussion linked to strategy

Intended to be compatible with jurisdiction requirements and subject-matter frameworks (eg TCFD, SASB)

Next steps Exposure Draft is planned for the second half of 2020

Rate-regulated Activities

Problem

Binding rate regulation agreements can give rise to rights and obligations incremental to those recognised in applying IFRS 15 *Revenue from Contracts with Customers*

Not recognising these incremental rights and obligations gives users incomplete information about a rate-regulated entity's financial performance and financial position

Approach

Developing an accounting model that recognises the incremental rights and obligations as assets (regulatory assets) and liabilities (regulatory liabilities)

Rate-regulated Activities (continued)

Board's Tentative Decisions

An entity should:

- Recognise regulatory assets and regulatory liabilities
- Measure using a cash-flow-based technique
- Present:
  - regulatory assets and regulatory liabilities
  - net movement between the opening and closing carrying amounts of regulatory assets and regulatory liabilities—immediately below the revenue line item

Next steps The Board expects to publish an Exposure Draft in the first half of 2020

FICE—timeline and problem to address

Q2 2018	Q1 2019	H1 2019	Q4 2019
Discussion Paper published	Comment period ended	Analysis of feedback received	Decide project direction

Problem

IAS 32 *Financial Instruments: Presentation* works well for most financial instruments, but presents challenges for some complex financial instruments

Limited information available on equity instruments

FICE—do stakeholders think standard-setting is required?

General support for standard-setting to address known practice issues but mixed views on how:

- Disclosure only project
- Narrow-scope amendments
- Targeted improvements in IAS 32 including:
  - Clarification of existing principles in IAS 32
  - Providing application guidance
- The Board's preferred approach with modification/clarification
- Fundamental review of approach to distinguishing liabilities from equity

Next steps Decide project direction in Q4 2019

Maintenance projects

Maintenance projects—Exposure Drafts

2019

out for comment

	Comments due
Annual Improvements (2018-2020)	20 August
Amendments to IFRS 17 *Insurance Contracts*	25 September
Updating IFRS 3 reference to the Conceptual Framework	27 September
Deferred tax related to assets and liabilities from a single transaction	14 November
Disclosure Initiative—Accounting Policy Disclosures	29 November

Maintenance projects—work in progress 2019

Board considering feedback on Exposure Drafts

Accounting Policies and Accounting Estimates

Availability of a Refund (Amendments to IFRIC 14)

Accounting Policy Changes

Onerous Contracts—Cost of Fulfilling a Contract

Property, Plant and Equipment: Proceeds before Intended Use

Research

Other research projects in process – review research in Q4 2019

Provisions*

Subsidiaries that are SMEs*

Extractive activities

Pension Benefits that Depend on Asset Returns

*** Two research projects are approaching completion (see next slides)***

Two research projects are approaching completion

1

Provisions

The Board is gathering evidence to help it decide whether to start a project to develop proposals to amend aspects of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

2

Subsidiaries that are SMEs

The Board is gathering evidence to help it decide whether to start a project to develop a proposal permitting subsidiaries that are SMEs to apply the recognition and measurement requirements of IFRS Standards with the disclosure requirements of the *IFRS for SMEs* Standard.

Project aims

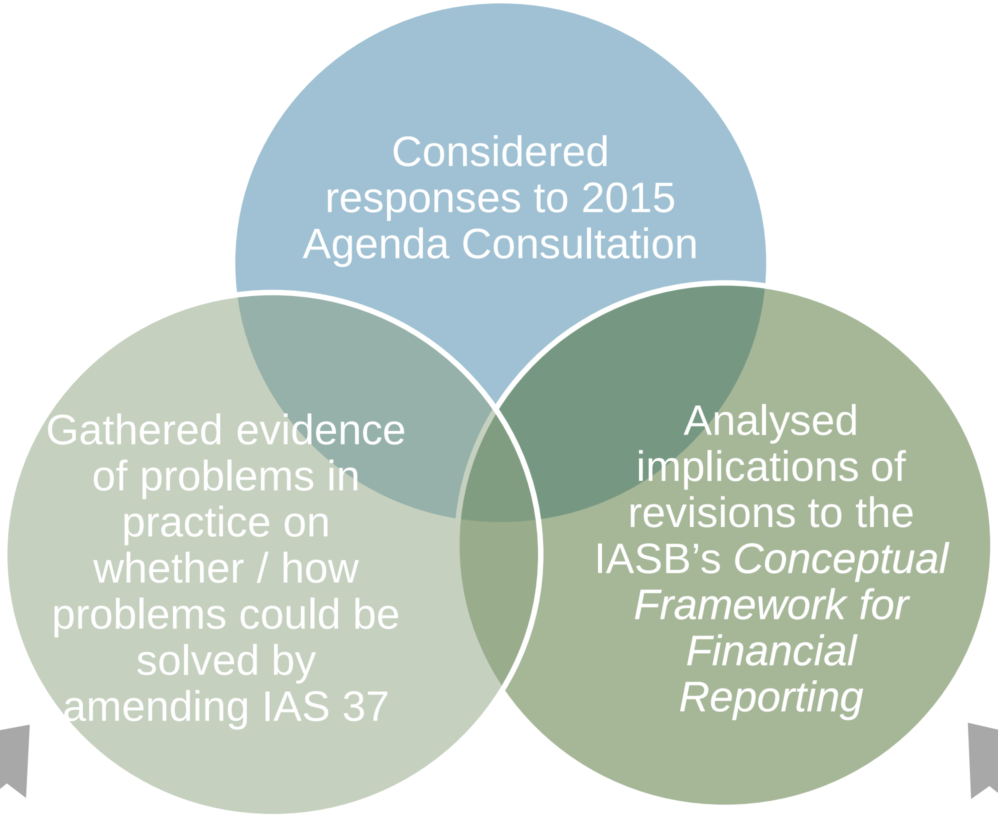
To gather evidence to help Board decide:

1. whether to undertake a project to amend aspects of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
2. if so, which aspects of IAS 37 to consider amending

1 Provisions

Activities performed

Input from:
Users of financial statements, regulators, preparers of financial statements, national standard-setters, provisions specialists at large accounting firms, submissions to IFRS Interpretations Committee



Revised *Conceptual Framework* includes new concepts to support liability definition, developed largely in response to concerns about how the definition is applied in IAS 37 at present—especially as it is interpreted in IFRIC 21 *Levies*

Provisions

Findings—evidence supports making three targeted improvements to IAS 37

1 Revising requirements on when to recognise provisions for some conditional obligations

- Responding to concerns about existing requirements for levies and other conditional obligations
- Applying revised *Conceptual Framework*
- Would result in more liabilities being recognised progressively as they accumulate over a period, instead of at point in time when an obligation becomes unconditional

2 Clarifying which costs to include in measuring a provision

- To reduce diversity in practice for measuring provisions to provide goods or services
- At present, IAS 37 does not specify whether entities should include only the incremental costs of fulfilling an obligation, or also an allocation of other directly related costs

3 Clarifying whether the rate entities use to discount provisions should include their own credit risk

- To reduce diversity in practice for measuring long-term provisions
- At present, IAS 37 does not specify whether entities should use a discount rate that includes their own credit risk (their own borrowing rate) or excludes it (a risk-free rate)
- Entities using a rate that includes their own credit risk recognise smaller liabilities. Differences can be substantial for entities with large long-term provisions, eg for nuclear decommissioning

Provisions

Status and next step

Staff have completed evidence-gathering activities

Staff and Board members have discussed research findings with advisory body and consultative groups

- Accounting standards Advisory Forum (ASAF), Global Preparers Forum (GPF), Capital Markets Advisory Committee (CMAC)
- Members of all groups expressed support for a standard-setting project to make the three targeted improvements described on slide 32

Next step

Board will review research findings and decide:

- whether to initiate a standard-setting project
- if so, what the scope of the project should be

2

Subsidiaries that are SMEs

Project aim

To gather evidence to help Board decide:

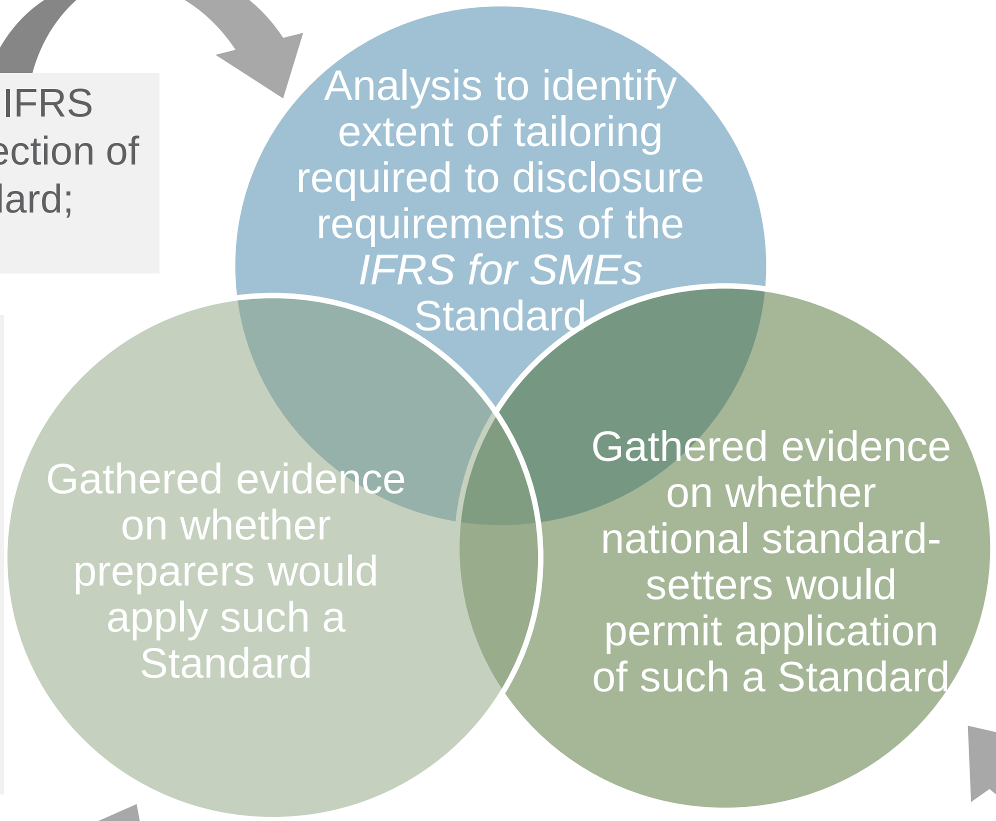
whether it is feasible to permit subsidiaries that are SMEs* to apply the recognition and measurement requirements of IFRS Standards with the disclosure requirements of the *IFRS for SMEs* Standard

* An SME is an entity eligible to apply the *IFRS for SMEs* Standard.
An entity that is publicly accountable (eg its equity is traded in a public market or a deposit-taking bank) is not an SME.

Activities performed

- Staff analysis comparing IFRS Standard and relevant Section of the *IFRS for SMEs* Standard;
- The AASB project.

Input from:
- Responses to last Agenda Consultation;
- Global Preparers Forum;
- 100 Group (UK);
- Other preparers;
- Take up of UK's reduced disclosure standard.



Input from:
- Accounting Standards Advisory Forum;
- The International Forum of Accounting Standard Setters.

2

Subsidiaries that are SMEs

Findings—evidence supports developing a proposed Standard

GPF

The majority of those commenting expressed support for the project believing it would result in cost savings

ASAF

Not all jurisdictions require general purpose financial statements for subsidiaries, or they do but do not require IFRS Standards.

There were mixed views from the others but, on balance, those that were supportive outnumbered those not.

Some indicated they may consider a wider scope than subsidiaries that are SMEs.

Analysis

Staff analysis on a selection of Standards suggests that any tailoring required is such that the project objective would be met.

The AASB published an exposure draft on 1 August which demonstrates that the project objective would be met.

GPF member

This project could lead to a huge saving of time, work and costs

ASAF member

Standard setters [in this jurisdiction] who allow or require IFRS Standards strongly supported the development of the Standard

AASB ED 295

This ED demonstrates what the outcomes could be and may assist the IASB with their own project.

Subsidiaries that are SMEs

Status and next step

Staff have completed evidence-gathering activities

Staff and Board members have discussed the project with consultative groups and others

- Accounting Standards Advisory Forum (ASAF), The International Forum of Accounting Standard Setters (IFASS), Global Preparers Forum (GPF)
- Members of all groups expressed support, although it may not be relevant for some jurisdictions
- Some have suggested it might encourage greater adoption of IFRS Standards

Next step

Board will review research findings and decide:

- whether to initiate a standard-setting project as part of IFRS Standards

Research pipeline–update

Project	Comments
Equity Method	A number of queries over time. Topic to be investigated after starting PIR of IFRS 11 *Joint Arrangements*
Pollutant Pricing Mechanisms	Assess whether the Board should develop a proposal to address any diversity that may exist in accounting for pollutant pricing mechanisms.
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.
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.

Post-implementation Reviews (PIRs)

Completed		Future PIRs
IFRS 8	IFRS 3	IFRS 10, 11, 12 *(will commence later this year)*
IFRS 13		IFRS 5

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