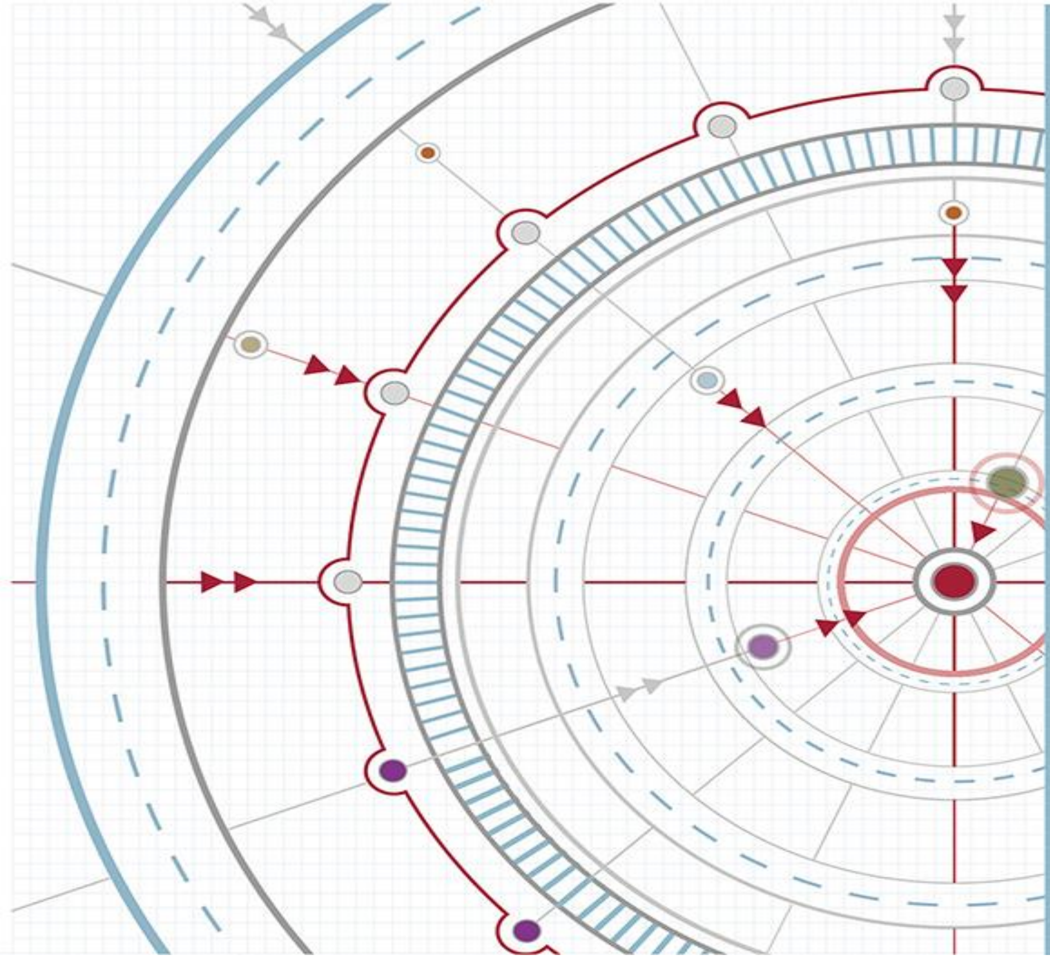

Emerging Economies Group
May 2020
Agenda paper 3

IASB Technical Update

Darrel Scott

April 2020

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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Current work plan

Open for comment

Feedback due by

Consultation	Status	Feedback due by
IBOR Reform and its Effects on Financial Reporting—Phase II	**Open for comment**	**25 May 2020**
Primary Financial Statements	**Open for comment**	***30 September 2020**
2019 Comprehensive Review of the *IFRS for SMEs* Standard	**Open for comment**	***27 October 2020**
Goodwill and Impairment	**Open for comment**	***31 December 2020**

*comment period deadline changed because of coronavirus pandemic

Forthcoming IFRS amendments

	Next steps
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	**IFRS amendment** May 2020
Updating IFRS 3 reference to the *Conceptual Framework* (Amendments to IFRS 3)	**IFRS amendment** May 2020
Annual Improvements to IFRS Standards 2018 – 2020	**IFRS amendment** May 2020
Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)	**IFRS amendment** May 2020
Amendments to IFRS 17 *Insurance Contracts*	**IFRS amendment** Q2 2020
Accounting Policies and Accounting Estimates (Amendments to IAS 8)	**IFRS amendment** (TBD)

Forthcoming exposure drafts

	Next steps
IFRS 16 and covid-19	*Exposure Draft
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	* * Exposure Draft
Disclosure Initiative—Targeted Standards-level Review of Disclosures	Exposure Draft
Lack of Exchangeability (Amendments to IAS 21)	Exposure Draft

*effective date to be changed because of coronavirus pandemic

** see agenda paper 4

In development

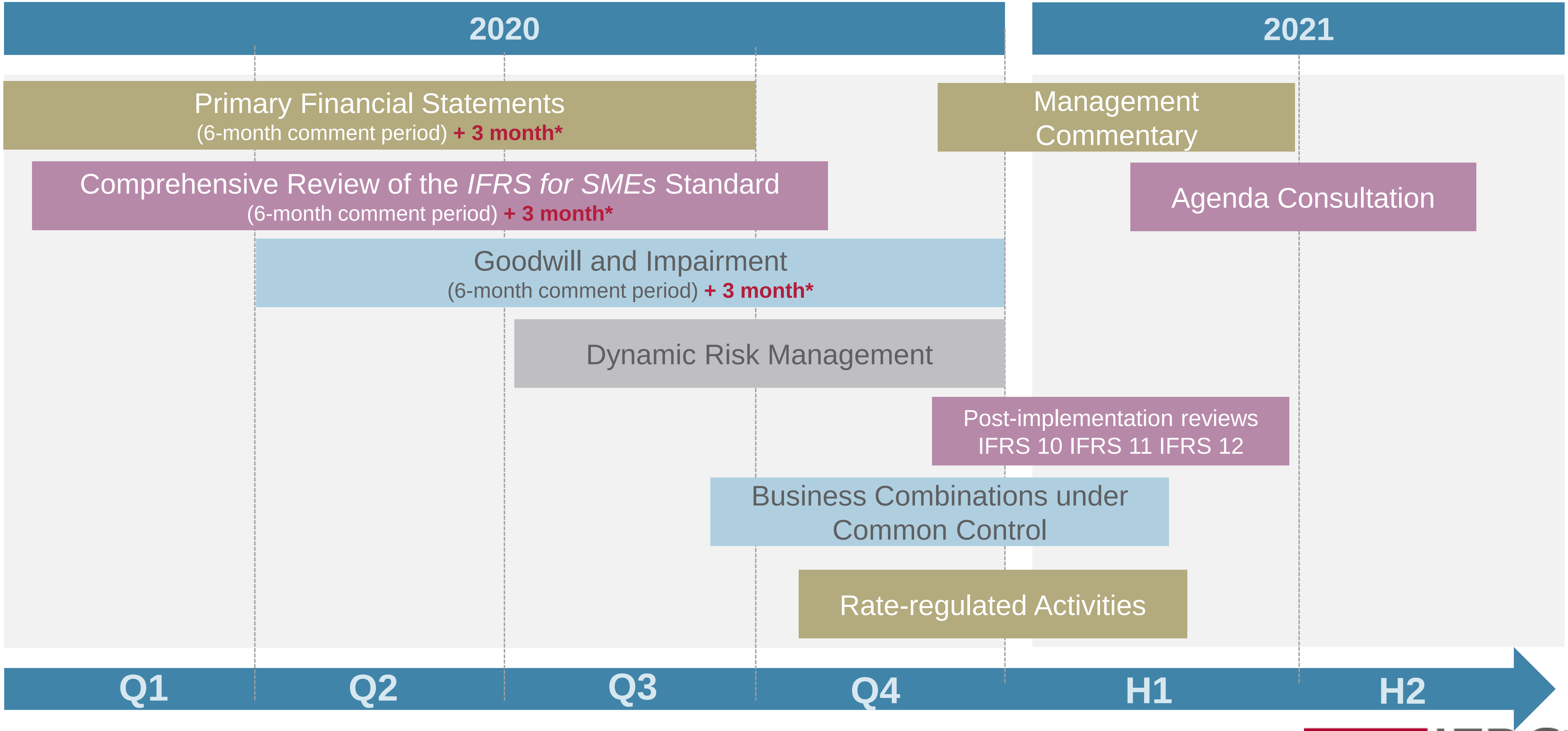
	Next steps
Deferred tax related to assets and liabilities from a single transaction	Consider feedback
Disclosure Initiative—Disclosure of Accounting Policies	Consider feedback
Accounting Policy Changes (Amendments to IAS 8)	Decide project direction

Other technical projects

Project	Next steps
Subsidiaries that are SMEs	Decide Discussion Paper or Exposure Draft
Provisions—Targeted Improvements	Decide project direction
Financial Instruments with Characteristics of Equity	Continue discussion about project direction

*effective date to be changed because of coronavirus pandemic

2020 major consultations



*comment period deadline changed because of coronavirus pandemic

Disclosure Initiative

Disclosure Initiative—overview of projects

Active projects	**Targeted Standards-level Review of Disclosures**	**Subsidiaries that are SMEs**	**Disclosure of accounting policies**
Completed projects	Amendments to IAS 1 and IAS 8 —Definition of Material	Amendments to IAS 7 to improve disclosure of changes in financing liabilities	Amendments to IAS 1 to remove barriers to application of judgment
	Materiality Practice Statement	Better Communication Case Studies	Principles of Disclosure research project

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***
- 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

Disclosure Initiative—Subsidiaries that are SMEs

!

There is disclosure overload for subsidiaries that are not publicly accountable if their financial statements are prepared applying IFRS Standards

Solution

Develop an IFRS Standard that permits subsidiaries that are SMEs to apply measurement and recognition requirements of IFRS Standards with reduced disclosure requirements

Approach

Use the *IFRS for SMEs* Standard:

- definition of publicly accountability– to define scope of subsidiaries that are SMEs
- to determine the disclosures to be reduced

Next steps Decide whether on a Discussion Paper or an Exposure Draft

Disclosure Initiative—Disclosure of Accounting Policies

!

Users say that accounting policy disclosures today are often not useful

Stakeholders' views differ about 'significant' accounting policies required by IAS 1

Proposed amendment	Clarify that not all accounting policies that relate to material transactions, other events or conditions are themselves material to the financial statements
	Amend IAS 1 *Presentation of Financial Statements* to require entities to disclose their **material accounting policies** rather than their significant accounting policies
	Add guidance and examples to the Materiality Practice Statement. These will explain how to apply the four-step materiality process to accounting policies

Next steps Redeliberate the proposals in the Exposure Draft

Research Projects

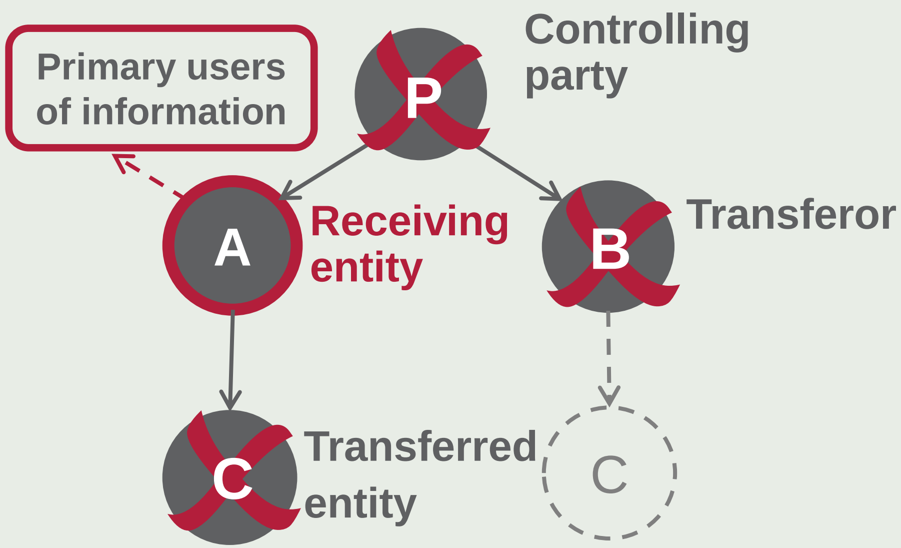
Business Combinations under Common Control

Business Combinations under Common Control

Problem

Absence of IFRS requirements reduces comparability and understandability of financial information

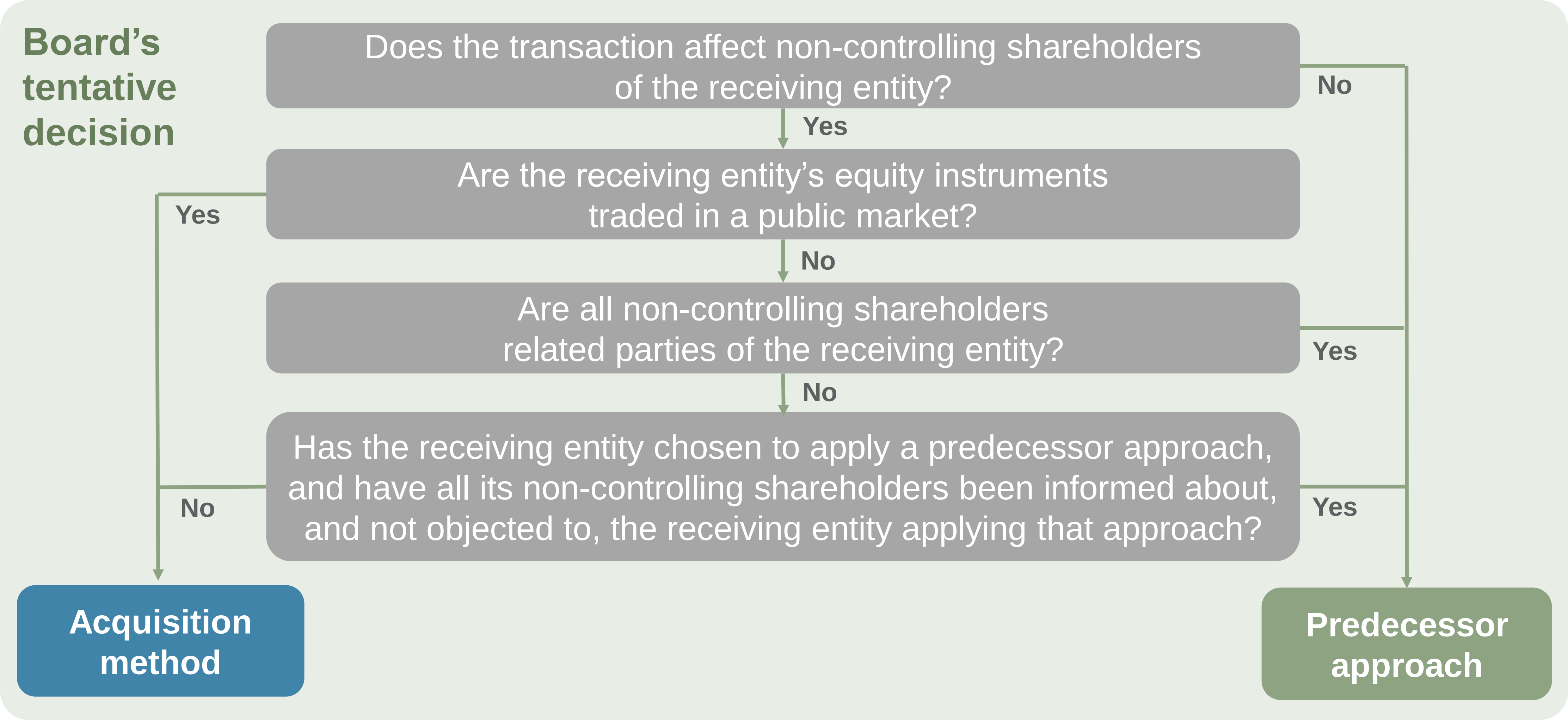
Our focus



Entity A acquires Entity C

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

When each approach should be applied



How each approach should be applied

Board's tentative decisions

Acquisition method	• Apply as set out in IFRS 3 • Recognise a contribution to equity in case of a bargain purchase • Apply all disclosure requirements in IFRS 3 and preliminary views on disclosure in the Goodwill and Impairment project • Provide information about how transaction price was governed
Predecessor approach	• Measure assets and liabilities received at their carrying amounts from transferred entity's financial statements • Measure consideration paid in the form of assets or liabilities at their carrying amounts • Recognise any difference between consideration paid and assets and liabilities received in equity • Provide pre-combination information only about the receiving entity • Apply particular disclosure requirements in IFRS 3 and preliminary views on disclosure in the Goodwill and Impairment project • Disclose the amount of the difference recognised in equity and the component of equity in which that difference is recognised

Next steps The Board expects to publish a Discussion Paper in Q3 2020

Dynamic Risk Management

Dynamic Risk Management—Next steps

Focused outreach expected in H2 2020

After consultation, the Board will decide how best to pursue the next phase of the project

Target audience	Banks that use dynamic interest rate risk management strategies
Participants	Will be defined to achieve geographical representation and include different risk management strategies and balance sheet structures
Format	Individual meetings
Material	Based on the July 2019 Agenda Paper 4B *DRM Model Demonstration*

IBOR Reform and its Effects on Financial Reporting—Phase II

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IBOR Reform—timeline

Q3 2019	Q3 2019	Q4 2019	Q2 2020
Phase I completed	Board discussed the scope of Phase II issues	Board started deliberations on Phase II issues	Exposure Draft published

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

IBOR Reform—Phase II deliberations (1/2)

Classification and measurement of financial instruments—lessee accounting

- Practical expedient for modifications required by IBOR reform—that is, those modifications that are required as a direct consequence of IBOR reform and done on an economically equivalent basis
- All other modifications are accounted for using the current requirements in IFRS 9
- A similar practical expedient is proposed for lessee accounting applying IFRS 16

Reporting outcome

- For qualifying modifications, there would be no specific gain or loss associated with the replacement of the IBOR rate

Hedge accounting

- Hedging relationships shall be amended to reflect modifications required by IBOR reform, without causing discontinuation of hedge accounting
- Amended hedging relationship should meet all qualifying criteria to apply hedge accounting, including measurement requirements

Reporting outcome

- There would be no gains or losses associated with discontinuation of hedging relationships due to IBOR reform

IBOR Reform—Phase II deliberations (2/2)

Disclosure requirement	• The Board proposes new disclosures in IFRS 7 to explain risks arising from IBOR reform to which the entity is exposed and the entity's progress in transitioning to alternative benchmark rates
Mandatory application and effective date	• The proposed amendments apply mandatorily for annual periods beginning on or after **1 January 2021**. Earlier application is permitted
Retrospective application	• Proposed retrospective application to items that exist at the beginning of the reporting period in which an entity first applies the amendments, including reinstating certain qualifying hedging relationships.

Next steps Exposure draft open for comment until 25 May 2020

Financial Instruments with Characteristics of Equity (FICE)

FICE—timeline and problem to address

Q2 2018	Q1 2019	H1 2019	H2 2019	H2 2020
Discussion Paper published	Comment period ended	Analysis of feedback	Discuss potential ways forward	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 about a reporting entity’s own equity instruments

FICE—project plan

The Board will clarify underlying classification principles in IAS 32 (rather than rewriting IAS 32)

Issues

- Classification of financial instruments that will or may be settled in the issuer's own equity instruments
- Accounting for obligations to redeem own equity instruments
- Accounting for financial instruments that contain contingent settlement provisions
- The effects of laws and regulations on the classification of financial instruments
- Reclassification between financial liability and equity instruments
- Classification of particular financial instruments that contain obligations that arise only on liquidation of the entity

Provide classification guidance and illustrative examples

Improve presentation and/or disclosure

Other Active Research Projects

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Other Active Research Projects

Pension Benefits that Depend on Asset Returns

Address a perceived inconsistency in the measurement of a defined benefit obligation (DBO) when the amount of benefits depend on the return of a specified pool of assets

The perceived inconsistency arises because benefits are projected using the expected return and then discounted using a rate determined by reference to the yield of high quality corporate bonds

Extractive Activities

Gather evidence to decide whether to start a project to replace IFRS 6 *Exploration for and Evaluation of Mineral Resources*

Standard-setting Projects

Rate-regulated Activities

Rate-regulated Activities (1/2)

Problem

Regulatory agreements can create rights and obligations for an entity to adjust the regulated rates charged to customers for goods or services supplied in a future period

These rights and obligations are outside the scope of IFRS 15 *Revenue from Contracts with Customers* and other IFRS Standards

Approach

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

Rate-regulated Activities (2/2)

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 issue an Exposure Draft in the second half of 2020

Research pipeline and Post-implementation Reviews

Research pipeline–Projects to start in the future

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

Ongoing PIR: IFRS 10, IFRS 11 and IFRS 12

The purpose of a Post-implementation Review (PIR) is to assess whether a Standard is working as intended

There is no presumption that the PIR will lead to standard-setting

Now	H2 2020	Q2 2021	TBD	TBD
Phase 1—outreach to initially assess and identify matters to be examined	Publish Request for Information	Comment period ends	Phase 2—Board deliberation of comments and other evidence	Project summary

Maintenance projects

Annual Improvements to IFRS Standards 2018 – 2020

IFRS 1

Subsidiary as a first-time adopter

Simplify the application of IFRS1 by a subsidiary that becomes a first-time adopter after its parent in relation to measurement of cumulative translation differences

IFRS 9

Fees in the '10 per cent' test for derecognition of financial liabilities

Clarify the fees an entity includes in assessing the terms of a new or modified financial liability for determining whether to derecognise a financial liability

Illustrative Examples accompanying IFRS 16

Lease Incentives

Remove any potential for confusion regarding lease incentives by amending Illustrative Example IE3

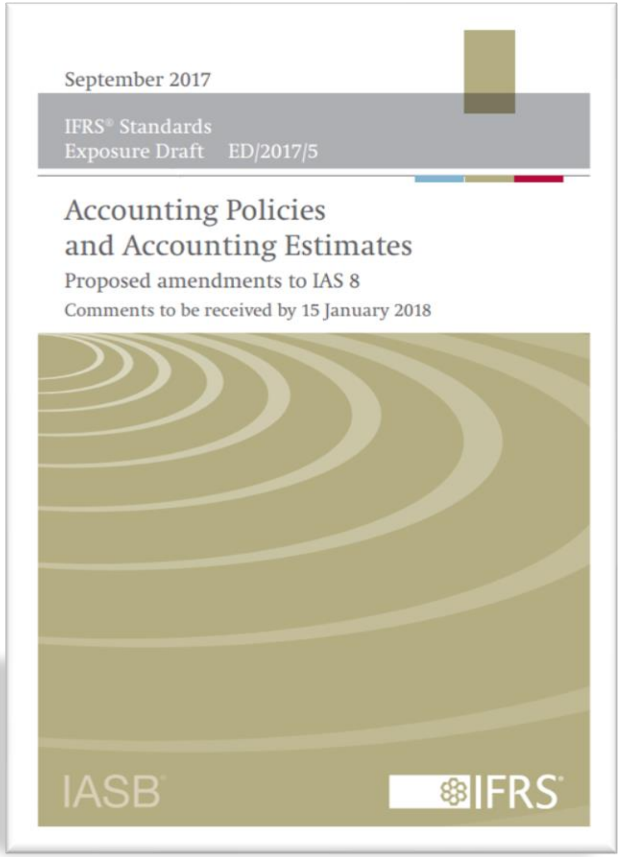
IAS 41

Taxation in fair value measurements

Align the fair value measurement requirements in IAS 41 with those in other IFRS Standards

Next steps: The Board expects to issue the amendments in May 2020

Accounting Policies and Accounting Estimates (IAS 8) (1/3)


September 2017

IFRS® Standards
Exposure Draft ED/2017/5

Accounting Policies
and Accounting Estimates

Proposed amendments to IAS 8

Comments to be received by 15 January 2018

IASB

IFRS

Proposed amendments would clarify:

- How accounting policies and accounting estimates relate to each other
- Selecting an estimation technique (or valuation technique) constitutes making an accounting estimate
- Selecting the inventory cost formulas in IAS 2 constitutes selecting an accounting policy

Accounting Policies and Accounting Estimates (IAS 8) (2/3)

Feedback on the Exposure Draft

Amendments help clarify the distinction between accounting policies and estimates

However:

- concerns on particular aspects
- request for additional clarity and illustrative examples
- questions on cost/benefits of proposed amendments

Accounting Policies and Accounting Estimates (IAS 8) (3/3)

The Board tentatively decided to **finalise the amendments** with the following modifications:

Revise definition of accounting estimates

Monetary amounts subject to **measurement uncertainty**

Output of **measurement techniques** used in **applying accounting policies**

Judgements and **assumptions** used in developing an accounting estimate

Additional clarifications

Estimation and valuation techniques are examples of measurement techniques

Changes in inputs or measurement techniques are changes in accounting estimates

A change in accounting estimate cannot also be a change in accounting policy

Other aspects

- Develop illustrative examples
- Not amend existing definition of accounting policies
- Not address change in inventory cost formulas

Next steps

Amendment date to be decided

Accounting Policy Changes (IAS 8)


March 2018

IFRS® Standards
Exposure Draft ED/2018/1

Accounting Policy Changes

Proposed amendments to IAS 8

Comments to be received by 27 July 2018

IASB

IFRS

Summary of proposed amendments :

A change in accounting policy that results from an agenda decision would be applied retrospectively except to the extent:

- Impracticable; or
- *(Proposed)* cost exceeds benefits

Board considered, but decided not, to amend IAS 8 to address the timing of application of a change in accounting policy that results from an agenda decision

Accounting Policy Changes (IAS 8)

Feedback on the ED

- Scope of proposed cost-benefit threshold
- Applying proposed cost-benefit threshold
- Timing of applying changes

- **In December 2018, Board decided not to amend IAS 8 regarding timing**
- **Other aspects to be discussed at a future meeting**

Property, plant and equipment (PPE)—Proceeds before intended use (IAS 16) (1/2)

Identified problem

Diversity in how entities report the proceeds from selling items before an item of PPE is available for use

Board's approach

Prohibit deducting sales proceeds from the cost of an item of PPE and require an entity to recognise any such proceeds (and related costs) in profit or loss in accordance with applicable IFRS Standards

Other requirements

- ✓ Measurement of the costs of items produced and sold in accordance with IAS 2 *Inventories*
- ✓ Specific disclosures for proceeds and costs when the sale of items is not part of an entity's ordinary activities
- ✓ Definition of testing activities—assessment of the technical and physical performance of the asset only (not financial performance)

Property, plant and equipment (PPE)—Proceeds before intended use (IAS 16) (2/2)

Transition and effective date

- Amendments applied retrospectively only to items of PPE made available for use on or after the beginning of the earliest period presented
- Effective for annual periods beginning on or after 1 January 2022 with earlier application permitted

Next steps

- The Board expects to issue the amendments in May 2020

Lack of Exchangeability (IAS 21)

Lack of Exchangeability

The exchange rate an entity uses when a currency's exchangeability is lacking.

Potential narrow-scope amendments to IAS 21 would:

Identify the circumstances in which exchangeability is lacking

Require estimation of spot exchange rate

Provide disclosures

Next steps Publish Exposure Draft

Provisions—Targeted Improvements (IAS 37)

Developing proposals for three targeted amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

1 Align requirements for identifying liabilities with *Conceptual Framework*

Likely to include replacing IFRIC 21 *Levies* with new application requirements for levies

2 Clarify which costs to include in measure of a provision

Clarify whether costs included should be consistent with those for assessing whether a contract is onerous

3 Specify whether discount rates used should reflect entity's own credit risk

Current practice varies, especially for some long-term provisions

Next steps

- Staff will prepare a project plan for consideration by the Board

Reference to *Conceptual Framework* (Amendments to IFRS 3)

Objective of project

To remove from IFRS 3 *Business Combinations* a reference to an old version of the Board's *Conceptual Framework*

Proposals

1. Replace reference to old version with reference to revised version issued in 2018
2. Prevent increase in liabilities recognised by adding exception for liabilities in scope of IAS 37 *Provisions, Contingent Liabilities or Contingent Assets* or IFRIC 21 *Levies*

Overall effect

- No change to IFRS 3 requirements

Next step

- Board expects to issue IFRS Amendment in May 2020

Onerous Contracts—Costs of Fulfilling a Contract (IAS 37) (1/2)

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**; <u>and</u>
   - ✓ 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

Onerous Contracts—Costs of Fulfilling a Contract (IAS 37) (2/2)

Board decisions (having considered comments)

1. **Proceed** with the project, separately from the Board's research project on Provisions
2. Specify that the cost of fulfilling a contract comprise those that **relate directly** to the contract
3. Replace the examples proposed with a requirement specifying that costs that relate directly to the contract consist of **incremental costs** (eg direct labour and materials) and an **allocation of other costs** (eg allocation of depreciation on equipment used to fulfil the contract)
4. Amend paragraph 69 to refer to assets that **relate directly** to a contract, rather than assets **dedicated** to a contract
5. Require the amendments to be applied to contracts not yet fulfilled at the effective date (with no restatement of comparatives)
6. Not expand the scope of the project

Next steps

- The Board expects to issue the amendments in May 2020

Supporting consistent application

How we support consistent application

How we support new Standards

Work of the IFRS Interpretations Committee

Overview

1 How we support consistent application

Overview

2 How we support new Standards

Example: IFRS 17 Insurance Contracts

3 Work of the IFRS Interpretations Committee

How we support consistent application

Overview

How we support consistent application

Objective in supporting the Standards

We…

help stakeholders obtain a **common understanding** of the requirements - ie what they are aiming for

→

In order to…

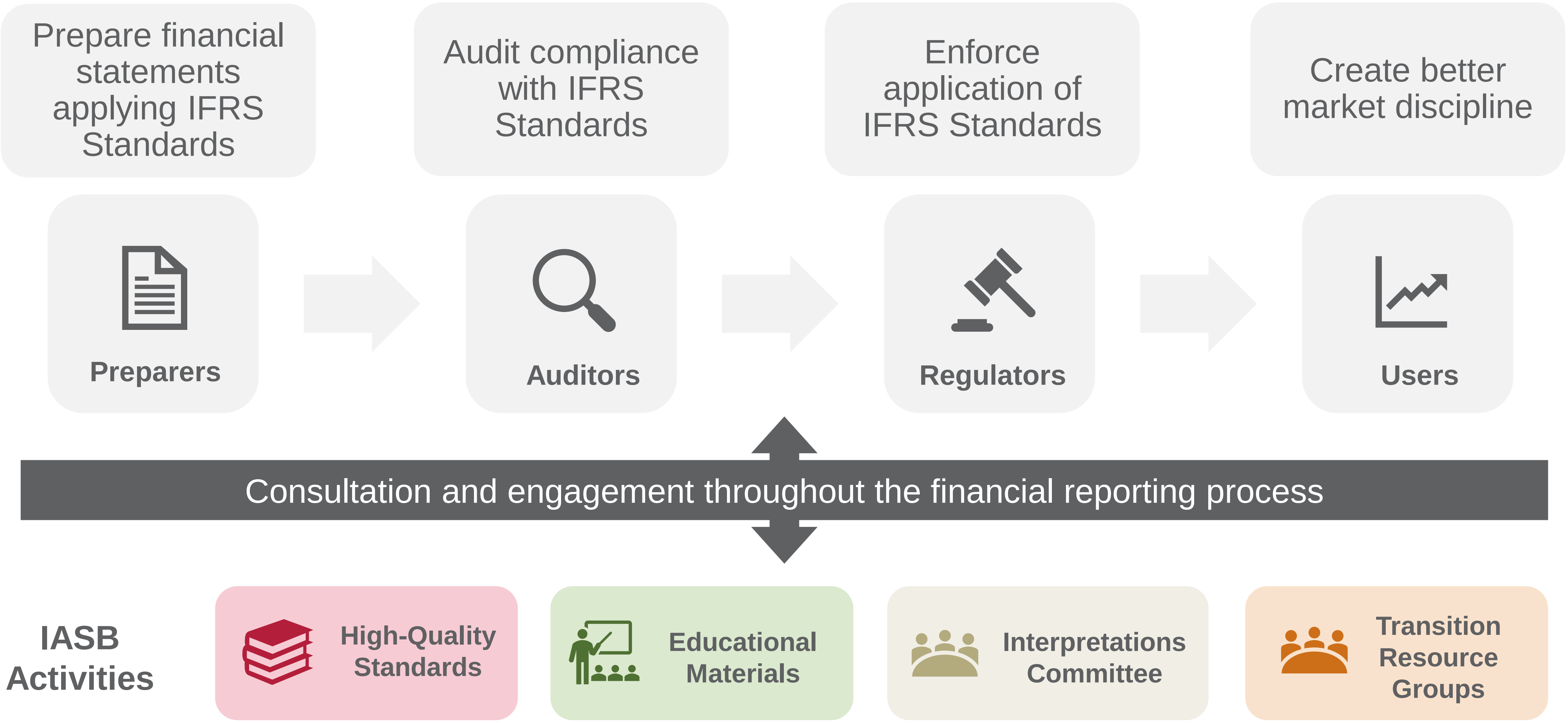
support **consistent application** of IFRS Standards

→

Because it…

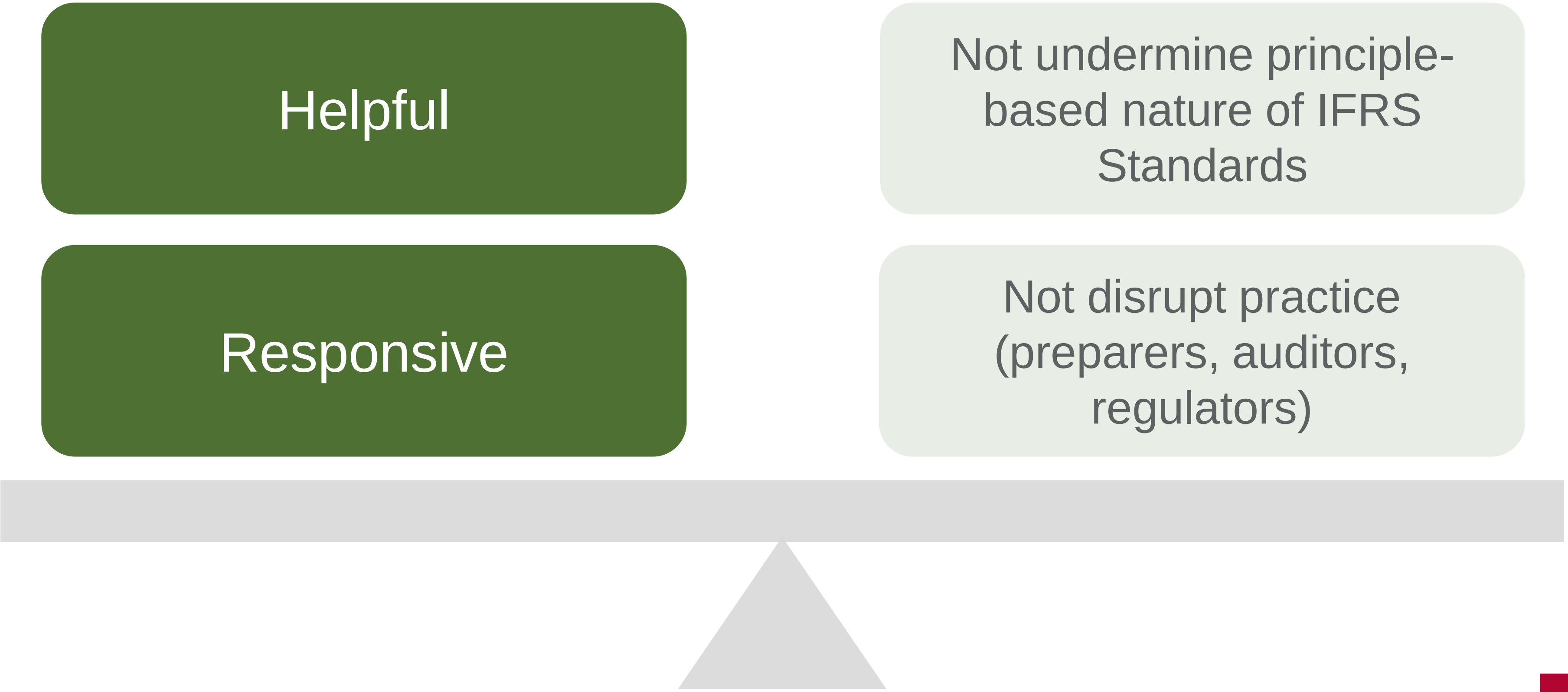
protects IFRS Standards as a single set of **global Standards** for the benefit of users of financial statements

Our role versus the role of others



The challenge

- In supporting consistent application of the Standards, our challenge is to balance:



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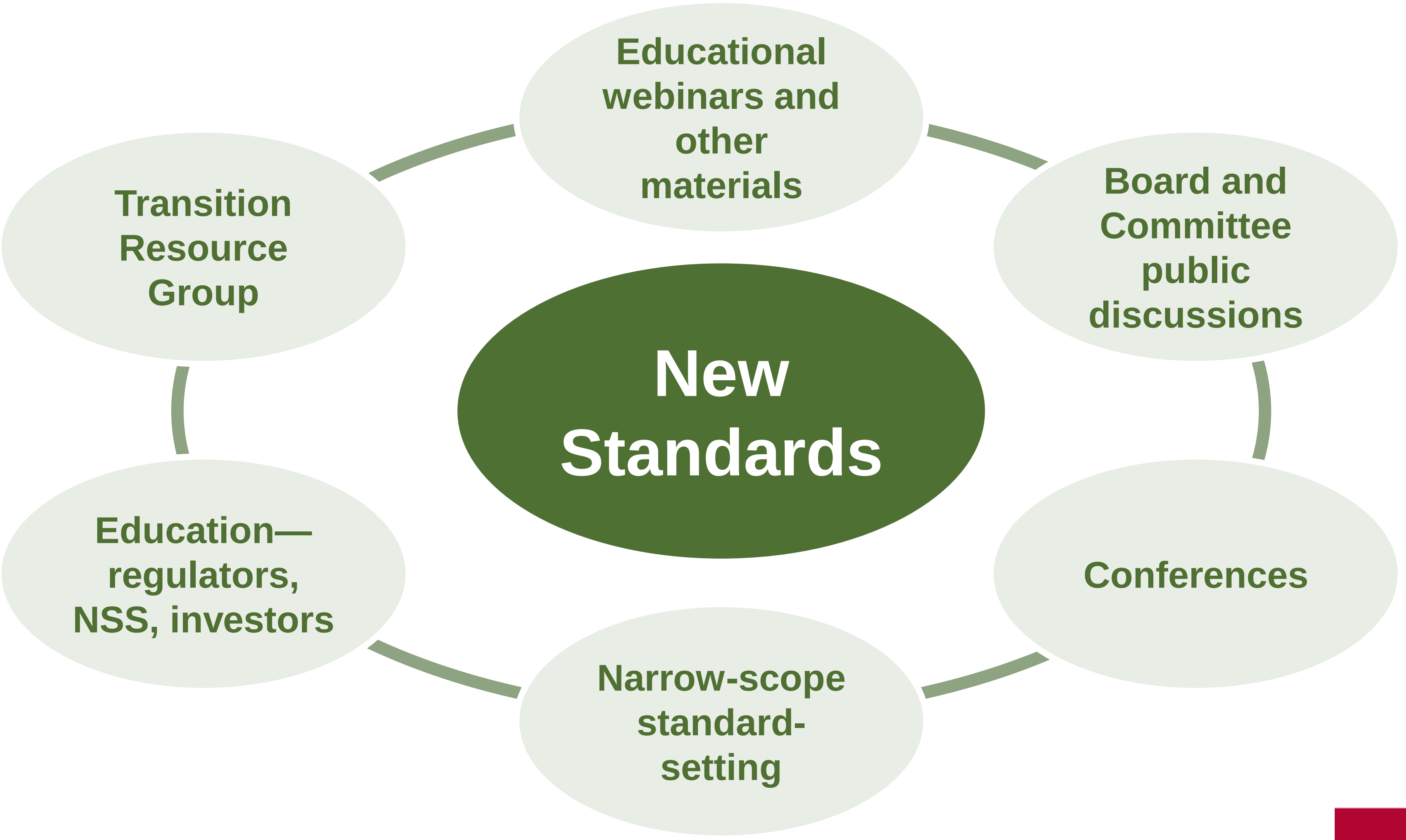
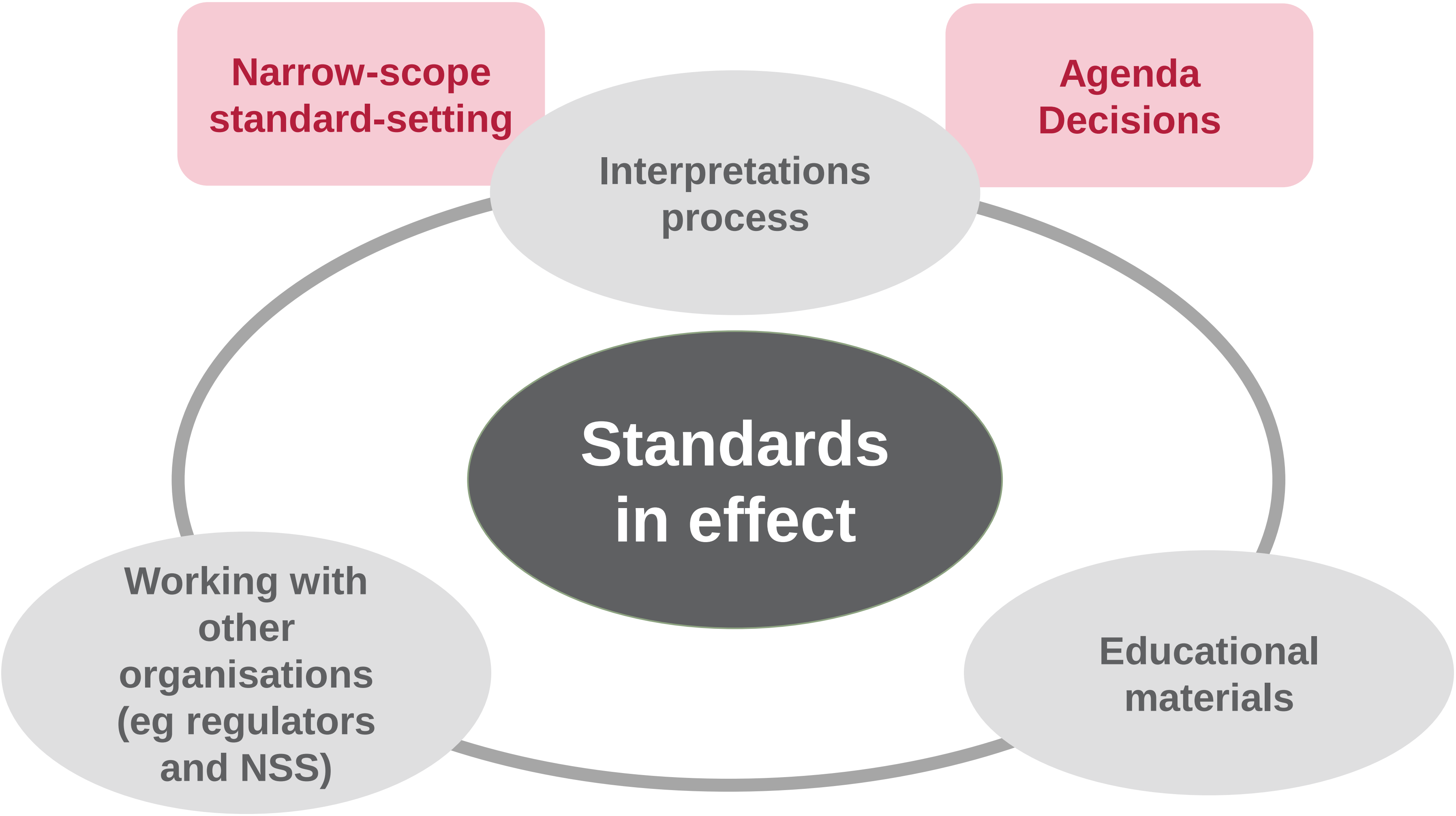
Support for new Standards



Support for Standards in effect



Sample of recent Agenda Decisions

IFRS 9 *Financial Instruments*

- Curing of Credit-impaired Financial Asset
- Fair value hedge of FX risk on non-financial assets
- Highly probable requirement
- Contracts to Buy or Sell a non-financial item

IFRS 16 *Leases*

- Lease term
- Lease liabilities in a Joint Operation
- Lessee's Incremental Borrowing Rate
- Definition of Lease

IFRS 15 *Revenue from Contracts with Customers*

- Promised Goods or Services
- Compensation for Delays / Cancellations
- Training costs*
- Over Time Transfer of Constructed Good

Other Standards

- Cloud Computing Arrangements
- Holdings of Cryptocurrencies
- Hyperinflationary foreign operations*

* Tentative Agenda Decision published. The Committee will consider comments and decide whether to finalise at a future meeting

Requirements coming into effect

Overview

	Effective date
IBOR Reform and its Effects on Financial Reporting—Phase I (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	Exposure draft to be issued to amend effective date

IBOR Reform and its Effects on Financial Reporting—Phase I

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IBOR Reform and financial reporting

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

Phase I: pre-replacement

- Completed in September 2019
- Amendments to IAS 39, IFRS 9 and IFRS 7 to provide temporary relief from specific hedge accounting requirements

Phase II: replacement

- Discussions on Phase II completed in February 2020
- The Board published an Exposure Draft in April 2020 with a comment period of 45-days

IBOR Reform—Phase I highlights

Phase I

Addresses concerns related to the uncertainties arising from IBOR reform by providing relief when applying the following hedge accounting requirements:

- highly probable
- prospective assessment
- IAS 39 retrospective requirement
- separately identifiable risk components

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

Definition of Material (Amendments to IAS 1 and IAS 8)

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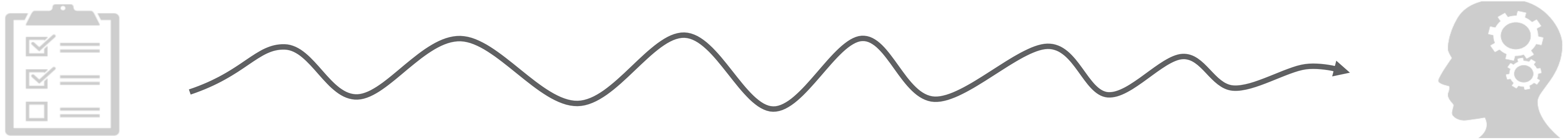
Disclosure Initiative—Definition of Material (Amendments to IAS 1 and IAS 8)

New definition

Information is material if **<u>omitting, misstating or obscuring</u>** it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity



Some think the threshold ‘could influence’ is too low and could be applied too broadly	Replaces with ‘could reasonably be expected to influence’*
Focused only on information that cannot be omitted (material information)	Includes ‘obscuring’ to clarify that the effect of including immaterial information should also be considered*
Referred to ‘users’ but does not specify their characteristics	Uses the wording of the definition in the *Conceptual Framework*

*Consistent with existing requirements in IAS 1 *Presentation of Financial Statements*

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

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Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

Criterion in IAS 1

Liability is classified as non-current only if entity has right to defer settlement for at least 12 months after reporting period

The amendments to IAS 1 clarify this criterion

General clarifications

- Right to defer settlement must exist at end of reporting period
- If right is subject to lending conditions, entity must satisfy those conditions at end of reporting period
- Classification is unaffected by expectations about whether entity will exercise its right

Clarifications affecting convertible bonds

- Counterparty conversion option does not affect classification if recognised separately as equity component of compound financial instrument
- Any other obligation to convert liability to equity **does** affect classification—ie conversion is regarded as settlement

Helpful material

Resources available on our website

Website

www.ifrs.org

Videos

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

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

IFRS Standards and their Annotated equivalents

IFRS Standards

The IFRS® Standards Required 2020	The IFRS® Standards Issued 2020

IFRS Standards + extensive cross-references + annotations

The Annotated IFRS® Standards Required 2020	The Annotated IFRS® Standards Issued 2020

Annotated IFRS Standards also available in Spanish

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