

Update on the Board's Work Plan

IFRS Advisory Council
November 2020

Update on the Board's work plan—contents


Executive summary

- Significant developments since the last meeting
- Snapshot of what's on the horizon

Detailed descriptions

- Consultations in progress
- Forthcoming consultations
- Other projects
- Shaping the next five years

Executive summary

A grayscale world map is the background of the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the continents. A network of thin, dotted lines is also visible, suggesting a global grid or data flow.

Significant developments since the last meeting

Significant developments since the last meeting

Urgent amendments issued

1. Interest Rate Benchmark Report (IBOR) Reform and its Effects on Financial Reporting – Phase 2
2. Amendments to IFRS 17 Insurance Contracts
3. Covid-19-related Rent Concessions (Amendments to IFRS 16)
4. Classification of Liabilities as Current or Non-current – Deferral of Effective Date (due to covid-19)

Research pipeline

Staff began work on project from the research pipeline on the equity method of accounting. The Board will start discussions in October.

Covid-19 response

1. Issued urgent amendments
2. Engaging virtually
3. Monitoring issues
4. Monitoring stakeholder capacity

Technical stakeholder engagement

1. Successful two-day virtual conference in September with nearly 500 participants from 101 countries. This conference incorporated Advisory Council feedback on digital engagement.
2. Newly formed dedicated team to better facilitate stakeholder engagement (see slide 6).

A newly formed technical stakeholder engagement team



Investors



Regulators



Accounting professionals



Preparers



Academics



National standard-setters

Dedicating staff resource to support and manage relationships



Fred Nieto
Stakeholder engagement lead



Henry Rees
Regulators and accounting professionals



Sid Kumar
Investors



Ana Simpson
Preparers, academics and Advisory Council

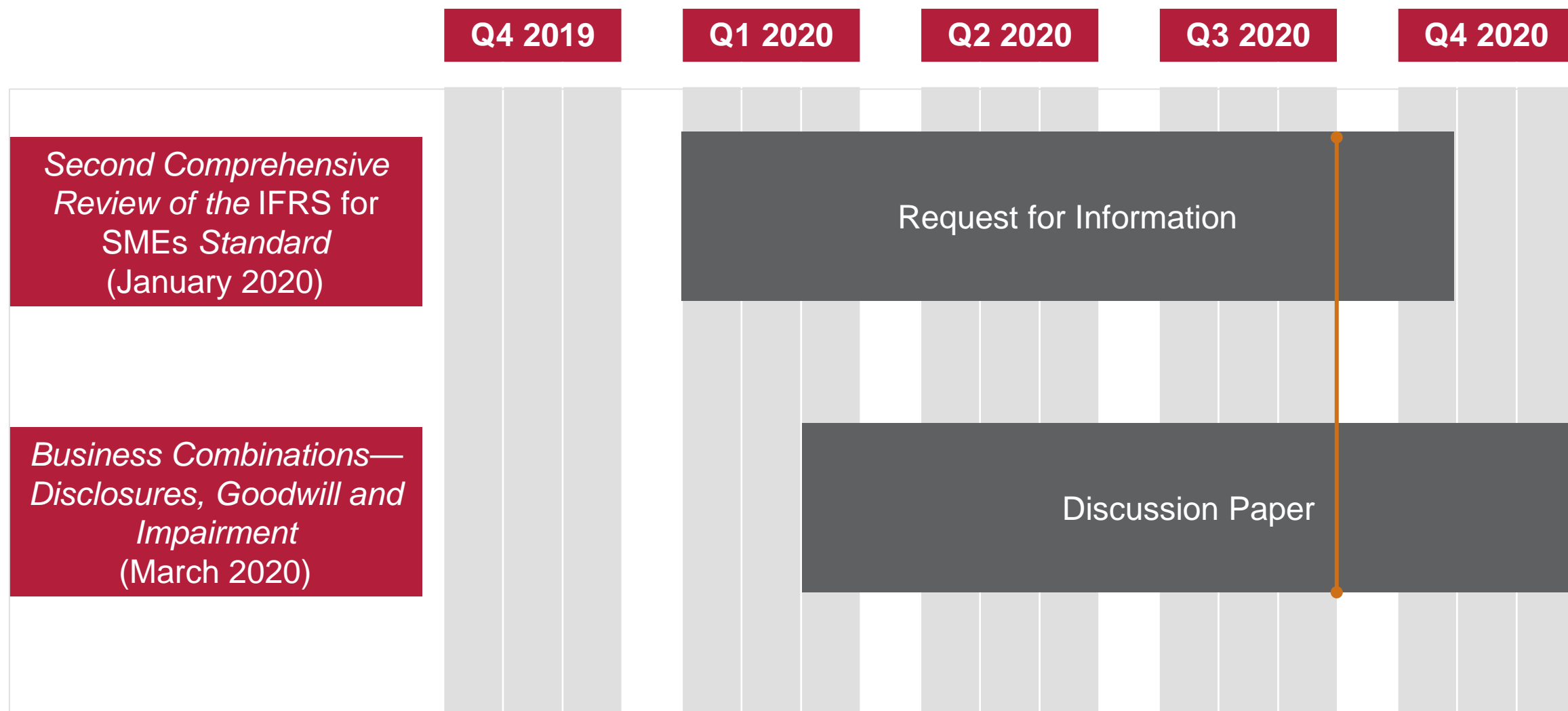


Roberta Ravelli
National standard-setters



Snapshot of what's on the horizon

Consultations in progress



Forthcoming consultations

Business Combinations
under Common Control

Post-implementation
Review of IFRS 10,
IFRS 11 and IFRS 12

Rate-regulated Activities

Management Commentary

Disclosure Initiative—
Targeted Standards-level
Review of Disclosures

Disclosure Initiative—
Subsidiaries that are SMEs

Narrow-scope amendments
to IAS 21

Narrow-scope amendments
to IFRS 16

Requirements coming into effect soon

1 January 2021	1 January 2022	1 January 2023
Interest Rate Benchmark (IBOR) Reform—Phase 2	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> (Amendments to IAS 16)	<i>Classification of Liabilities as Current or Non-current</i> (Amendments to IAS 1)
	<i>Reference to the Conceptual Framework</i> (Amendments to IFRS 3)	IFRS 17 <i>Insurance Contracts</i> (amended in June 2020)
	<i>Onerous Contracts—Cost of Fulfilling a Contract</i> (Amendments to IAS 37)	Accounting Policies and Accounting Estimates (Amendments to IAS 8)
	<i>Annual Improvements to IFRS Standards 2018–2020</i>	Disclosure Initiative—Accounting Policies

Detailed descriptions



Consultations in progress

Review of the *IFRS for SMEs* Standard



Objective

- seek feedback on whether and how to align with IFRS Standards
- decide whether to propose amendments

Questions on...

- A** ... strategy and the general framework for the review
- B** ... sections of the *IFRS for SMEs* Standard that could be aligned with IFRS Standards
- C** ... new topics and other matters related to the *IFRS for SMEs* Standard

Business Combinations—Disclosures, Goodwill and Impairment



Objective

- improve information companies provide about their acquisitions

Preliminary views

- 1**
 - Disclose management’s objectives for acquisitions
 - Disclose performance against those objectives subsequently
- 2**
 - Retain impairment-only model for goodwill
 - Simplify impairment test
- 3**
 - Present amount of total equity excluding goodwill
 - Do not change recognition of intangibles separately from goodwill

A grayscale world map is the background. Overlaid on the left side are several concentric, curved lines that sweep across the map. Some of these lines are solid, while others are composed of small white dots. The overall aesthetic is clean and modern.

Forthcoming consultations

What is coming in the near future

Business Combinations under Common Control

Identified problem

No IFRS requirements for how to account for business combinations under common control. Diverse accounting practices apply.

Approach

- Use **acquisition method** in specified cases
- Use **book-value method** for other combinations

- Apply as set out in IFRS 3 *Business Combinations*
- Recognise a contribution to equity in case of a bargain purchase

Acquisition method

- Measure received assets/liabilities at the transferred company's book values
- Measure paid consideration in the form of assets/liabilities at their book values
- Recognise difference between paid consideration and received assets/liabilities in equity

Book-value method

Forthcoming consultation document

Discussion Paper expected in November 2020

Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12

Purpose

Assess whether IFRS 10, IFRS 11 and IFRS 12 are working as intended

Selecting topics to be covered in the Request for Information

Consolidated reports

- Control assessment
- Investment entities
- Particular accounting requirements

Joint arrangements

- Collaborative arrangements
- Classifying joint arrangements
- Accounting for joint operations

Disclosures

- If meet users' needs
- Information that is difficult to prepare or redundant

Forthcoming consultation document

Request for Information expected in Q4 2020

Rate-regulated Activities

Identified problem

- Regulatory agreements can create rights and obligations for a company 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 Standards but information about them would be useful to users of the company's financial statements

Approach

Develop an accounting model that:

- recognises these rights and obligations as regulatory assets and regulatory liabilities
- measures those regulatory assets and regulatory liabilities using a cash-flow-based technique
- presents net movement between the opening and closing carrying amounts of regulatory assets and regulatory liabilities immediately below the revenue line item

Forthcoming consultation document

Exposure Draft expected in January 2021

Management Commentary

Purpose

Revise the IFRS Practice Statement 1 *Management Commentary* issued in 2010, which sets out a non-binding framework for preparing management commentary on financial statements

Approach

- Consolidate innovations in narrative reporting since 2010
- Address gaps in reporting practice, such as the short-term focus in reporting and failure to identify and discuss matters that are specific and important to a company
- Retain a principle-based approach, but provide sufficient detail to support rigorous application of the Practice Statement by companies and the effective review of companies' management commentaries by auditors and regulators
- Can meet information needs by referencing others' disclosure requirements

Forthcoming consultation document

Exposure Draft expected in Q1 2021

Disclosure Initiative—Targeted Standards-level Review of Disclosures

The disclosure problem

- Not enough relevant information
- Too much irrelevant information
- Ineffective communication

Approach

- Help stakeholders improve the usefulness of disclosures for the primary users of financial statements
- Develop guidance for IASB to use when developing and drafting disclosure objectives and requirements
- Objective is not to change the volume of required disclosures, although this may be a consequence

Forthcoming consultation document

Exposure Draft expected in March 2021

Disclosure Initiative—Subsidiaries that are SMEs

Purpose

For SME subsidiaries with a parent that reports applying IFRS Standards, reduce costs without removing information needed by the users of the subsidiaries' financial statements

Solution

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

Approach

Use the *IFRS for SMEs* Standard to:

- define scope of subsidiaries that are SMEs (non-publicly accountable)
- determine the starting point for the reduced disclosure requirements

Forthcoming consultation document

Discussion Paper or Exposure Draft

Narrow-scope amendments to IAS 21

Problem with IAS 21

What exchange rate should a company use when a currency's exchangeability is lacking?

Possible amendments to IAS 21

- Identify the circumstances in which exchangeability is considered lacking
- Require estimation of spot exchange rate using new guidance
- Provide disclosures

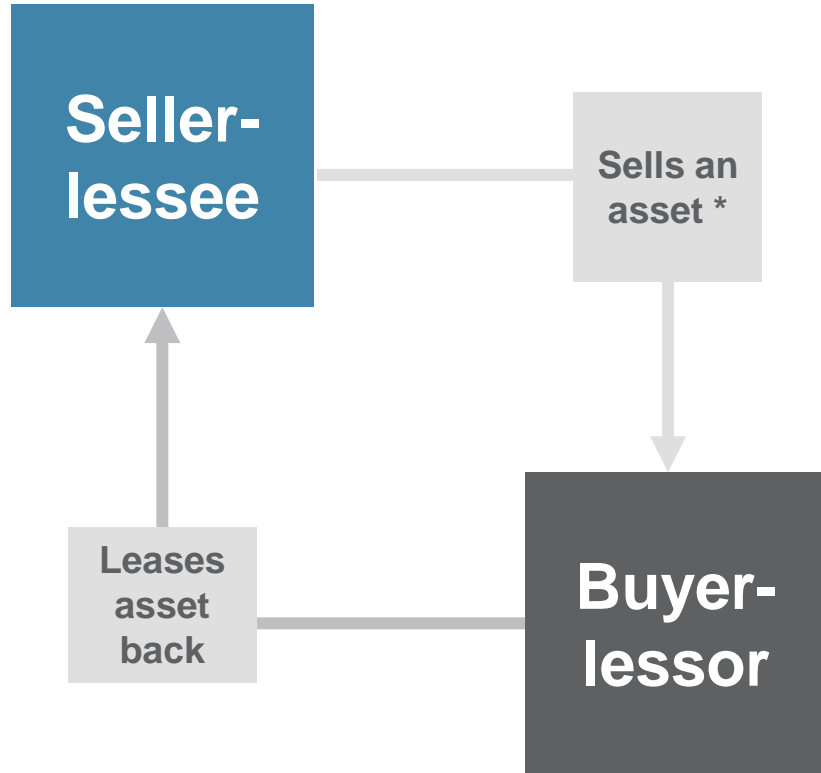
Transition

Prospectively with no restatement of comparatives

Forthcoming consultation document

Exposure Draft

Narrow-scope amendments to IFRS 16



* The transaction satisfies the requirements in IFRS 15 to be accounted for as a sale

Problem with IFRS 16

How to measure lease liability with variable payments in a sale and leaseback subsequently

Possible amendments to IFRS 16

- Clarify how subsequent measurement requirements in IFRS 16 apply to the liability
- Include examples illustrating how seller-lessee accounts for a sale and leaseback with variable payments

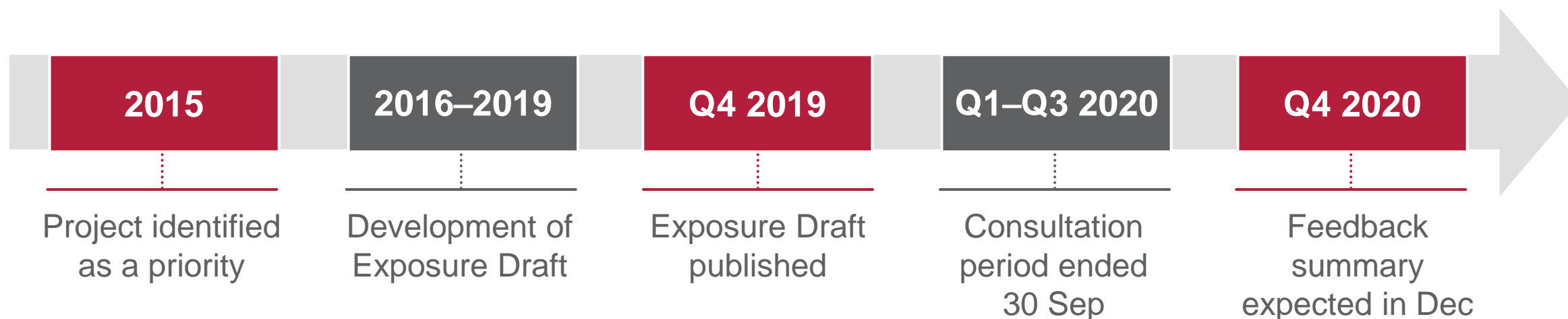
Forthcoming consultation document

Exposure Draft expected in Q4 2020

A stylized world map in shades of gray, overlaid with several thick, curved, light-gray lines and a network of dotted lines, suggesting global connectivity or project scope.

Other projects

General Presentation and Disclosures



Objective

- improve how information is communicated
- focus on information included in the statement of profit or loss

Main proposals

- 1 Require additional **defined subtotals** in statement of profit or loss
- 2 Strengthen requirements for **disaggregating information**
- 3 Require disclosures about **management performance measures**

Dynamic Risk Management

Objective

Develop an accounting model that will better reflect a company's dynamic risk management process in the financial statements. The process involves understanding and managing the amount, timing and uncertainty caused by interest rate risks

Core model

Derivatives

+

Asset profile

=

Target profile

- When **derivatives** are successful in aligning the **asset profile** with the **target profile**, changes in fair value of such derivatives are deferred in OCI and reclassified to the statement of profit or loss over time
- Assuming perfect alignment, the results reported in the statement of profit or loss should reflect the company's target profile

Next steps

Focused outreach on the core model from October 2020

Financial Instruments with Characteristics of Equity

Objective

- Improve the information that companies provide in their financial statements about financial instruments that they have issued
- Address challenges with applying IAS 32 *Financial Instruments: Presentation*

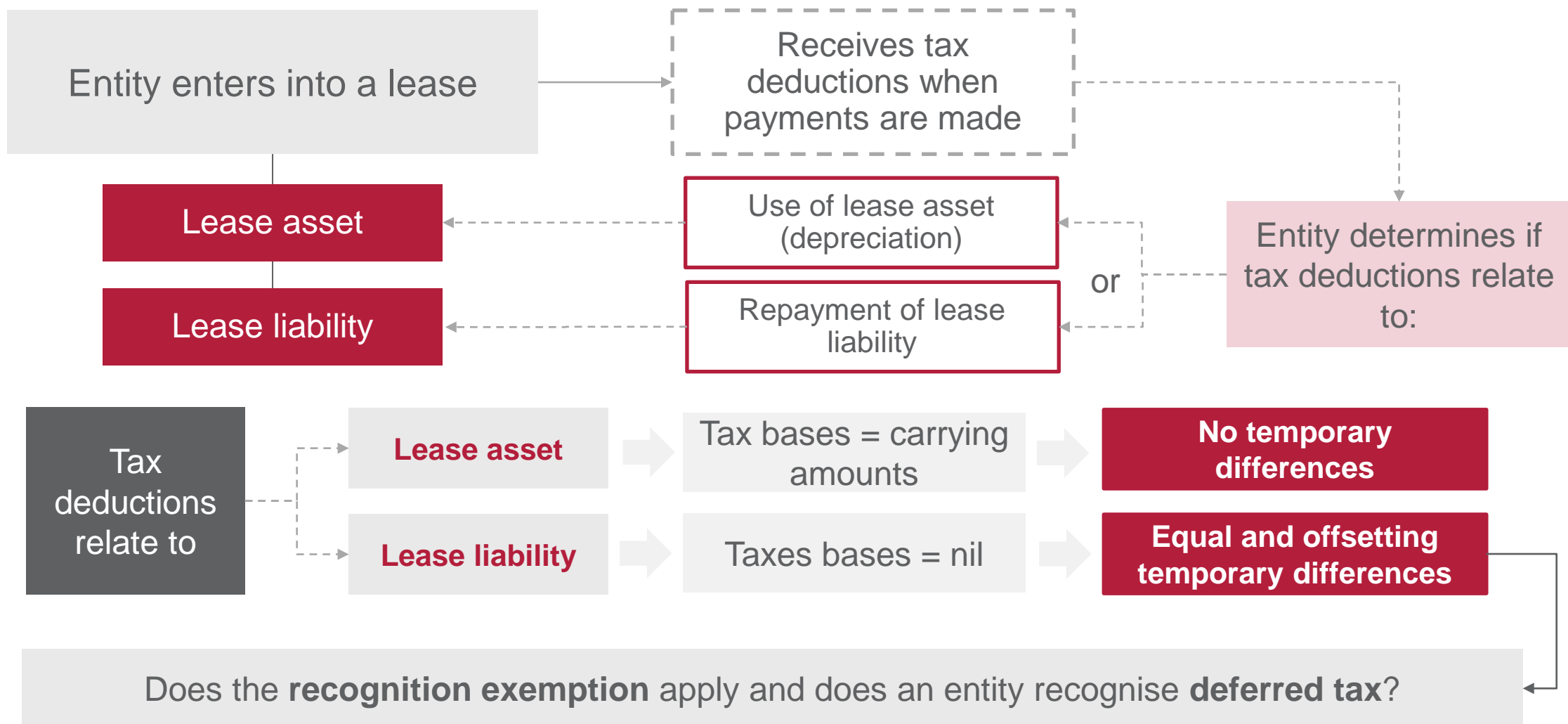
Project plan

- Explore clarifying IAS 32 classification principles (rather than rewriting IAS 32) to address practice issues (eg classification of financial instruments settled in the issuer's own equity instruments)
- Provide classification guidance and illustrative examples
- Improve presentation and disclosure

Next steps

Outreach on specific topics and IASB discussion of practice issues

Deferred tax related to assets and liabilities arising from a single transaction (IAS 12) (1/2)



Deferred tax related to assets and liabilities arising from a single transaction (IAS 12) (2/2)

IASB proposes to amend IAS 12 *Income Taxes*

IASB considered the purpose of the recognition exemption

Leases may give rise to **equal** and **offsetting** temporary differences

Exemption is not needed



Narrowing the scope of the recognition exemption

An entity recognises deferred tax to the **extent** that the transaction gives rise to **equal amounts** of **deferred tax assets** and **liabilities**



Reasons for the amendment

- Faithful representation
- Reduce diversity
- Narrow in scope

Next steps

Decide project direction at a future IASB meeting

Provisions—Targeted Improvements (IAS 37)

Objective

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

Targeted amendments

- **Align requirements** for identifying liabilities with *Conceptual Framework*
- Clarify which **costs** to include in measure of a provision
- Specify whether **discount rates** used should reflect entity's own credit risk

Next steps

Staff will prepare a project plan for consideration by the IASB

Other research projects in the current work plan

Pension Benefits that Depend on Asset Returns



Objective

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

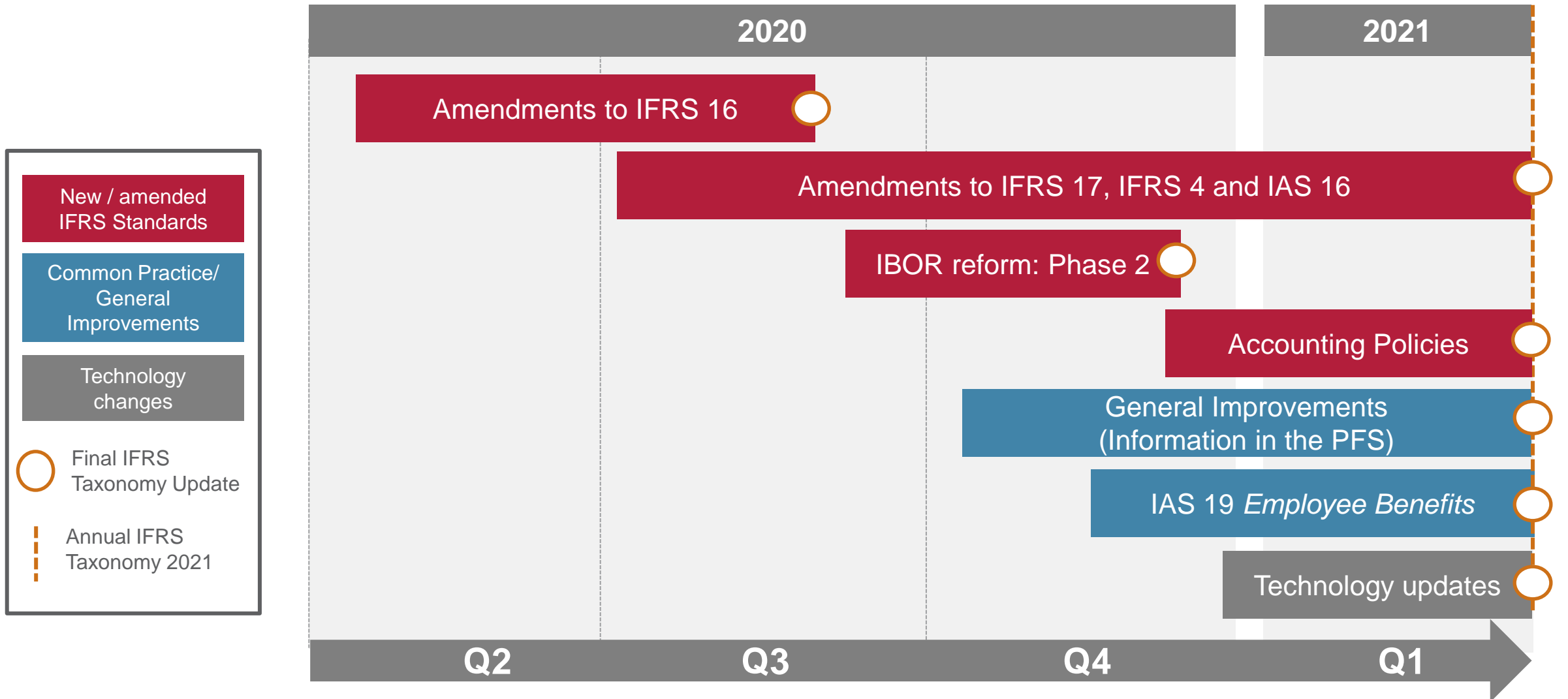
Extractive Activities



Objective

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

2020 updates to the IFRS Taxonomy



Research pipeline and other projects (projects not yet started)

- 1 Post-implementation review of IFRS 5**

Evaluate whether IFRS 5 is working as intended, including reviewing several issues raised to the Interpretations Committee
- 2 Pollutant Pricing Mechanisms**

Assess whether the IASB should develop a proposal to address any diversity that may exist in accounting for pollutant pricing mechanisms
- 3 High Inflation: Scope of IAS 29**

Assess whether it is feasible to extend the scope of IAS 29 *Financial Reporting in Hyperinflationary Economies* to cover economies subject to high inflation, rather than hyperinflation
- 4 Variable and Contingent Consideration**

Cross-cutting issue raised in 2015 Agenda Consultation and in earlier deliberations of other topics. This work may also lead to follow on work on risk-sharing and collaborative arrangements



Shaping the next five years

The next agenda consultation

Defining the IASB work plan for 2022–2026



The purpose of an agenda consultation is to seek feedback on

Strategic direction and balance of work plan

Criteria for assessing projects to be added

Priority of financial reporting issues

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