

IFRS® Foundation

IASB Technical Update

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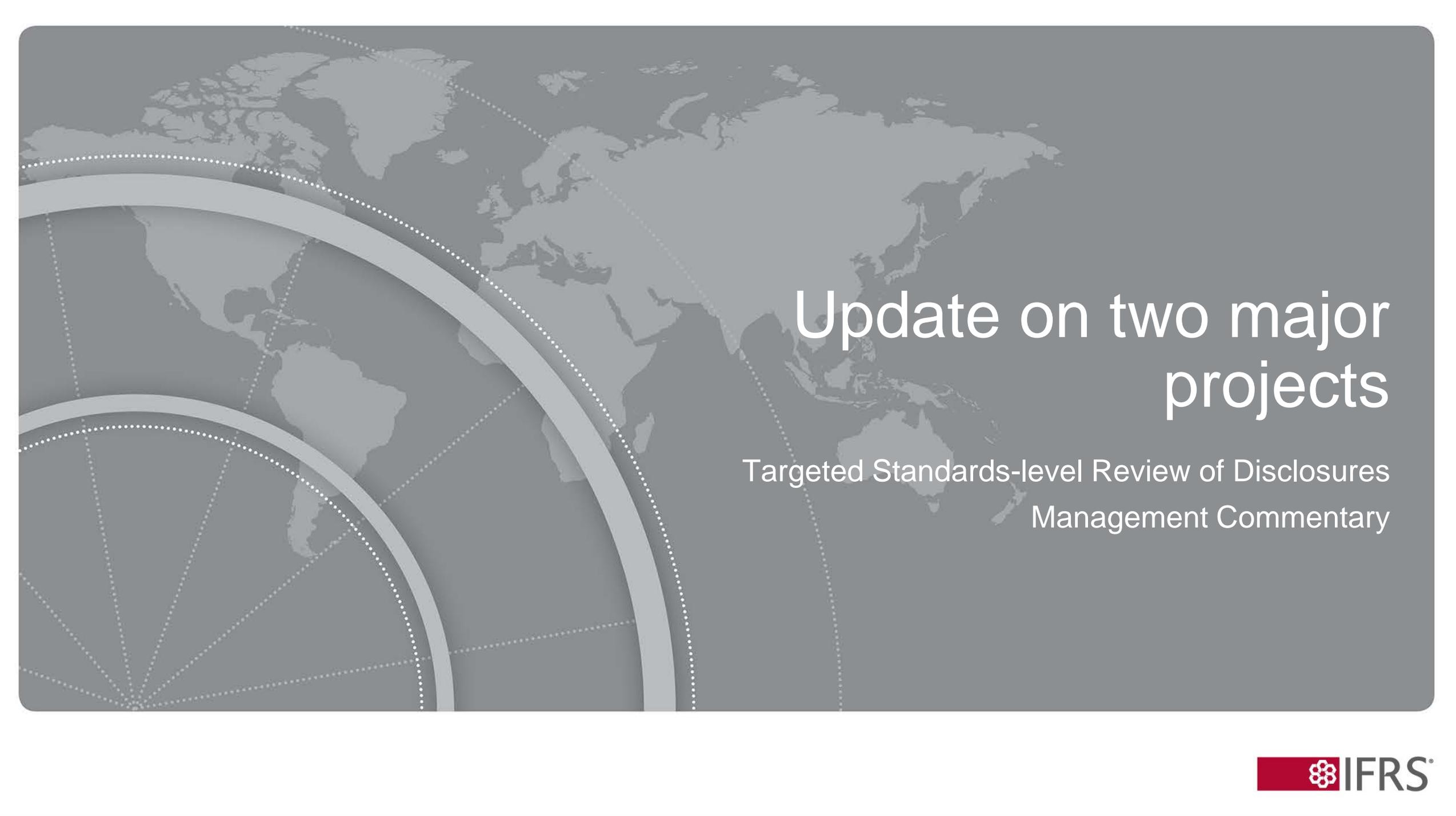
EAA Annual Congress
May 2021

Overview

Update on two major projects – Targeted Standard-level Review of Disclosures and Management Commentary

Update on other projects – Primary Financial Statements, Goodwill and Impairment, Business Combinations under Common Control, Rate Regulated Activities

Other updates – PIR IFRS 10/11/12, PIR IFRS 9 Classification and Measurement, IASB, response to covid-19, Agenda Consultation, Sustainability consultation



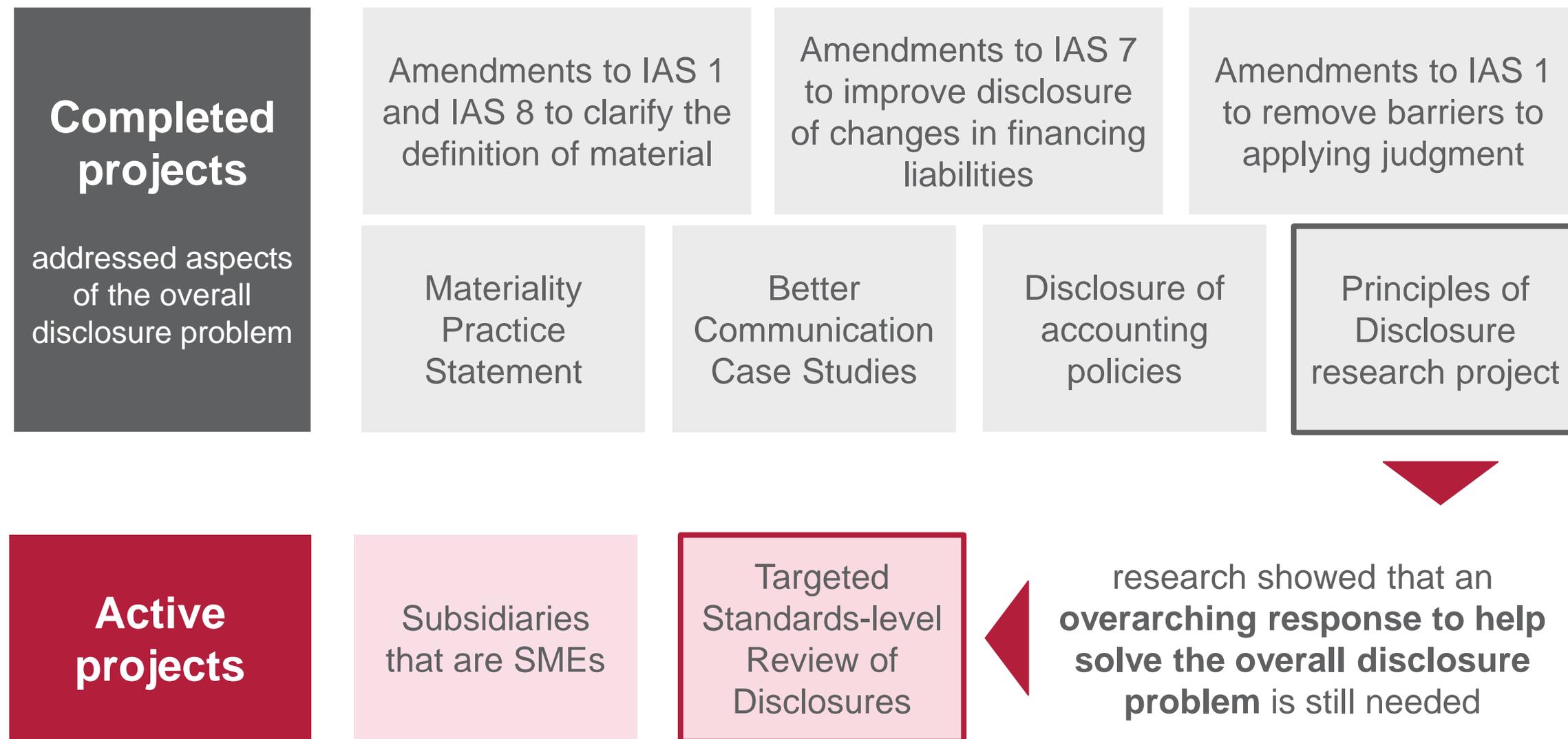
Update on two major projects

Targeted Standards-level Review of Disclosures
Management Commentary



Targeted Standards-level Review of Disclosures

Overview of Disclosure Initiative projects

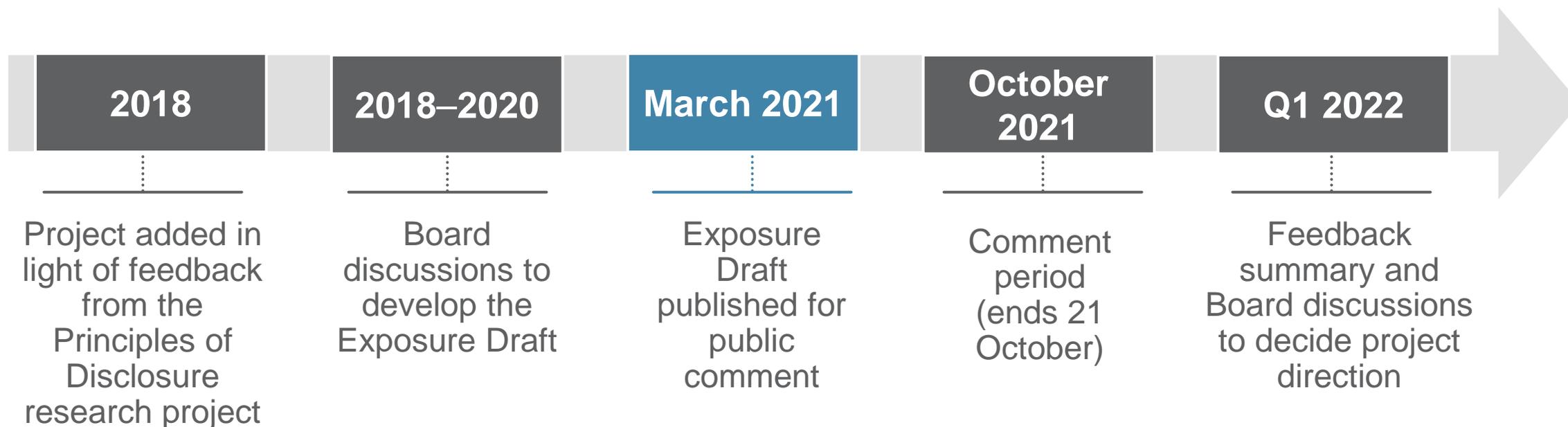


Project objective and timeline



objective

To improve the Board's approach to developing disclosure requirements in IFRS Standards, so companies can enhance their judgements in preparing the notes and provide more useful information for investors



What has the IASB heard?



It can be hard for companies to avoid the **checklist approach**



Standards-level activity would be the **most effective** thing the IASB can do



Disclosure requirements in IFRS Standards often **contribute** to the disclosure problem



Standards-level activity would help **other stakeholders** play their part in addressing the disclosure problem

How do the IASB's proposals respond?



Disclosure sections based on **stakeholder needs**

Seek **early input** from users of financial statements, companies and others

Understand (and balance?) **costs and benefits**



Detailed **disclosure objectives**

Explain **why** users of financial statements want information and **what** they will do with it

Help companies to determine what information is (and isn't) **material** in their case

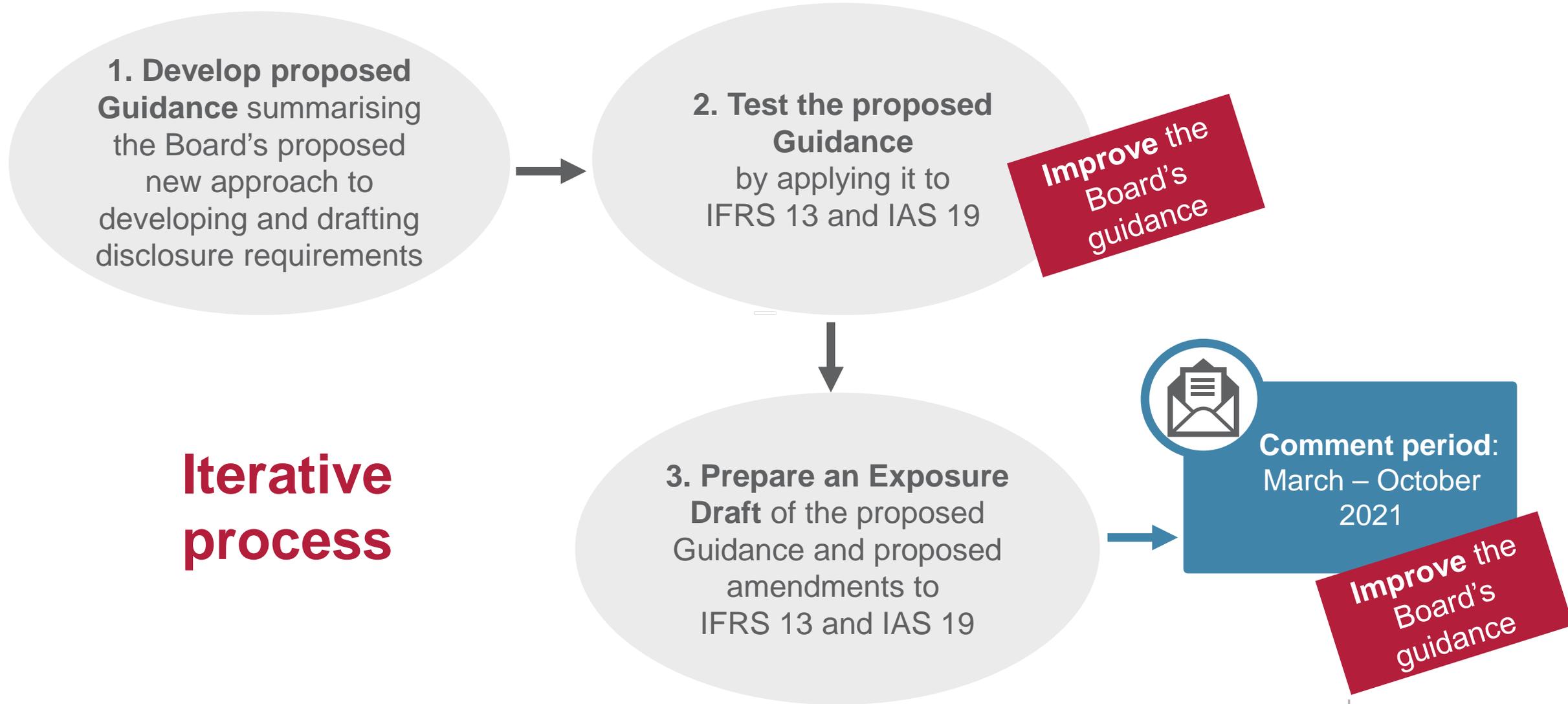


Language that encourages application of **judgement**

Place **compliance requirement** ('shall') on satisfying disclosure objectives

Items of information help companies determine how to satisfy disclosure objectives ... they are **not a checklist**

Project approach



Proposed amendments to IAS 19



Key messages from stakeholders

Focus on the risk: defined benefit plans

Investors prioritise information about future cash flow effects of defined benefit obligations

Ineffective communication about the effect of defined benefit plans on the primary financial statements is a problem

Many of today's disclosures are onerous to prepare



Board's main proposals

- **Disclosure objectives that explain and focus on key investor needs**—for example:
 - ✓ an 'executive summary' of amounts in the primary financial statements for defined benefit plans.
 - ✓ information about the future cash flow effects and risk exposure of defined benefit plans.
- Removal of less decision-useful and costly information, such as a detailed sensitivity analysis.

Companies are **required** to satisfy disclosure objectives. Items of information will help companies to apply judgement.

Proposed amendments to IFRS 13



Key messages from stakeholders

Proper application of materiality is critical. Detailed disclosures often:

- focus on immaterial fair value measurements; and
- do not contain information about material fair value measurements.

Today's disclosures are onerous to prepare

Investors rarely ask a company questions about its detailed fair value measurement disclosures



Board's main proposals

- **Disclosure objectives that explain and focus on key investor needs**—for example, information about a company's exposure to uncertainties.
- Require companies to focus on the appropriate level of detail.
- Removal of a perceived Level 3 checklist by avoiding reference to particular levels of the fair value hierarchy.

Companies are **required** to satisfy disclosure objectives. Items of information will help companies to apply judgement.

What stakeholder input is the Board looking for?

Proposed
Guidance for
the Board



Proposed
amendments
to IFRS 13
and IAS 19

Would the proposals enable companies to...

avoid applying disclosure requirements like a checklist?

make effective materiality judgements?

eliminate immaterial disclosures?

identify when additional or different information needs to be disclosed?

better understand investor needs and identify information that would meet those needs?

determine how best to satisfy disclosure objectives in their own circumstance?

Would the proposals...

lead to better information for investors?

give auditors and regulators a basis for challenging judgement instead of relying on a checklist?

lead to benefits that exceed costs?

How you can contribute

The International Accounting Standards Board (Board), together with *Accounting in Europe* and *The British Accounting Review*, has published a joint call for research papers on one or more of the following topics:

- compliance with mandatory disclosure requirements;
- specific areas of interest to the Board; and
- alternative research approaches.

The deadline for submissions is 31 January 2022.

[Access more details about the call for research and how to submit papers.](#)



Management Commentary

Why is the IASB doing the project?



Changing information needs

Increased demand for information about:

- Long-term prospects
- Intangibles
- Environmental, social and governance (ESG) matters



Gaps in current reporting practice

- Too much generic information
- Lack of focus on matters important to the entity's prospects
- Short-term focus
- Fragmentation
- Lack of balance



Developments in narrative reporting

- Notions of 'enterprise value' and 'value creation'
- Focus on resources and relationships, including intangibles
- Developments in sustainability reporting

What is the IASB aiming to achieve?

Better framework focused on investors and creditors' information needs

Provides an effective basis for:

- **preparers** to tell a coherent story
- **regulators** to mandate the Practice Statement
- **auditors** to provide external assurance

Can be applied alongside local laws and regulations and other narrative reporting requirements

Incorporates innovations in narrative reporting and addresses gaps in reporting practice

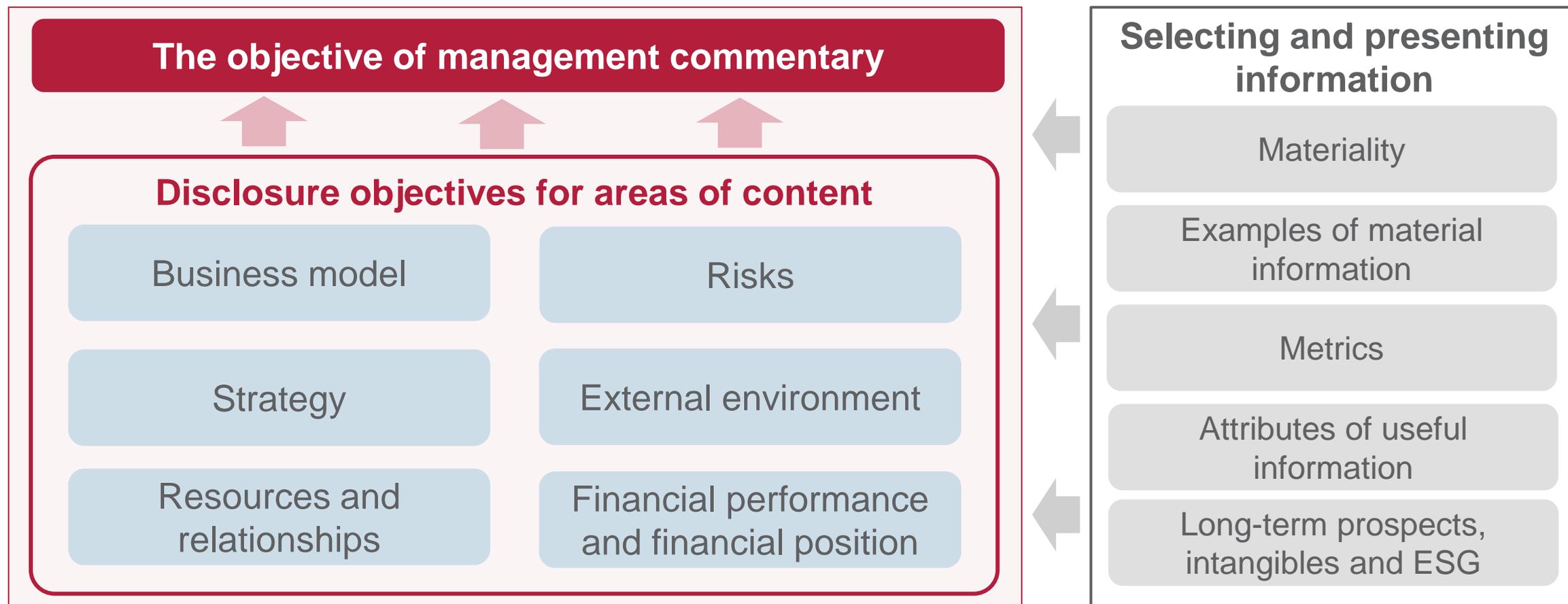


Proposals in the Exposure Draft

What is the IASB proposing?



Comprehensive objectives-based framework



The objective of management commentary



Management commentary provides information that:

- enhances understanding of the company's **financial statements**

what has affected the company

- provides insight into the company's **ability to create value and generate cash flows**

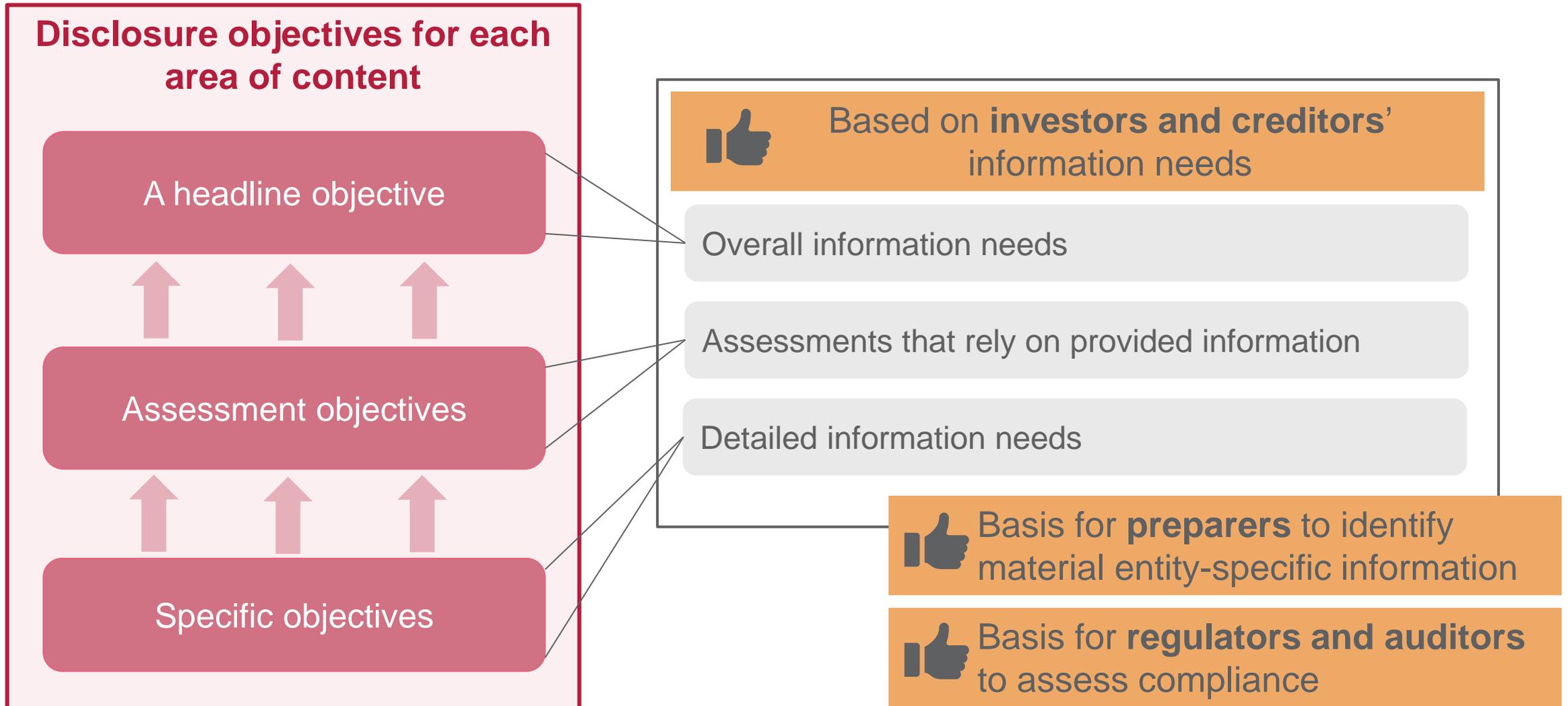
what might affect the company, including in the long-term



Information is provided if **material** for investors and creditors' assessments of:

- the company's prospects for future cash flows
- management's stewardship of the company's resources

Disclosure objectives: the design



Disclosure objectives: Business model as an example

Disclosure objectives

A headline objective

Assessment objectives

Specific objectives

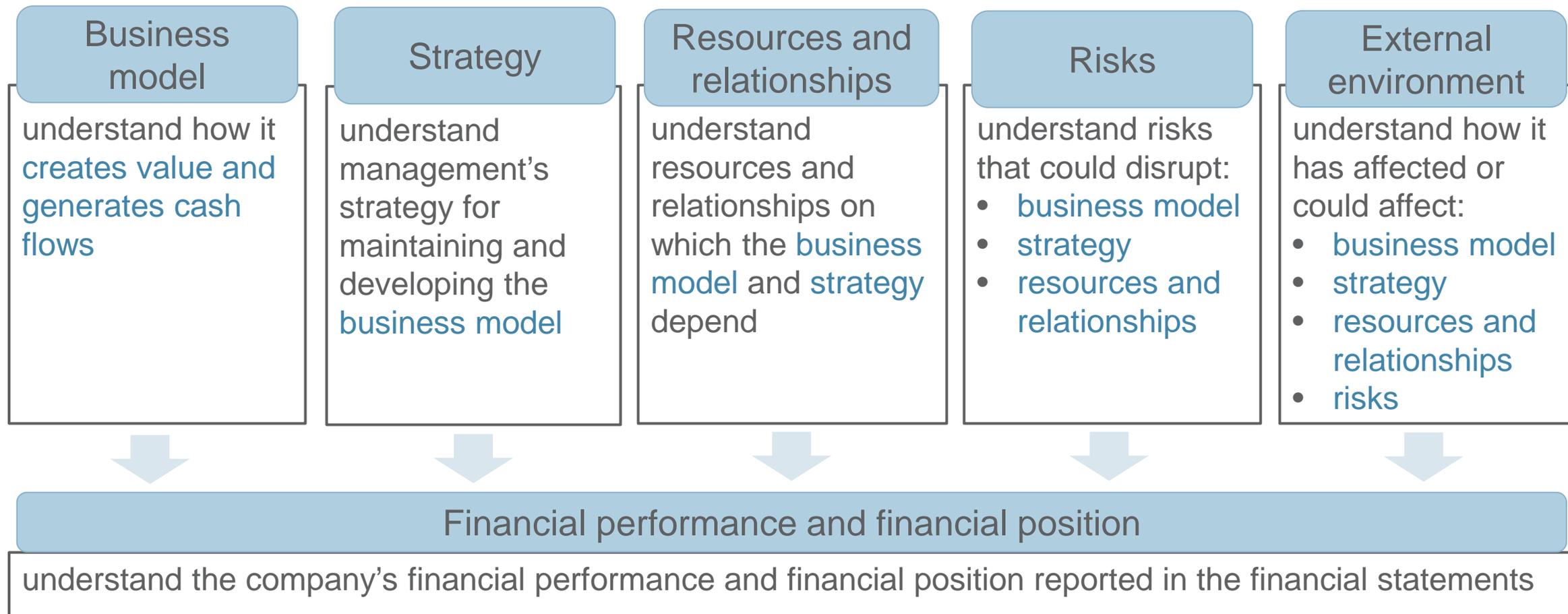
Business model

- How the company's business model creates value and generates cash flows
- How effective the company's business model is
- How scalable and adaptable it is
- How resilient it is
- The range, nature and scale of the company's operations
- The cycle of creating value and generating cash flows
- Environmental and social impacts of the company's activities
- Progress in managing the company's business model

Headline disclosure objectives: an overview



Objectives are linked to help preparers tell coherent story



Materiality and focus on key matters

Proposed guidance on making materiality judgements

- disclosure objectives and examples of information that might be material
- guidance on **key matters**
- indications that information might be material
- guidance on aggregation
- guidance on uncertain future events



Investors and creditors get material entity-specific information that focuses on key matters

Fundamental to the company's ability to create value and generate cash flows, including in the long term

Likely to be monitored and managed by management

Likely to be pervasive and relate to more than one area of content

Metrics

- Material information likely to include metrics that management uses to:
 - **monitor key matters**
 - **measure progress** in managing those matters
- Depend on the company's activities and the industry in which it operates



Investors and creditors get entity-specific metrics useful for their assessments

The Exposure Draft proposes

Examples of metrics for each area of content

For business model metrics may relate to:

- the scale of the entity's operations
- the inputs involved in those operations
- environmental or social impacts of the company's activities
- effects of impacts on the company

Requirements for provided metrics

Relate to:

- clarity and accuracy
- comparability
- coherence

Attributes of useful information

Completeness

Balance

Accuracy

**Clarity and
conciseness**

Comparability

Verifiability

Based on the *Conceptual Framework*

Simplified terminology

Some additional guidance



Coherence

- Within management commentary
- Across the company's reports

Long-term prospects, intangibles and ESG



Dedicated appendix

- **Overview** of requirements and guidance to consider in providing material information about:
 - matters that could affect the company's long-term prospects
 - intangible resources and relationships
 - environmental and social matters
- **Examples of application** in described fact patterns

Management commentary does not replace a company's governance report



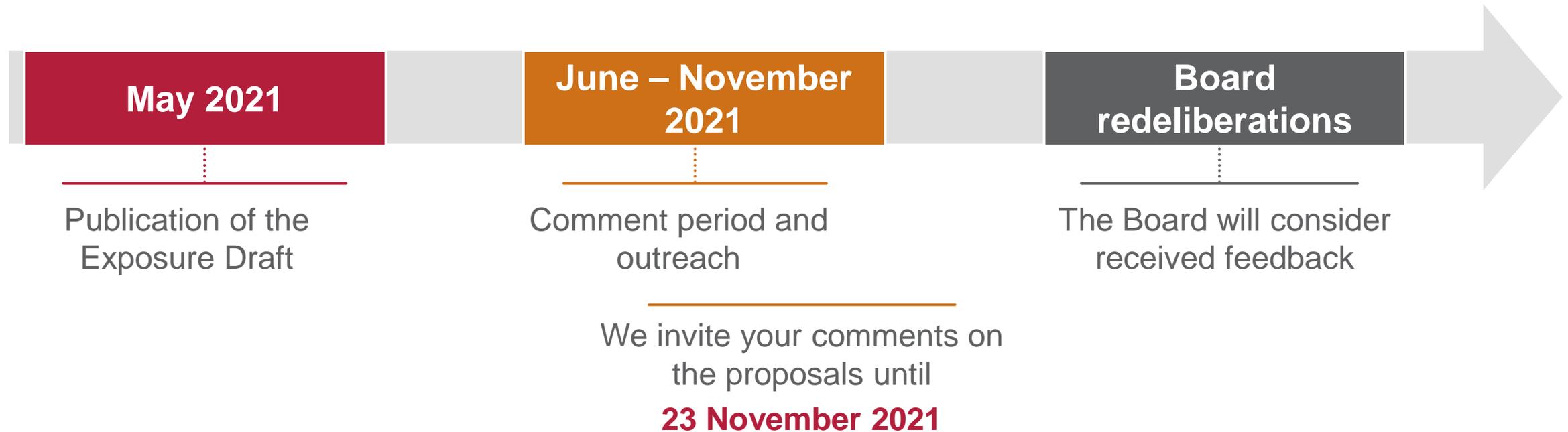
Other sustainability frameworks:

- can help identify information that might be material
- other information specified by those frameworks can be also included if it does not obscure material information



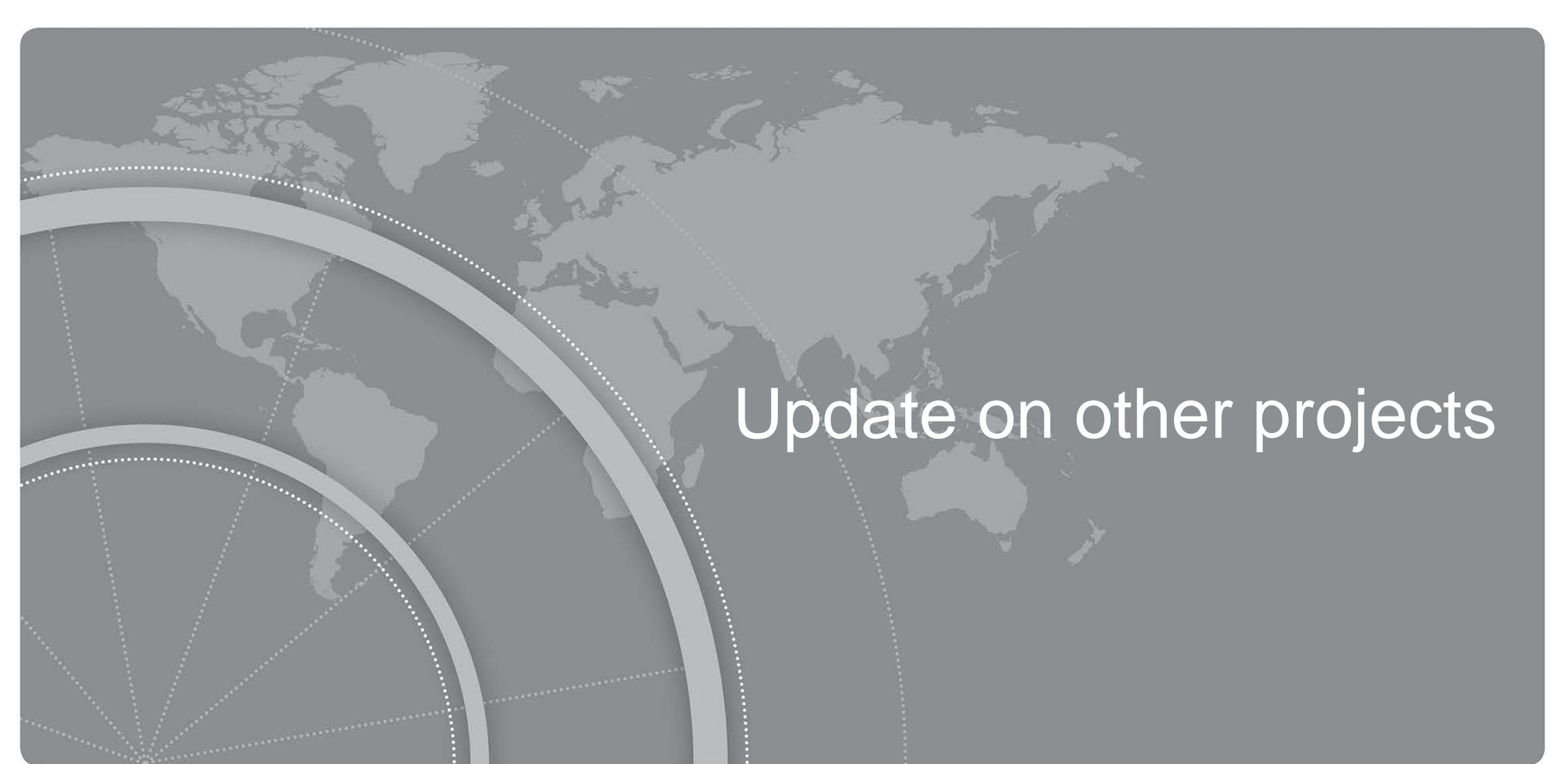
Help **preparers** identify material company-specific information and focus on what is important to investors and creditors

Next steps and how can you help?



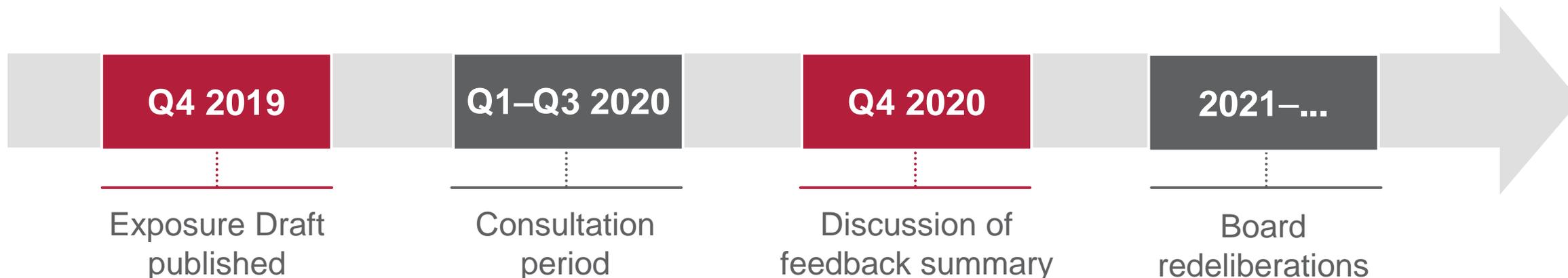
A grayscale world map is the background, showing continents and oceans. Overlaid on the map are several thick, light gray curved lines that sweep across the globe from the bottom left towards the top right. A network of thin, dotted white lines is also visible, forming a grid-like pattern across the map.

Questions?

A grayscale world map is the background, showing continents and a grid of dotted lines. Overlaid on the left side are several thick, curved, light-gray lines that sweep across the map from the bottom left towards the top right.

Update on other projects

Primary Financial Statements



Objective

- Improve communication in financial statements
- 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**

Key proposals in the ED & expected benefits

What users said 	Key proposals 	Expected benefits of proposals 
<p>Structure and content of statements of profit or loss varies between different entities, making it difficult to compare entities' performance</p>	<p>1 Introduce defined subtotals in the statement of profit or loss</p>	<p>Additional relevant information and a P&L structure that is more comparable between entities</p>
<p>Level of disaggregation does not always provide the information they need</p>	<p>2 Strengthen requirements for disaggregating information</p>	<p>Additional relevant information and material information not being obscured</p>
<p>Non-GAAP measures can provide useful information, but transparency and discipline need to be improved</p>	<p>3 Require companies to disclose information about management performance measures in the notes.</p>	<p>Transparency & discipline in use of such measures Disclosures in a single location</p>

*The Exposure Draft also contains other proposals, including targeted improvements to the statement of cash flows.

3 Not all performance measures are MPMs

Performance measures

Non-financial performance measures

For example:

- Number of subscribers
- Customer satisfaction score
- Store surface

Financial performance measures

(Sub)totals of income and expenses

IFRS-specified

For example:

- Profit or loss
- Operating profit
- Operating profit before depreciation and amortisation

MPMs

For example:

- Adjusted profit or loss
- Adjusted operating profit
- Adjusted EBITDA

Other measures that are not subtotals of income/expenses

For example:

- Free cash flow
- Return on equity
- Net debt
- Same-store sales

Goodwill and Impairment



Preliminary views



Objective

- Improve information companies provide about their acquisitions

1

- Disclose management's objectives for acquisitions and subsequently disclose the performance against those objectives
- Some targeted improvements to existing standards

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 balanced package

Possible changes the Board considered	Objectives		Board's preliminary view
	More useful information	Reduce cost	
1 Improve disclosures about acquisitions	✓	✗	Yes, change
2 Amortise goodwill	✗	✓	No, do not change
Provide relief from annual quantitative impairment test	...	✓	Yes, change
Amend how value in use is estimated	✓	✓	Yes, change
3 Present total equity excluding goodwill	✓	...	Yes, change
Include some intangible assets in goodwill	✗	✓	No, do not change

✓ In line with objective

✗ In conflict with objective

... No significant impact

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1 Improving disclosures about acquisitions

What is the issue?



Investors do not get enough information about acquisitions and their subsequent performance

- Such information would allow investors to hold management to account (stewardship).
- IFRS Standards do not specifically require companies to disclose information about the subsequent performance of acquisitions.

Board's preliminary view: require disclosures

At the acquisition date:



- Strategic rationale for acquisition
- Objectives for the acquisition
- Metrics for monitoring achievement of objectives

After the acquisition date:



Performance against objectives

2C Simplifying the impairment test

Relief from an annual impairment test



Having to perform the test annually, even when they have no reason to suspect an impairment has occurred, adds unnecessary cost.



- Remove requirement to test CGUs containing goodwill for impairment at least annually.
- Companies must still assess whether there is any indicator of impairment, and perform the impairment test if there is.

Simplifying value in use estimates



IAS 36 contains certain restrictions on value in use that add cost and complexity to the test, and deviates from common industry practice.



- Remove restriction on including some cash flows in value in use estimates.
- Cash flow forecasts still need to be reasonable and supportable.
- Allow use of post-tax discount rates and post-tax cash flows.

Business Combinations under Common Control



Objective

- Fill a 'gap' in IFRS Standards
- Give investors the information they need without imposing unnecessary costs on companies

Preliminary views

- 1 Specify which method should be applied in which circumstances to reduce diversity in practice and improve transparency in reporting
- 2 Use the **acquisition method** set out in IFRS 3 *Business Combinations* for combinations that affect investors outside the group, including all combinations by companies whose shares are publicly traded
- 3 Use a **book-value method** to be specified in IFRS Standards in all other cases – such as group restructurings involving wholly-owned subsidiaries

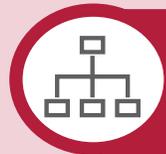
Scope of the project

Fill the gap in IFRS Standards



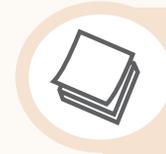
Which transactions?

All transfers of businesses under common control



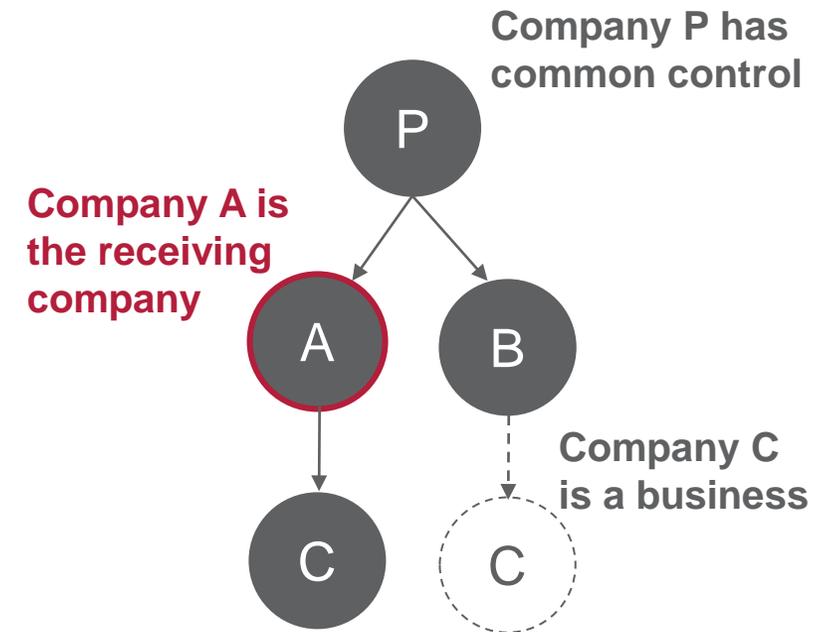
Which company?

Receiving company



Which financial statements?

Typically consolidated financial statements



Our focus



Useful information for the primary users of the receiving company's financial statements

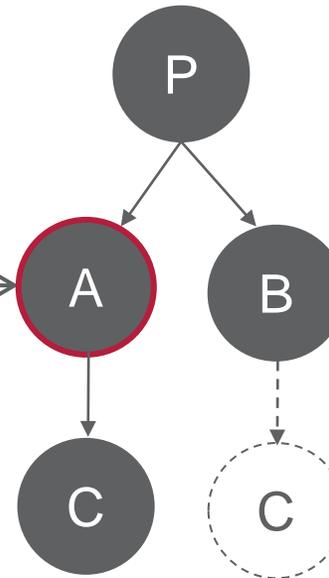
Subject to the cost-benefit trade-off

Non-controlling shareholders

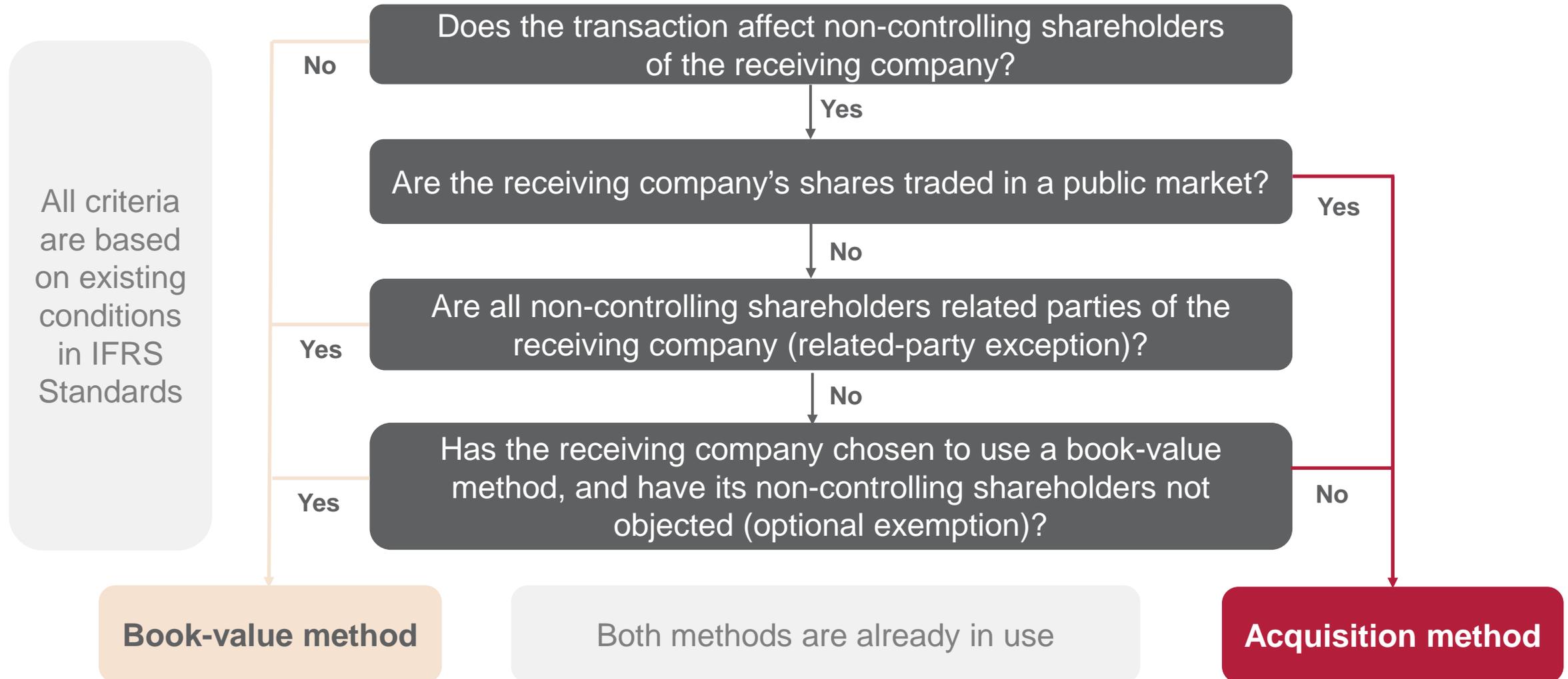
Potential shareholders

Lenders and other creditors

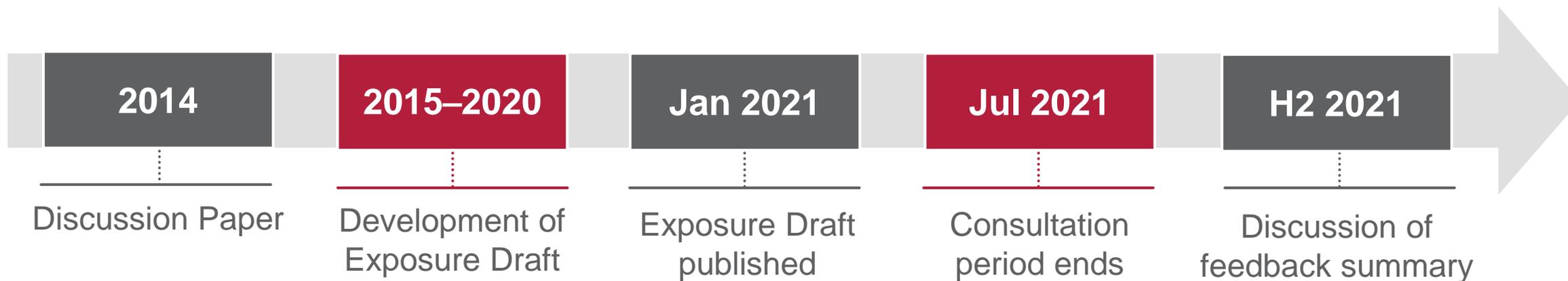
Primary users can have different information needs



How to determine which method to use?



Rate-regulated Activities



Objective

- Provide information about the effects of regulatory income, regulatory expense, regulatory assets and regulatory liabilities on companies financial performance and financial position

Main proposals

- 1 Require recognition of **regulatory assets, regulatory liabilities, regulatory income** and **regulatory expense**
- 2 Reflect **compensation** for goods or services supplied as part of a company's reported financial performance for the period in which it supplies those goods or services
- 3 Measure regulatory assets and regulatory liabilities using a **cash-flow-based** measurement technique

Why are we doing this project?

A regulatory agreement establishes

HOW MUCH a company can charge for supplying goods or services to customers—the Exposure Draft calls this ‘**Total allowed compensation**’



WHEN the company can charge that compensation to customers through the rates

Generally in the same period as the supply of goods or services

If in a **different** period than the period of supply—a **difference in timing** arises

Expenses recognised when goods or services are supplied

(ie before or after)

Revenue recognised when compensation for those goods or services is charged through the rates

Difference in timing makes it difficult for users to understand the relationship between revenue and expenses

Differences in timing—an illustration

- Company A charges a regulated rate for goods supplied in 20X1 that has been set based on estimated input costs of CU100. Actual input costs for 20X1 were CU120. Estimated and actual input costs for 20X2 were CU100.
- Company A has a right given by the regulatory agreement to add the under-recovery of CU20 of input costs incurred in 20X1 in the regulated rate for goods to be supplied in 20X2.

Company A's Statement of profit or loss would include the following amounts:

	20X1 CU	20X2 CU
Revenue	100	120
Input costs	(120)	(100)
Profit (loss)	(20)	20

In the absence of information about the difference in timing of CU20, investors would not understand:

- revenue in 20X1 does not include compensation of CU20 that relates to goods supplied in that year; and
- revenue in 20X2 includes compensation of CU20 that relates to goods supplied in 20X1.

A grayscale world map is the background, showing continents and oceans. Overlaid on the map are several thick, curved, light-gray lines that sweep across the globe from the bottom left towards the top right. Additionally, there are several dotted lines that form a grid-like pattern across the map, representing latitude and longitude lines.

Questions?

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Other Updates

Post-implementation reviews

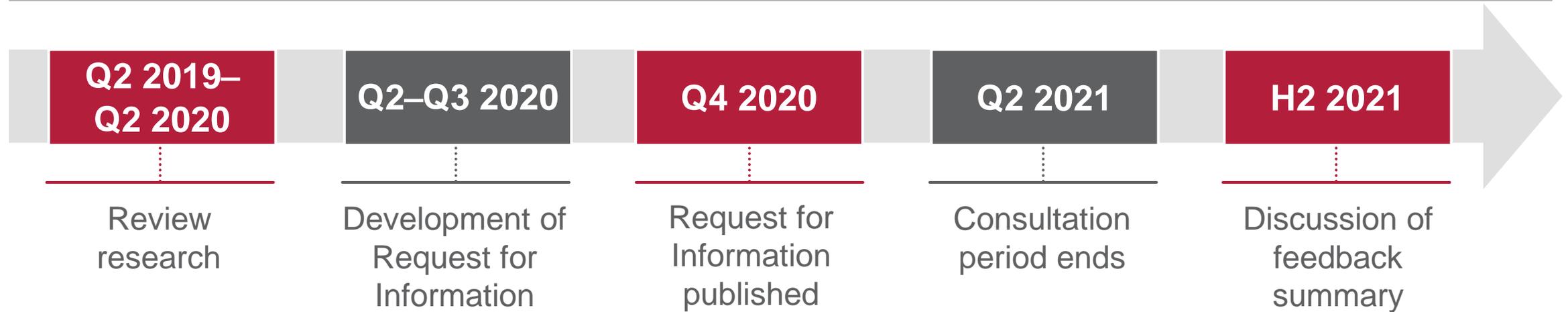
What is a post-implementation review

- The International Accounting Standards Board (Board) undertakes a post-implementation review of a new IFRS Standard or major amendment after it has been implemented internationally for more than two years
- A post-implementation review is a part of the Board's due process and helps to assess the effect of new requirements on investors, preparers and auditors

Outcome of a post-implementation review

- The Board can add a standard-setting project to its agenda, consider one or more matters further as part of its research programme, or both. The Board could also decide to take no action.

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



Topics in the Request for Information



Objective

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

1	Control assessment, investment entities, specific accounting requirements	Consolidated reports
2	Collaborative arrangements, classifying joint arrangements, requirements for joint operations	Joint arrangements
3	Whether the disclosures provided applying IFRS 12 meet the Standard's objective	Disclosures

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

Workshop

- IASB in conjunction with EAA and the European Financial Reporting Advisory Group (EFRAG) held a virtual research workshop on 26 March 2020.

Details

- The workshop provided an overview of the Request for Information Post-implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*, published by IASB in December 2020 and EFRAG's summary of the initial input gathered from European constituents.
- The purpose of the workshop was to obtain feedback on the matters included in the Request for Information and to discuss relevant academic evidence.
- A link to the recording and the materials for the workshop can be found [here](#).

Call for academic evidence

Academics encouraged to send relevant academic research to asimpson@ifrs.org.

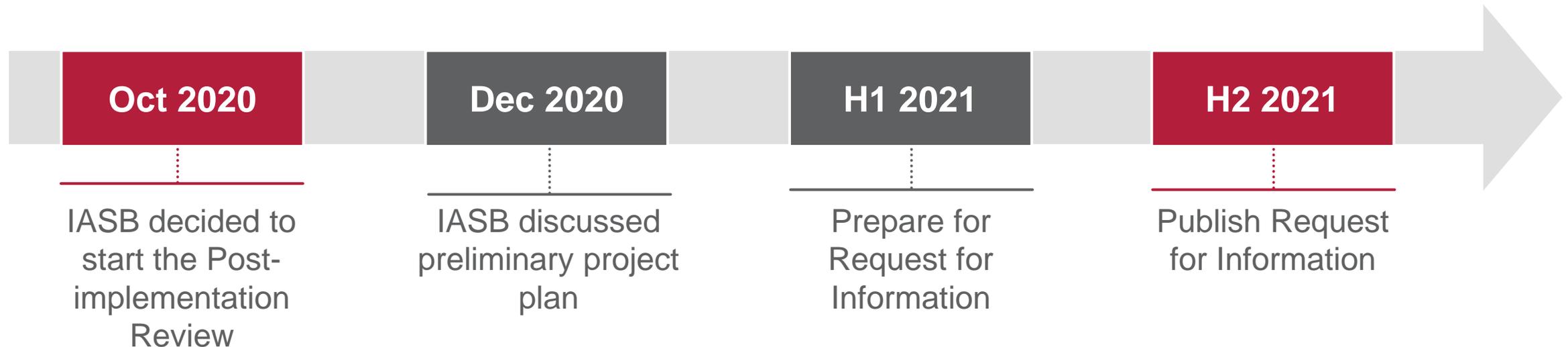
Post-implementation Review of IFRS 9— Classification and Measurement

Due Process Handbook

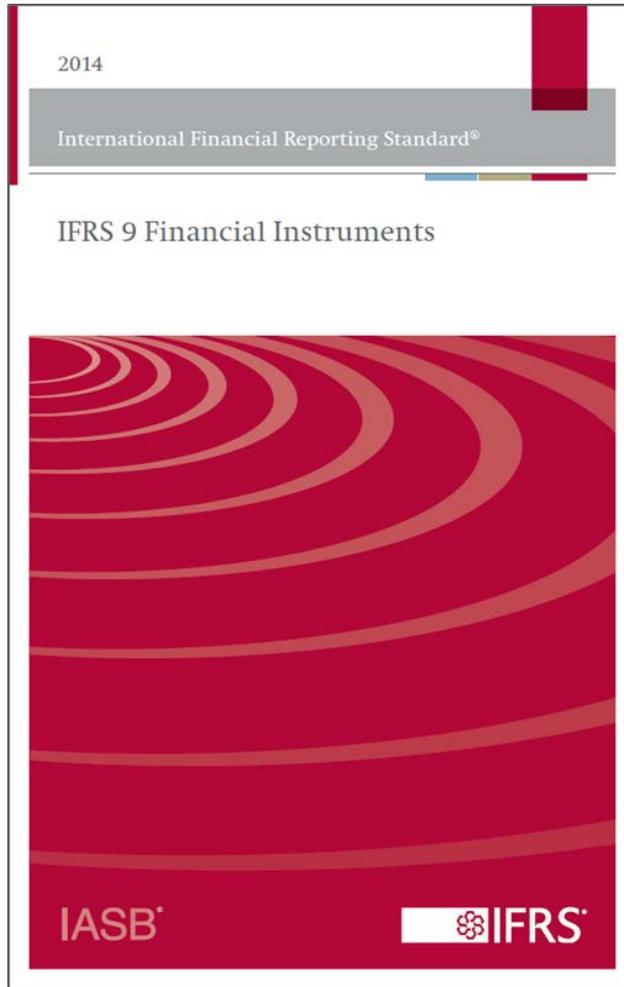


Objective

- Goal of improving financial reporting underlies any new IFRS Standard
- Opportunity to assess effect of new requirements on investors, preparers and auditors
- Review considers the issues that were important during development and issues that came to the attention of the IASB after publication



IFRS 9 at a glance



- Effective 1 January 2018
- Replaced IAS 39
- First stage of post-implementation review starting now

Classification and measurement

- A logical, single classification approach driven by cash flow characteristics and how it is managed

Impairment

- A much needed and strongly supported forward-looking 'expected loss' model

Hedge accounting

- An improved and widely welcomed model that better aligns accounting with risk management

Post-implementation Review of IFRS 9— Classification and Measurement

Webinar

- The IFRS Foundation held a webinar on 21 January aimed at academics to stimulate research into IFRS 9 *Financial Instruments*.

Details

- The Board has already started working on the PIR of the classification and measurement requirements in IFRS 9.
- The Board plans to discuss the start dates of the PIRs of the impairment and hedge accounting requirements in IFRS 9 in the second half of 2021.
- View the recordings of the webinar on our [YouTube Channel](#).
- A link to the slide deck for the webinar can be found [here](#).

Call for academic evidence

Academics encouraged to send relevant academic research to asimpson@ifrs.org.

How you can contribute

The International Accounting Standards Board ([IASB](#)), the Financial Accounting Standards Board ([FASB](#)) and *The Accounting Review* ([TAR](#)) have issued a joint call for academic research papers on the effectiveness of the FASB's and/or IASB's standards on revenue recognition (Topic 606 and IFRS 15 *Revenue from Contracts with Customers*), leases (Topic 842 and IFRS 16 *Leases*), and **financial instruments (Topic 326, Financial Instruments–Credit Losses and IFRS 9 *Financial Instruments*)**.

For details, visit the 2022 FASB, IASB and The Accounting Review conference page:

<https://aaahq.org/Meetings/2022/Accounting-for-an-Ever-Changing-World>.

Responding to the covid-19 crisis: Key take-aways

A

IFRS Standards

- IFRS Standards are working well in practice

B

Financial reporting challenges

- One of the most common challenges involves developing assumptions in times of heightened uncertainty

C

Standard-setting process

- Where necessary and appropriate, targeted, urgent action taken whilst adhering to due process

Responding to the covid-19 crisis: Strategy

1. Monitoring application challenges

Monitor application of IFRS Standards in current stressed environment by actively engaging with stakeholders

2. Responding to urgent issues

Take targeted action, where required, to support consistent application

3. Engaging with stakeholders

- Continue and deepen engagement with stakeholders, albeit virtually
- Adjust consultation timelines to help stakeholders experiencing challenges from the crisis

Responding to the covid-19 crisis: *Covid-19-Related Rent Concessions*

Identified problem

Difficult to assess whether potentially large volumes of covid-19-related rent concessions are lease modifications and, for those that are, to apply the required accounting of IFRS 16 *Leases*

The amendment

Provide **optional practical relief** that

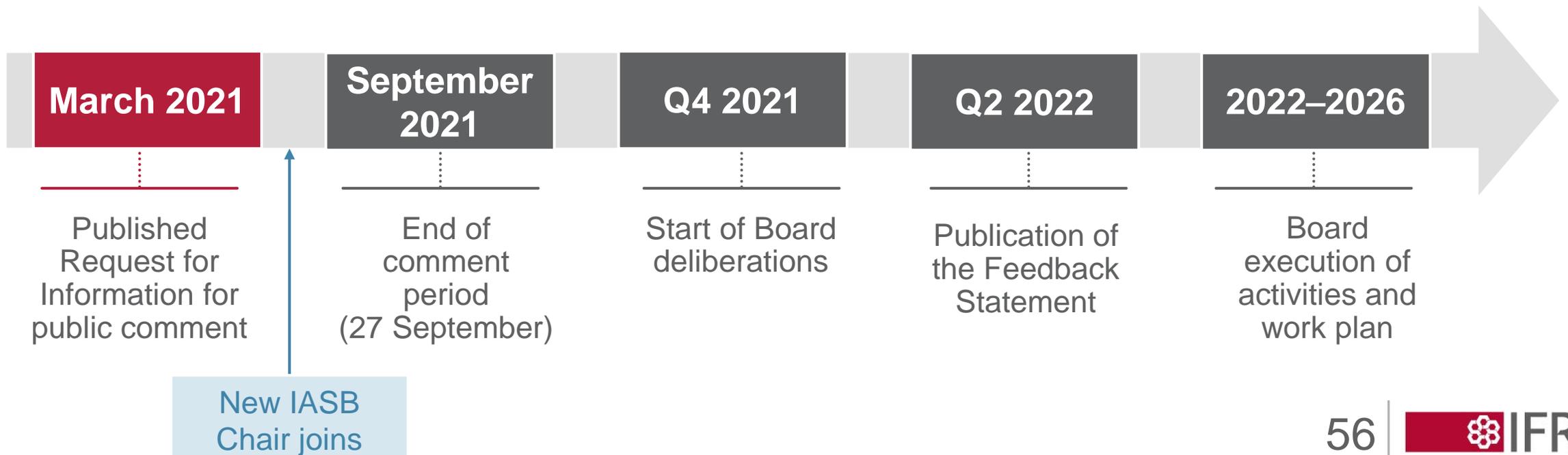
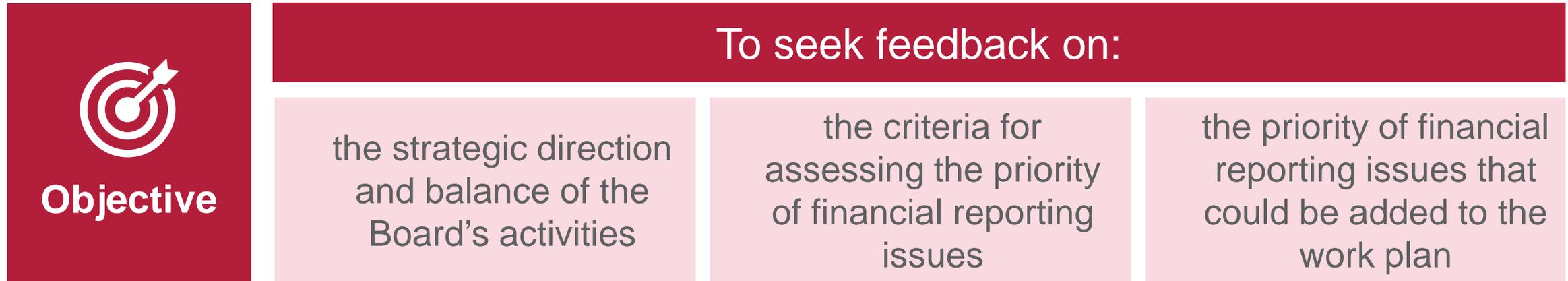
- allows **lessees** to elect not to assess whether particular rent concessions are lease modifications and instead to account for them as if they were **not** modifications
- still enables lessees to provide useful information about their leases

The scope of the amendment

Rent concessions that are a direct consequence of the pandemic with

- no increase in consideration (unless to reflect time value of value)
- reduced payments due on or before 30 June 2022
- no substantive change to other terms and conditions of the lease

Defining the IASB work plan for 2022–2026



IFRS Foundation Trustees' sustainability consultation



Follow the project at [ifrs.org/sustainability](https://www.ifrs.org/sustainability). The IFRS Foundation in conjunction with EAA held a [virtual research workshop](#) in November 2020.

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Questions?



Helpful materials

Resources available on our website

Supporting materials sorted by Standard

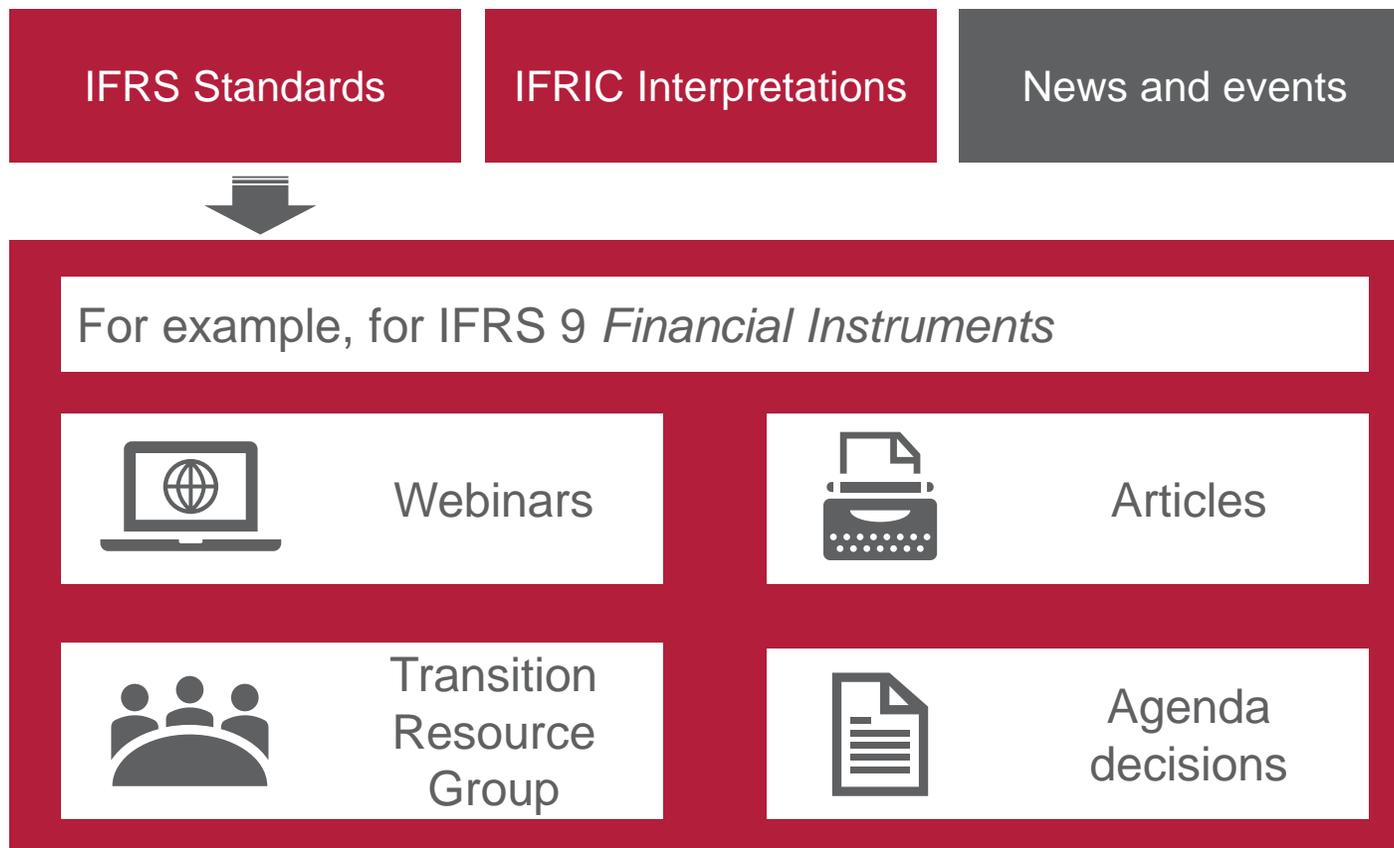
Website
www.ifrs.org



Videos



Leaflet
Supporting IFRS Standards



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

IFRS Standards and their Annotated equivalents



IFRS Standards

The IFRS[®] Standards
Required 2021

The IFRS[®] Standards
Issued 2021

IFRS Standards + extensive cross-references + annotations

The Annotated IFRS[®]
Standards Required 2021

The Annotated IFRS[®]
Standards Issued 2021

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