

Welcome to the December IASB Update

This IASB *Update* highlights preliminary decisions of the International Accounting Standards Board (the Board). The Board's final decisions on Standards, Amendments and Interpretations are formally balloted as set forth in the IFRS® Foundation and IFRS Interpretation Committee *Due Process Handbook*.

The Board met in public from 13 to 14 December 2016 at the IFRS Foundation's offices in London, UK.

The topics for discussion were:

- **Financial Instruments with Characteristics of Equity**
- **Implementation and maintenance of IFRS Standards**
- **Rate-regulated Activities**
- **Conceptual Framework**
- **Primary Financial Statements**
- **Disclosure Initiative**

Contact us

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Tel: +44 (0)20 7246 6410
Fax: +44 (0)20 7246 6411
E-mail: info@ifrs.org
Website: www.ifrs.org

Future IASB meetings

The Board meets at least once a month for up to five days.

The next IASB meetings are:

16 to 20 January 2016
20 to 24 February 2016
20 to 24 March 2016

To see upcoming and past IASB meetings, [click here](#).

Archive of IASB Update Newsletter

For past issues of *IASB Update* [click here](#).

Podcast

To listen to a short Board meeting audio summary (Podcast) of previous Board meetings, [click here](#).

Financial Instruments with Characteristics of Equity (Agenda Paper 5)

The Board met on 13 December 2016 to discuss the research project on Financial Instruments with Characteristics of Equity (FICE).

The Board was given a summary of discussions to date (Agenda Paper 5A, which was provided for information only).

Agenda Paper 5B: Application of the Gamma approach to derivatives on 'own equity'

At this meeting, the Board discussed how the Gamma approach would apply to classifying derivatives whose classification under IAS 32 *Financial Instruments: Presentation* has been challenging in practice. The Board discussed whether a derivative with particular variables would be solely dependent on the residual amount.

In addition to the analysis set out in Agenda Paper 5B, the Board requested the staff to consider the application of the Gamma approach to the classification of derivatives on non-controlling interests with an exercise price denominated in a foreign currency.

The Board was not asked for any decisions.

Next steps

At a future meeting the Board will discuss:

- a. the substance of rights and obligations in contracts and the interaction with legal and regulatory requirements; and
- b. the recognition, derecognition and reclassification of equity instruments.

Implementation and maintenance of IFRS Standards (Agenda Paper 12)

The Board met on 13 December 2016 to discuss implementation and maintenance projects.

Revenue from Contracts with Customers (oral update)

The Board received an oral update on the meeting of US stakeholders of the Transition Resource Group (TRG) held by the FASB on 7 November 2016. No follow-up is required by the Board in respect of the issues discussed at that TRG meeting.

Agenda Paper 12: IFRIC Update

The Board received an update from the November 2016 meeting of the IFRS Interpretations Committee (the Interpretations Committee). Details of this meeting were published in the IFRIC[®] *Update*, available [here](#).

Agenda Paper 12A - Agenda Paper 12E: Proposed amendments to IAS 19 and IFRIC 14

The Board discussed Interpretations Committee recommendations on the proposed amendments to IAS 19 *Employee Benefits* and IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction*.

At this meeting, the Board tentatively decided to finalise the amendments to IFRIC 14, subject to some drafting changes. Ten Board members agreed with this decision and one member was absent.

For the amendments to IAS 19, the Board asked the Interpretations Committee to consider the implications of including minor plan events (ie plan events for which the past service cost, or gain or loss on settlement, would not be material) within the scope of the amendments.

Other than the topic of minor plan events, the Board agreed with the Interpretations Committee's recommendations to finalise the amendments to IAS 19, subject to some drafting changes. Ten Board members agreed with this decision and one member was absent.

The Board did not discuss Agenda Paper 12D (transition, effective date and first-time adoption) or Agenda Paper 12E (due process steps) at this meeting.

Next steps

At a future meeting, the Interpretations Committee will discuss the implications of including minor plan events within the scope of the amendments to IAS 19. The Board will then consider the recommendations from the Interpretations Committee on this topic at a future Board meeting, together with transition, first-time adoption, effective date and due-process steps.

Agenda Paper 12F: IFRS 9 Financial Instruments: Prepayment Options

The Board discussed whether to add to its agenda a narrow-scope project on IFRS 9 *Financial Instruments* regarding financial assets with symmetric 'make-whole' prepayment options. The Board considered the classification of financial assets with such prepayment options applying IFRS 9, together with a summary of feedback from the Interpretations Committee. Interpretations Committee members had recommended that the Board add the topic to its agenda.

The Board agreed with the staff recommendation to add a narrow-scope project on financial assets with symmetric 'make-whole' prepayment options.

Eight Board members agreed and two members disagreed with this decision; one member was absent.

Next steps

The Board will discuss the topic at its January 2017 meeting.

Rate-regulated Activities (Agenda Paper 9)

The Board met on 13 December 2016 to consider proposals for a new accounting model for rate-regulated activities.

The Board considered:

- a. an overview of the proposed model, including an explanation of its objective and principles, together with numerical examples to show how entities would recognise regulatory assets and regulatory liabilities (Agenda Paper 9A); and
- b. a summary of how concerns expressed by members of the Accounting Standards Advisory Forum (ASAF) are addressed in the model (Agenda Paper 9B).

The Board was not asked for any decisions.

Next steps

At a future meeting, the Board plans to discuss more detailed analyses of scope, recognition, measurement, presentation and disclosure in the proposed model.

Conceptual Framework (Agenda Paper 10)

The Board met on 14 December 2016 to discuss the *Conceptual Framework* project. In particular, from the May 2015 Exposure Draft *Conceptual Framework for Financial Reporting* (Exposure Draft) the Board discussed measurement, capital maintenance, business activities and derecognition. Further, the Board discussed the implications of long-term investment on financial reporting.

Agenda Paper 10B, 10C and 10D: Measurement: redrafting the factors to consider in selecting a measurement basis

The Board discussed a revised draft of the following sections of Chapter 6—Measurement of the Exposure Draft:

- a. Introduction;
- b. Measurement bases and the information that they provide;
- c. Factors to consider when selecting a measurement basis—relevance; faithful representation and the enhancing qualitative characteristics.

The Board agreed with the approach taken in the revised draft and made several comments to be considered in finalising the text of the revised *Conceptual Framework*.

Agenda Paper 10E: Business activities and long-term investment

The Board tentatively decided to confirm the approach to business activities proposed in the Exposure Draft. Specifically, the revised *Conceptual Framework* will discuss how the way in which an entity conducts its business activities may affect decisions about the unit of account, measurement, and presentation and disclosure, but will not introduce business activities as an overarching concept that affects all areas of financial reporting.

All 11 Board members agreed with this decision.

Further, the Board tentatively decided to confirm the approach to long-term investment as proposed in the Exposure Draft. Specifically, the revised *Conceptual Framework* will not:

- a. comment on long-term investment as a business activity because discussion of implications of any particular type of business activity is most appropriately developed in individual Standards, rather than generically in the revised *Conceptual Framework*;
- b. include specific measurement or presentation concepts related to long-term investment because the revised *Conceptual Framework* will provide sufficient concepts to assist the Board in making appropriate Standard-setting decisions on measurement and presentation, including decisions for long-term investments; and
- c. supplement the discussion of the information needs of the primary users of financial statements with further discussion of the information needs of long-term investors in the reporting entity because the revised *Conceptual Framework* will provide sufficient concepts for the Board to address appropriately the needs of all primary users of financial statements, including long-term investors.

All 11 Board members agreed with this decision.

Agenda Paper 10F: Concepts of capital and capital maintenance

The Board tentatively decided to:

- a. carry forward to the revised *Conceptual Framework* the existing chapter on capital and capital maintenance; and
- b. introduce that chapter with an explanatory statement in the revised *Conceptual Framework*. This introduction will state that the chapter represents the remaining text of the *Framework for the Preparation and Presentation of Financial Statements* and has not been updated in the *Conceptual Framework* project.

Eight Board members agreed and three members disagreed with these decisions.

Agenda Paper 10G: Derecognition

The Board tentatively decided to:

- a. confirm the derecognition concepts proposed in paragraphs 5.25–5.32 of the Exposure Draft. All 11 Board members agreed with this decision.
- b. retain the discussion of contract modifications in paragraphs 5.33–5.36 of the Exposure Draft. However, when considering whether new rights and obligations added by a contract modification should be accounted for as new assets or liabilities, the notion that those rights and obligations should be ‘distinct’ as proposed in the Exposure Draft will be replaced with a reference to the concepts on the unit of account. All 11 Board members agreed with this decision.

Next steps

At the January 2017 Board meeting the Board will discuss concepts related to measurement.

Further, the Board will discuss the Exposure Draft *Updating References to the Conceptual Framework*.

Primary Financial Statements (Agenda Paper 21)

The Board met on 14 December 2016 to discuss the scope of the Primary Financial Statements project.

Agenda Paper 21: Scope of the project—cover note

The Board tentatively decided to focus on targeted improvements to the statement(s) of financial performance and to the statement of cash flows. All 11 Board members agreed with this decision.

The Board will decide at a later stage of the project whether it will issue a Discussion Paper or an Exposure Draft as the first due process output of the project. All 11 Board members agreed with this decision.

Agenda Paper 21A: Scope of the project—statement(s) of financial performance

Board members tentatively decided, by consensus, to explore the following topics:

- a. requiring additional subtotal(s) in the statement(s) of financial performance—earnings before interest and tax (EBIT) and/or operating profit;
- b. removing some of the options for presentation of income and expenses in existing IFRS Standards (eg presentation of net interest cost on the net defined benefit liability);
- c. providing guidance on the use of performance measures, including separate presentation of non-recurring, unusual or infrequently occurring items; and
- d. better ways to communicate information about other comprehensive income (OCI).

Agenda Paper 21B: Scope of the project—other primary financial statements and segment reporting

The Board tentatively decided to explore the following topics:

- a. elimination of options for the classification of the cash effects of interest and dividends in the statement of cash flows. All 11 Board members agreed with this decision.
- b. alignment of the operating section across the statement of cash flows and the statement(s) of financial performance. All 11 Board members agreed with this decision.
- c. requiring a consistent starting point for the indirect reconciliation of cash flows. All 11 Board members agreed with this decision.
- d. development of templates for the statement(s) of financial performance, the statement of cash flows and the statement of financial position for a small number of industries. Eight of 11 Board members agreed and three members disagreed with this decision.
- e. development of a principle for aggregating and disaggregating items in the primary financial statements. All 11 Board members agreed with this decision.

The Board tentatively decided not to consider targeted improvements to the statement of financial position unless work on other areas of the primary financial statements identifies possible improvements to that statement. All 11 Board members agreed with this decision.

Additionally, the Board tentatively decided that segment reporting or the presentation of discontinued operations should not be part of the scope of the project. All 11 Board members agreed with this decision.

Next steps

The staff expects to start its discussions with the Board in Q1 of 2017.

Disclosure Initiative (Agenda Paper 11)

The Board met on 14 December 2016 to discuss the following Disclosure Initiative topics:

- a. the definition of materiality;
- b. the Materiality Practice Statement; and
- c. proposed amendments to IAS 7 *Statement of Cash Flows*—cash restrictions proposals.

Definition of materiality

Agenda Paper 11A: Proposed clarifications to the definition of materiality and due process summary

In April 2015, the Board tentatively decided to refine the definition of materiality and clarify its key characteristics (the proposed clarifications) in the Principles of Disclosure Discussion Paper. The Discussion Paper would have also included the rationale for not making substantive changes to the definition of materiality.

At this meeting the Board decided to accelerate the work on the proposed clarifications by publishing them separately in an Exposure Draft. All Board members agreed with this decision.

Furthermore:

- a. all Board members confirmed they are satisfied that the Board has completed the necessary due process for issuing an Exposure Draft. Therefore, the Board instructed the staff to begin balloting.
- b. no Board members indicated they would dissent from the decision to issue an Exposure Draft.
- c. all Board members agreed that the comment period for the Exposure Draft should be 120 days.

Materiality Practice Statement

The Exposure Draft IFRS Practice Statement: *Application of Materiality to Financial Statements* (the draft Practice Statement) was published in October 2015 with a 120-day comment period. The objective of the draft Practice Statement was to assist management in applying the concept of materiality to general purpose financial statements prepared applying IFRS Standards.

Agenda Paper 11B: Prior period information

The Board discussed guidance on the application of materiality to prior period information provided in current period financial statements. The Board tentatively decided that the final Practice Statement should:

- a. avoid describing or acknowledging the existence of two different approaches to prior period information, being the 'corresponding figures' and 'comparative financial statements' approach. All 11 Board members agreed with this decision.
- b. state that the assessment of whether to provide narrative and descriptive prior period information should be

made on the basis of its relevance to understanding the current period financial statements, in line with the requirements in IAS 1 *Presentation of Financial Statements*. All 11 Board members agreed with this decision.

- c. acknowledge that an entity might choose, or be required to include information in addition to the minimum prior period information required by IFRS Standards. The Standards do not prohibit the disclosure of additional information, but require that such information is prepared in accordance with the Standards and that it does not obscure information that is material according to those Standards. Seven Board members agreed and four disagreed with this decision.

Agenda Paper 11C: Due process steps followed

The Board reviewed the mandatory and non-mandatory due process steps taken in developing the Practice Statement. The Board also considered:

- a. the need for an Effects Analysis;
- b. the re-exposure criteria in The IASB and IFRS Interpretations Committee *Due Process Handbook*; and
- c. the Practice Statement effective date.

One Board member was absent. All 10 of the Board members present confirmed they are satisfied that the Board has completed all the due process steps required on the Materiality Practice Statement project and instructed the staff to begin the balloting process. At this time, none of the Board members present intends to dissent from issuance of the final Practice Statement on materiality.

Proposed amendments to IAS 7—cash restrictions proposals

Agenda Paper 11D: Disclosures about restrictions on cash and cash equivalents

The Board decided not to proceed with the work on the cash restrictions proposals included in its Exposure Draft *Disclosure Initiative, Proposed Amendments to IAS 7*, which was published in September 2014. The Board noted that the work carried out on these proposals will inform the Post-implementation Review of IFRS 12 *Disclosure of Interests in Other Entities*.

Six Board members agreed and four disagreed with this decision.

Next Steps

The Board expects to start balloting the final Practice Statement on materiality and the Exposure Draft on the definition of materiality in the first quarter of 2017.

Work plan—projected targets as at 16 December 2016

The work plan reflecting decisions made at this meeting was updated on the IASB website on 16 December 2016.

[View it here.](#)

Note that the information published in this newsletter originates from various sources and is accurate to the best of our knowledge. However, the Board, the IFRS Foundation, the authors and the publishers do not accept responsibility for any loss caused by acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

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