

## Welcome to the October 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<sup>®</sup> Foundation and IFRS Interpretation Committee *Due Process Handbook*.

The Board met in public from 18 to 19 October 2016 at the IFRS Foundation's offices in London, UK.

The topics for discussion were:

- ***IFRS for SMEs***
- **Disclosure Initiative: Principles of Disclosure**
- **Disclosure Initiative: Materiality**
- ***Conceptual Framework***
- **IFRS 8 Amendments**
- ***The 2015 Agenda Consultation***
- **IFRS Implementation issues**
- **Financial Instruments with Characteristics of Equity**
- **Research Update**

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### Future IASB meetings

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

The next IASB meetings are:

14 to 18 November 2016

12 to 16 December 2016

16 to 20 January 2017

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

### Archive of IASB Update Newsletter

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

### Podcast summaries

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

## Timing of the next review of the *IFRS for SMEs* Standard (Agenda Paper 7)

The Board met on 18 October 2016 to discuss whether to start an interim review of the *IFRS for SMEs* Standard this year. The interim review would consider any changes in new and amended full IFRS Standards or any urgent issues.

The Board considered feedback from the SME Implementation Group and, consistent with this feedback, decided not to perform an interim review of the *IFRS for SMEs* Standard in advance of the next comprehensive review. No Board members objected to this decision. The next comprehensive review of the *IFRS for SMEs* Standard is expected to start in early 2019.

### **Next steps**

Before the next comprehensive review, the staff will work with the SME Implementation Group to consider how changes in new and amended full IFRS Standards might affect SMEs and might be incorporated in the *IFRS for SMEs* Standard.

## Disclosure Initiative: Principles of Disclosure (Agenda Paper 11)

On 18 October 2016 the Board decided that the comment period for the Principles of Disclosure Discussion Paper should be 180 days. All 12 Board members agreed with this decision.

### **Next steps**

To allow Board members to focus on their review of the forthcoming IFRS Standard on insurance contracts, expected publication of the Principles of Disclosure Discussion Paper has been rescheduled from December 2016 to the first half of 2017.

## Disclosure Initiative: Materiality (Agenda Paper 11)

The Board met on 18 October 2016 to discuss the comments received on the Exposure Draft IFRS Practice Statement: *Application of Materiality to Financial Statements* (the draft Practice Statement).

The draft Practice Statement was published in October 2015 with a 120-day comment period. The proposed 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: Audience, focus and definition**

The Board discussed the audience and focus of the Practice Statement and the definition of materiality to be used in the Practice Statement. The Board tentatively decided to:

- clarify that the Practice Statement addresses the application of materiality in preparing financial statements. All 12 Board members agreed with this decision.
- acknowledge that the Practice Statement may benefit other parties in addition to those involved in preparing financial statements. All 12 Board members agreed with this decision.
- replace the term 'management' with the term 'entity' throughout the Practice Statement. All 12 Board members agreed with this decision.

- d. refer to applying the concept of materiality only in the preparation of financial statements. Ten of 12 Board members agreed with this decision.
- e. include in the Practice Statement the explanation of the definition of materiality contained in IAS 1 *Presentation of Financial Statements*—that an entity should take into account 'how users could reasonably be expected to be influenced in making economic decisions', and use this interpretation consistently throughout the Practice Statement. All 12 Board members agreed with this decision.
- f. make no changes to the definition of materiality in IFRS Standards within this project. All 12 Board members agreed with this decision.

### ***Agenda Paper 11C: Primary users' needs and expectations***

The Board discussed the guidance on identifying primary users, their information needs and their expectations for the purposes of applying materiality judgements when preparing IFRS financial statements. The Board tentatively decided to:

- a. refer to 'primary users' (as defined by the *Conceptual Framework*) throughout the Practice Statement. All 12 Board members agreed with this decision.
- b. emphasise in the Practice Statement that 'primary users' of an entity's IFRS financial statements include potential investors, potential lenders and potential other creditors. All 12 Board members agreed with this decision.
- c. reconsider references to the 'special needs' of primary users and to 'subsets' or 'classes' of primary users in the Practice Statement. Eleven of 12 Board members agreed with this decision.
- d. use the term 'expectations' of primary users (as currently used in paragraph 17 and 22 of the draft Practice Statement) in the Practice Statement only in the same way as it is used in the *Conceptual Framework*. All 12 Board members agreed with this decision.
- e. revise the guidance provided on 'users of the financial statements and their decisions' in the Practice Statement to convey the concept of 'meeting the maximum amount of common information needs of an entity's primary users'. Eleven of 12 Board members agreed with this decision.

### ***Agenda Paper 11D: The Materiality Process***

The Board discussed a four-step 'Materiality Process' for applying materiality judgements to an entity's financial statements. The Board tentatively decided to include in the Practice Statement an overview of how materiality judgements can be applied. In particular, the Board tentatively decided to:

- a. explain that although there is no hierarchy among materiality factors, it could be efficient for entities to first assess an item of information from a quantitative perspective;
- b. explain that when an entity assesses whether an item of information is material on the basis of a qualitative factor, it should also consider quantitative factors; and
- c. include related party transactions as an example of a qualitative factor considered in making a materiality assessment.

All 12 Board members agreed with these decisions.

### ***Agenda Paper 11E: Primary financial statements versus notes and aggregation/disaggregation of information***

The Board discussed guidance on the application of materiality to the primary financial statements versus the notes and the role of materiality judgements in determining how information will be aggregated or disaggregated. The Board tentatively decided that the Practice Statement should:

- a. state that a single materiality assessment should be applied to all information included in the financial

- statements;
- b. explain that an entity should select where to disclose material information within the financial statements (ie primary financial statements or the notes) in a way that communicates the information effectively and efficiently; and
- c. describe how an entity should use a materiality assessment to decide how much to disaggregate information and how much detail to include, in the context of the primary financial statements and the notes.

All 12 Board members agreed with these decisions.

#### ***Agenda Paper 11F: Accounting policy disclosures***

The Board decided that Practice Statement should not include guidance on the application of materiality to the disclosure of accounting policies, as the issues will be considered more broadly in the Principles of Disclosure project.

All 12 Board members agreed with this decision.

#### ***Agenda Paper 11G: Comparative versus corresponding approach and conflicts with local regulations***

The Board discussed the application of materiality to information about previous period(s) presented in the financial statements (including consideration of comparative approach versus corresponding approach). The Board asked the staff to bring further analysis to the next Board meeting.

The Board also discussed potential conflicts between the Practice Statement and any local legal or regulatory disclosure or materiality requirements. The Board tentatively decided that the Practice Statement should:

- a. emphasise that its objective is to provide guidance on how to interpret and apply the IFRS concept of materiality to IFRS financial statements. All 12 Board members agreed with this decision
- b. note that IFRS Standards do not prohibit providing additional information to meet local regulatory requirements (even if that information is not material for IFRS Standards), unless that information obscures material IFRS information. Eleven of 12 Board members agreed with this decision.

#### ***Agenda Paper 11H: Interim reporting***

The Board discussed the application of materiality to interim financial reports. The Board tentatively decided to:

- a. emphasise that when applying a materiality assessment to the interim financial report an entity needs to consider the same factors it considers in the assessment for the annual financial statements;
- b. specify that an entity needs to apply a materiality process (such as described in Agenda Paper 11D) taking into account that the context and purposes of the interim financial report are different from those of the annual financial statements; and
- c. specify that although interim measurements may rely more on estimates than annual financial measurements, that fact alone does not make the interim information more material.

All 12 Board members agreed with these decisions.

#### ***Agenda Paper 11I: Publicly available information***

The Board discussed the effect of publicly available information on the materiality assessment. The Board tentatively decided to:

- a. remove the wording currently used in paragraphs 57–58 of the draft Practice Statement;
- b. specify that the public availability of information does not affect the materiality assessment; and
- c. specify that the public availability of information does not relieve an entity of the obligation to disclose material information.

Eleven of 12 Board members agreed with these decisions.

### **Next steps**

At a future meeting the Board is expected to confirm the form that guidance on the application of materiality should take, discuss the interaction of materiality with stewardship and clarify terminology issues in preparation for drafting the final guidance.

The Board will also discuss issues relating to the application of the guidance on materiality to errors, covenants and entities applying the *IFRS for SMEs*, as well as further analysing the application of materiality to prior-period information.

## **Conceptual Framework (Agenda Paper 10)**

On 18 October 2016, the Board discussed the *Conceptual Framework* project. In particular, the Board discussed the concepts on executory contracts and the unit of account and the definition of materiality proposed in the May 2015 Exposure Draft *Conceptual Framework for Financial Reporting* (Exposure Draft). The Board also discussed asymmetry in treating gains and losses. Further, the staff introduced an approach to testing of the proposed asset and liability definitions.

### **Agenda Paper 10B: Testing the proposed asset and liability definitions—matters arising**

### **Agenda Paper 10C: Testing the proposed asset and liability definitions—illustrative examples**

The staff introduced to the Board an approach to testing the proposed asset and liability definitions and the concepts supporting those definitions. The Board was asked to identify any matters arising from the testing that may require further discussion as part of the forthcoming redeliberations of the liability definition and supporting concepts.

No decisions were made at the Board meeting.

### **Agenda Paper 10D: Executory contracts**

In the light of the comments received on the proposed concepts for executory contracts, the Board tentatively decided:

- a. to confirm that:
  - i. an executory contract establishes a right and an obligation to exchange economic resources;
  - ii. the right and the obligation to exchange economic resources are interdependent and cannot be separated; and
  - iii. the combined right and obligation constitute a single asset or liability.
- b. the *Conceptual Framework* should contain no more discussion of recognition of executory contract assets and liabilities than was included in the Exposure Draft.
- c. none of the discussion about executory contracts included in the Basis for Conclusions on the Exposure Draft will be brought into the *Conceptual Framework* itself.

All 12 Board members agreed with these decisions.

### ***Agenda Paper 10E: Unit of account***

In light of the comments received on the proposed concepts for the unit of account, the Board tentatively decided to:

- a. provide no additional guidance on the unit of account and not reduce the discussion of the proposed concepts in the *Conceptual Framework*. All 12 Board members agreed with this decision.
- b. clarify in the *Conceptual Framework* that the unit of account is selected for an asset or a liability when considering how recognition and measurement will apply. All 12 Board members agreed with this decision.
- c. confirm that sometimes it may be appropriate to select one unit of account for recognition and another unit of account for measurement. Eleven of 12 Board members agreed with this decision.
- d. confirm that the selected unit of account may need to be aggregated or disaggregated for presentation and disclosure. Eleven of 12 Board members agreed with this decision.
- e. explain that, as with all other areas of financial reporting, cost constrains the selection of the unit of account, rather than identifying cost constraint as a distinct factor in selecting the unit of account. All 12 Board members agreed with this decision.

### ***Agenda Paper 10G: Asymmetry in treating gains and losses***

The Board tentatively decided that 'Chapter 2—Qualitative characteristics of useful financial information' of the revised *Conceptual Framework* should acknowledge that the exercise of prudence does not imply a need for asymmetry—for example, a need for more persuasive evidence to support the recognition of assets than of liabilities or to support the recognition of income than of expenses. Nevertheless, in financial reporting standards such asymmetry may sometimes arise as a consequence of requiring the most useful information. All 12 Board members agreed with this decision.

### ***Agenda Paper 10H: Materiality***

The Board tentatively confirmed the definition of materiality proposed in the Exposure Draft. That definition will not be updated for the amendments discussed in the Principles of Disclosure project.

All 12 Board members agreed with this decision.

### ***Next steps***

At the November Board meeting, the Board will discuss concepts related to:

- a. the definition of a liability;
- b. derecognition; and
- c. capital maintenance.

The Board will also discuss the results of an exercise undertaken by the staff to test with preparers the effects of the revised *Conceptual Framework*.

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

## **Clarifications to IFRS 8 Operating Segments arising from the Post-**

## implementation Review (Agenda Paper 27)

In May 2015, the Board discussed proposed amendments to IFRS 8 (Agenda Paper 12C). The proposed amendments responded to issues identified for further investigation in the Report and Feedback Statement *Post-implementation Review: IFRS 8 Operating Segments*, which was published by the Board in July 2013.

At its October 2016 meeting, the Board discussed the following two sweep issues that had arisen during the drafting of the proposed amendments:

- consistent identification of reportable segments; and
- the number of reported line items.

### ***Consistent identification of reportable segments***

The Board tentatively decided to amend IFRS 8 to require an entity to explain how and why the reportable segments in the financial statements differ from those included in the management commentary or other parts of the annual report, or from other communications published in conjunction with the financial statements.

Such an explanation is intended to help users of financial statements understand the relationship between the different bases of segmentation in the financial statements and in the management commentary or in other parts of the entity's annual report.

Eleven of 12 Board members agreed with this decision.

### ***Number of reported line items***

The Board tentatively decided:

- a. to include in IFRS 8 a reminder that an entity can disclose segment information beyond that reviewed by or otherwise regularly provided to the chief operating decision maker if this helps the entity meet the core principle in paragraphs 1 and 20 of the Standard;
- b. this additional segment information may include information not regularly provided to the chief operating decision maker; and
- c. to maintain only the current guidance in IFRS 8 on the type of segment information that would be helpful to meet that core principle.

All 12 Board members agreed with this decision.

### ***Next step***

The Board expects to publish an Exposure Draft of amendments to IFRS 8.

## 2015 Agenda Consultation (Agenda Paper 24)

### **Permission to publish the Feedback Statement on the 2015 Agenda Consultation.**

The Board discussed the 2015 Agenda Consultation and gave the staff permission to publish the Feedback Statement.

All 12 Board members agreed with this decision.

### **Next step**

The Board expects to publish the Feedback Statement in November 2016.

## **IFRS Implementation issues (Agenda Paper 12)**

The Board met on 19 October 2016 to discuss maintenance projects.

### **IFRIC Update (Agenda Paper 12)**

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

### **Agenda Paper 12A: Ratification of IFRIC Interpretation**

The Board ratified IFRIC Interpretation *Foreign Currency Transactions and Advance Consideration* (the Interpretation). The Interpretation addresses how to determine the exchange rate to use on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability arising from advance consideration in a foreign currency.

All 12 Board members agreed with this ratification.

### **Next steps**

The Board expects to issue the Interpretation before the end of 2016.

### **Agenda Paper 12B: IAS 28 Investments in Associates and Joint Ventures—Long-term interests in an associate or joint venture**

The Board continued its discussions on long-term interests in an associate or joint venture. Long-term interests are those interests that, in substance, form part of the net investment in the associate or joint venture, but to which the equity method is not applied.

The Board tentatively decided to propose amendments to IAS 28 to clarify that an entity applies IFRS 9 *Financial Instruments*, in addition to IAS 28, to long-term interests. The Board also tentatively decided to include the proposed amendments in the next cycle of annual improvements (2015–2017).

Eleven of twelve Board members agreed with this decision.

Additionally, the Board tentatively decided to:

- a. require retrospective application of the proposed amendments. However, if an entity does not restate comparative information on initial application of IFRS 9, it is not required to restate comparative information when it first applies the proposed amendments, but may choose to do so to reflect the application of IAS 39 in the comparative period.
- b. require retrospective application of the proposed amendments for insurers electing to apply the temporary exemption from IFRS 9, but permit those entities not to restate comparative information.
- c. allow first-time adopters, whose first IFRS reporting period begins before 1 January 2019 and that do not restate comparative information to reflect IFRS 9 in their first IFRS financial statements, to choose not to restate comparative information to reflect the proposed amendments in the comparative period.



All 12 Board members agreed with these decisions.

The Board also tentatively decided to propose an effective date of 1 January 2018, with earlier application permitted.

Eleven of twelve Board members agreed with this decision.

### ***Next steps***

The Board will consider the comment period and due-process steps taken on the proposed amendments to IAS 28 at a future meeting.

### ***Agenda Paper 12C: Narrow-scope amendment—IAS 16 Property, Plant and Equipment—Proceeds and costs of testing property, plant and equipment***

The Board discussed recommendations from the Interpretations Committee for a narrow scope amendment to IAS 16. The issue relates to proceeds from selling items produced while bringing an item of property, plant and equipment (PPE) to the location and condition necessary for it to be capable of operating in the manner intended by management (ie while making an item of PPE available for use).

The Board tentatively decided to propose amendments to IAS 16. The amendments would prohibit the deduction from the cost of an item of PPE the proceeds from selling items produced while making that item of PPE available for use.

Additionally, the Board tentatively decided to:

- a. require an entity to apply the proposed amendments only to items of PPE made available for use from the beginning of the earliest comparative period when first applying the amendments; and
- b. not to provide transition relief for first-time adopters.

Eleven of twelve Board members agreed with this decision.

### ***Next steps***

The Board will consider the comment period and due process steps taken on the proposed narrow-scope amendment to IAS 16 at a future meeting.

## **Financial Instruments with Characteristics of Equity (Agenda Paper 5)**

The Board met on 19 October 2016 to discuss the Financial Instruments with Characteristics of Equity research project.

The Board discussed claims that grant the issuer the right to choose between alternative settlement outcomes. Discussion continued to focus on developing the Gamma approach to classification and presentation.

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

### ***Agenda Paper 5B: Alternative settlement outcomes within the control of the entity***

The Board discussed claims that grant the issuer the right to choose between two alternative settlement outcomes. Each settlement outcome would, in isolation, meet either the definition of a liability or of equity. In particular, the

Board considered whether economic incentives that might influence the entity's decision to exercise its right should be considered when classifying such claims as liabilities or equity.

The Board tentatively decided that, under the Gamma approach, economic incentives that might influence the issuer's decision to exercise its rights should not be considered when classifying a claim as either a liability or equity. Thus, under the Gamma approach, classification would be based on the substantive rights and obligations established by a contract, including obligations that are established indirectly through the terms of the contract, which is similar to the requirements in IAS 32 *Financial Instruments: Presentation*.

All 12 Board members agreed with this decision.

### **Next steps**

At a future meeting the Board will discuss:

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

## **Research Update (Agenda Paper 8)**

The Board discussed an update on its research programme. The update reflected developments since the last update, which had been provided in the Board's July 2016 meeting. Information on the IASB work plan, including its research programme, is available [here](#).

The Board also noted that the initial assessment has begun of the matters to be examined in the Post-implementation Review of IFRS 13 *Fair Value Measurement*.

The Board was not asked to make any decisions.

### **Next steps**

The staff expect to update the Board on the research programme again in about three months.

## **Work plan—projected targets as at 20 October 2016**

The work plan reflecting decisions made at this meeting was updated on the IASB website on 20 October 2016.

**[View it here.](#)**

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