World Standard-setters Conference

Monday 30 September and Tuesday 1 October 2019

Hilton London Canary Wharf Hotel

IFRS®

Programme Day 1 Monday 30 September 2019

08.15	**Registration (QUAYSIDE FOYER)** Tea/Coffee
09:00	**Opening remarks (QUAYSIDE SUITE)** Chair: Mary Tokar, IASB Member
09:10	**Welcome address** **Hans Hoogervorst**, IASB Chair
09.20	**IASB update—Q&A with IASB Vice-Chair and Executive Technical Director** *The aim of this session is to provide an update on the Board's work over the last year and highlight upcoming consultations on which the Board will be seeking input. This session should help you plan work in your jurisdictions.* Chair: **Mary Tokar**, IASB Member **Sue Lloyd**, IASB Vice-Chair and **Nili Shah**, IASB Executive Technical Director will be interviewed by: **Kimberley Crook**, Chair, New Zealand Accounting Standards Board **Lebogang Senne**, Technical Director, Pan African Federation of Accountants
11.00	**Tea/coffee (QUAYSIDE FOYER)**
11.30	**Primary Financial Statements—Overview of the consultation and how it aligns with discussions at previous World Standard-setters Conferences?** *The Board is exploring targeted improvements to the structure and content of primary financial statements with a focus on the statement(s) of financial performance. The aim of this session is to help you prepare for the forthcoming consultation by:* • *providing an update on the project* • *explaining the project next steps* • *providing an opportunity for Q&A* *Presenters:* **Nick Anderson**, IASB Member **Rachel Knubley**, IASB Technical Staff **Aida Vatrenjak**, IASB Technical Staff
12:30	**Lunch (QUAYSIDE FOYER)**
14.00	**Goodwill and Impairment – Q&A on the project proposals** *This session is designed to give an insight on why we have redefined our research objectives. It will:* • *provide an overview of the Board's tentative decisions and the next steps of the project; and* • *explain the input required from your jurisdictions in the project's next steps* **Jianqiao Lu**, IASB Member **Dehao Fang**, IASB Technical Staff
15.00	**Breakout sessions** *The objective of these sessions are to:* • *inform you of recent developments and how we have responded to previous NSS feedback* • *help identify key issues for your jurisdiction* • *discuss critical views with Board members and staff* Choose one of the ***Breakout session options* see back page*** (Sessions 1–5 are repeated at 16:50)
16.30	**Tea/coffee (QUAYSIDE FOYER)**
16:50	**Breakout sessions** *The objective of these sessions are to:* • *inform you of recent developments and how we have responded to previous NSS feedback* • *help identify key issues for your jurisdiction* • *discuss critical views with Board members and staff* Choose one of the ***Breakout session options* see back page***
18:20	**Drinks reception followed by dinner** Speech by **Erkki Liikanen**, Chair of the Trustees, IFRS Foundation

Drinks reception (QUAYSIDE FOYER)
Dinner in the Hilton Hotel (CINNAMON RESTAURANT)

Programme Day 2 Tuesday 1 October 2019

08:00	**Optional Drop-in and learn about translation software with the Translations Adoption Copyright Team (MEETING ROOM 3&4)** **Anna Hemmant**, Adoption Support Manager, IFRS Foundation **Mari Carmen Civera**, Adoption Support Manager, IFRS Foundation **Leilani Macdonald**, Advisor, IFRS Foundation **Clare McGuinness**, Project Manager, IFRS Foundation
09:00	**Welcome back (QUAYSIDE SUITE)** Chair: **Mary Tokar**, IASB Member
09.05	**Working together** *The purpose of this session is to share best practices and identify ways the Board can support implementation and encourage participation in the standard-setting process. Panellists will be asked to share their approach to support implementation and how they encourage participation in their jurisdictions.* Chaired by: **Sue Lloyd**, IASB Vice-Chair **Michelle Sansom**, IASB Technical Staff Panellists: **Andreas Barckow**, President, Accounting Standards Committee of Germany **Felipe Pérez Cervantes**, Member, Group of Latin American Accounting Standard Setters **Huaxin Xu**, Deputy Director, China Accounting Standards Committee **Linda Mezon**, Chair, Canadian Accounting Standards Board
10.05	**Q&A and breakout sessions** *A quick summary of the discussions in yesterday's break-out sessions* Chair: **Mary Tokar**, IASB Member
10:30	**Tea/coffee (QUAYSIDE FOYER)**
11:00	**Rate-regulated Activities—preview of forthcoming consultative document** *The Board is developing an accounting model for regulatory assets and regulatory liabilities. The aim of this session is to help you prepare for the forthcoming consultation by:* • *providing an overview of the Board's tentative decisions and the next steps of the project* • *highlighting the areas we would benefit most from input from your jurisdiction* *Presenters:* **Mariela Isern**, IASB Technical Staff **Umair Shahid**, IASB Technical Staff *The session will also include a panel discussion where NSS will discuss and share how they intend to get input on the proposals from stakeholders in their jurisdictions.* Chair: **Darrel Scott**, IASB Member Panellists: **Bee Leng Tan**, Executive Director, Malaysian Accounting Standards Board **Rogerio Mota**, Chair of International Affairs, Comitê de Pronunciamentos Contábeis **Sung-Ho Joo**, Director, Korea Accounting Standards Board **Tommaso Fabi**, Technical Director, Organismo Italiano di Contabilità
13:00	**Lunch (QUAYSIDE FOYER)—end of World Standard-setters Conference**
14.00	**International Forum of Accounting Standard Setters (IFASS) meeting commences (QUAYSIDE SUITE)**

** Breakout session options* Monday 30 September 2019

Choose one of the following (Sessions 1-5 are repeated at 16:50):

1. Project overview—Disclosure Initiative (MEETING ROOM 7)

This session will provide an update of the progress of the Targeted Standard-level Review of Disclosures projects and the next steps including responding to feedback from last year's conference.

Nick Anderson, IASB Member **Aishat Akinwale**, IASB Technical Staff

2. 2019 Comprehensive Review of the *IFRS for SMEs* (QUAYSIDE SUITE)

This session will discuss the plan for the 2019 Comprehensive Review of the IFRS for SMEs Standard and give a preview of the Request for Information (RFI)

Darrel Scott, IASB Member **Yousouf Hansye**, IASB Technical Staff

3. Financial Instruments—*what next?* (MEETING ROOM 1)

This session will provide project updates on the Discussion Paper: Financial Instruments with Characteristics of Equity*, the project* Interest Rate Benchmark Reform *and the Board's project on* Dynamic Risk Management.

Sue Lloyd, IASB Vice-Chair **Riana Wiesner**, IASB Technical Staff **Uni Choi**, IASB Technical Staff
Fernando Chiqueto, IASB Technical Staff **Angie Ah Kun**, IASB Technical Staff

4. Hot topics: IFRS Interpretation Committee (MEETING ROOM 3&4)

The session is designed to provide the audience with an update on the Board's and Interpretations Committee's work in supporting the implementation and application of the Standards. It will focus on recent and ongoing topics being discussed by the Interpretations Committee, recently published agenda decisions that explain how an entity applies the Standards to particular fact patterns and narrow-scope standard setting projects. It is also an opportunity for NSS members to discuss stakeholders' awareness of the Interpretations Committee's work in their jurisdictions and, for example, how the NSS disseminate information about agenda decisions.

Patrina Buchanan, IASB Technical Staff **Jawaid Dossani**, IASB Technical Staff

5. Business Combinations under Common Control (MEETING ROOM 2)

This session will provide NSS members with an overview on the Business Combinations under Common Control project, outlining the Board's current thinking and its plans for the future consultation document.

Françoise Flores, IASB Member **Yulia Feygina**, IASB Technical Staff
Carlo Pereras, IASB Technical Staff

15.00 – 16.30 breakout session

6. Electronic reporting—Why everyone should care about the IFRS Taxonomy (MEETING ROOM 5)

The IFRS Taxonomy facilitates electronic reporting of financial statements prepared applying IFRS Standards. A number of regulators around the world now require companies to file financial statements using the IFRS Taxonomy. This session will provide NSS members with an introduction to the IFRS Taxonomy—explaining what it is, how it is used and why it is important. This session will also cover how the Board is considering electronic reporting implications in developing new disclosure requirements.

Rachel Knubley, IASB Technical Staff
Karlien Conings, IASB Technical Staff

16.50 – 18.20 breakout session

6. Islamic Finance (MEETING ROOM 5)

As part of our Islamic Finance Consultative Group Meeting , we are including this breakout session on Takaful. Takaful arrangements are designed to offer participants protection that is comparable with conventional insurance whilst adhering to Shariah principles.

The session, which will be led by some external speakers, will provide an overview of Takaful, including the various operational models that are used, the differences and similarities with conventional insurance and some of the accounting questions arising.

Peter Casey, Consultant to the Islamic Financial Services Board
Mohammad Khan, Partner, PwC

IASB update

Q&A with the IASB Vice-Chair and Executive Technical Director

Sue Lloyd, IASB Vice-Chair
Nili Shah, IASB Executive Technical Director
Kimberley Crook, Chair of New Zealand Accounting Standards Board
Lebogang Senne, Technical Director, Pan African Federation of Accountants

World Standard-setters Conference 2019

#WSS_2019

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National Standard-setters Times

- What has the Board done in the last year?
- What has the Committee done in the last year?
- What will happen in 2020?
- Any other news to share?
- Any helpful material to mention?

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What has the Board done in the last year?

3

Disclosure Initiative—overview of projects

4

Active projects

- Targeted Standards-level Review of Disclosures
- Accounting Policy Disclosures

Completed projects

- Amendments to IAS 1 and IAS 8 — Definition of Material
- Better Communication Case Studies
- Amendments to IAS 1 to remove barriers to application of judgment
- Materiality Practice Statement
- Amendments to IAS 7 to improve disclosure of changes in financing liabilities
- Principles of Disclosure research project

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Disclosure Initiative—Accounting Policy Disclosures

5

Users say that accounting policy disclosures today are often not useful

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

Board's proposals	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.

Comment letter deadline: 29 November 2019

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Disclosure Initiative—Materiality Practice Statement Fact sheet

6

IFRS Practice Statement 2 *Making Materiality Judgements*

Gathers in one place all the requirements on materiality from IFRS Standards and adds practical guidance and examples

Objective

Provides reporting entities with guidance on making materiality judgements when preparing financial statements in accordance with IFRS Standards

Form of the guidance

The Practice Statement does not change any existing requirements nor introduce any new requirements; it is a non-mandatory document developed by the Board

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IBOR reform and financial reporting

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

Phase I: pre-replacement

- Exposure Draft: 3 May-17 June
- Proposed amendments to provide relief from IAS 39 and IFRS 9 (hedge accounting)
- Final amendment expected September 2019

Phase II: replacement

- The Board will consider whether further amendments are required to address the accounting effects of actual changes in benchmark interest rates

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IBOR Reform—Phase I highlights from the proposals

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Phase I

Address concerns related to the uncertainties arising from IBOR reform by providing relief when applying the following qualifying criteria for hedge accounting required by IFRS 9 and IAS 39:

- highly probable
- prospective assessment
- separately identifiable risk components

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

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IBOR Reform—Phase I redeliberations

- Remove IAS 39 requirement for retrospective assessment for affected hedges during the period of uncertainty
- Clarify that foreign currency hedges also in scope
- Extend relief for separately identifiable risk components so that only need to test once for a hedged item designated in a ‘macro hedge’
- Clarify application for groups of hedged items
- Simplify the disclosure requirements

Next steps Publish amendments September 2019

Phase II—*replacement issues*

Classification & measurement

- Determining what a modification is
- When does a modification result in derecognition
- In the case of a modification, how to account for change in benchmark rate
- Recognition of new financial instruments

Hedge accounting

- Changes in hedge documentation
- Flexible hedge designations
- Implications for macro hedges
- What happens when Phase 1 relief ends
- Valuation adjustments

Other topics

- Potential IBOR impacts on other IFRS Standards?
- Any new issues identified

Disclosure

- Additional (or amendments to) disclosure requirements

October 2019 onwards

IASB support for IFRS 17 implementation

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A comprehensive programme of stakeholder engagement and implementation support

- Webinars
- Articles and other materials
- Conferences
- Transition Resource Group (TRG)
  - 4 meetings
  - 127 implementation questions

Education for
- investors
- regulators
- standard-setters
- preparers

Over 100 meetings with investors

Informal technical discussion with
- regulators
- standard-setters
- preparers
- auditors

Over 300 meetings with stakeholders

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IFRS 17 *Insurance Contracts*: easing implementation

12

The Board proposes targeted amendments to IFRS 17 to respond to concerns and challenges raised by stakeholders as IFRS 17 is being implemented

Comment letter period closed 25 September 2019

1. **Deferral of effective date by one year** — IFRS 17, IFRS 9
2. **Additional scope exclusions** — Loans, Credit cards
3. **Allocation of acquisition costs to expected contract renewals**
4. **Attribution of profit to service relating to investment activities**
5. **Extension of risk mitigation option**
6. **Reduced accounting mismatches for reinsurance**
7. **Simplified balance sheet presentation**
8. **Additional transition reliefs** — Business combinations; Risk mitigation from the transition date; Risk mitigation and fair value approach

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What has the Committee done in the last year?

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Committee's work: Overview of 2019 activities*

14

23 addressed by Committee through agenda decisions with explanatory material

2 Work in progress

* Three Committee meetings held in 2019 (to date)
(January, March and June)

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IASB – Narrow-scope standard setting arising from the Committee's work

15

***Onerous Contracts—Cost of Fulfilling a Contract* (Amendments to IAS 37)**
- ED published in December 2018
- Board considered comments in May 2019

Requirements apply to all revenue contracts

***Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (Amendments to IAS 12)**
- ED out for comment until November 2019

Addresses deferred tax on leases and decommissioning obligations

Taxation in fair value measurements (Annual Improvements to IFRS Standards 2018 – 2020)
- ED closed for comment August 2019

Align the fair value measurement requirements with those in other IFRS 13

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

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Board proposes to amendment IAS 12 *Income Taxes*

Board 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

Share your views

- Exposure draft issued in July
- Open for comment for 120 days

Comment letter deadline: 14 November 2019

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Sample of recently finalised agenda decisions

IFRS 9 *Financial Instruments*

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

IFRS 16 *Leases*

- Lease liabilities in a Joint Operation
- Definition of Lease: Subsurface Rights

IFRS 15 *Revenue from Contracts with Customers*

- Assessment of Promised Goods or Services
- Over Time Transfer of Constructed Good

Other Standards

- Cloud Computing Arrangements
- Holdings of Cryptocurrencies

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Sufficient time for implementing agenda decisions

New information from agenda decisions

Explanatory material in agenda decisions provides new information → Entities may determine a need to change their accounting policy → Some changes require time to implement

Board's view

The Board expects companies to be entitled to sufficient time to implement changes in accounting policy that result from an agenda decision.

How the Board is trying to help?

New rubric in IFRIC update

Feature: Agenda decisions—time is of the essence

More information on our website:
ifrs.org

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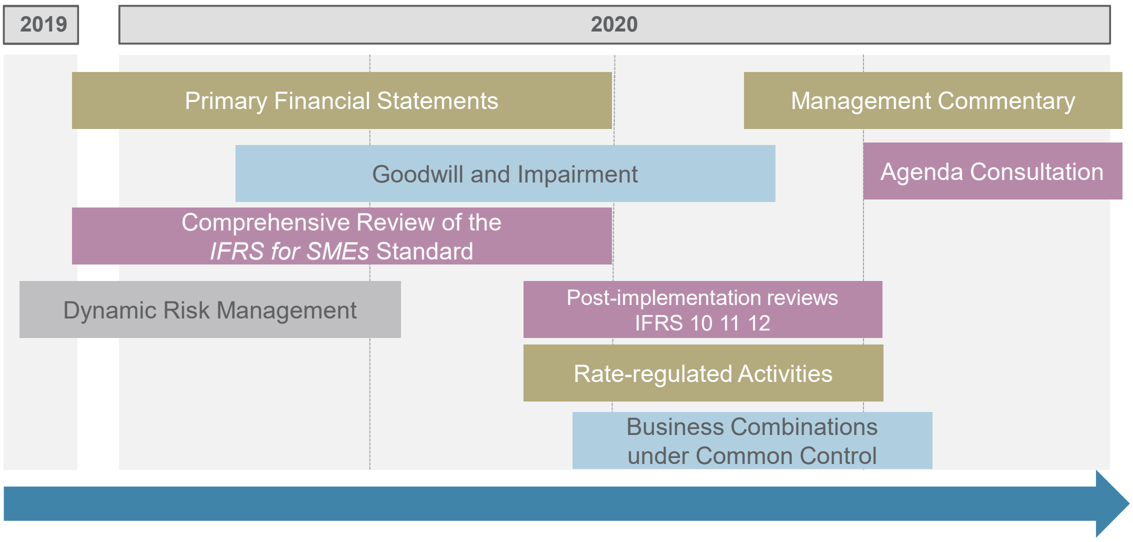
What will happen in 2020?

2020 major consultations



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IFRS for SMEs 2019 Review – Phase 1

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2018
Emerging Economies Group
Presented background to *IFRS for SMEs*

Q1 2019
2019 Review start
Outreach to EEG, IFASS & Advisory Council

Q2-Q3 2019
SME Implementation Group
Outreach requests

Q4 2019
Expected Request for Information

February to October 2019
Board deliberation on topics to be included in the Request for Information

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Overview of the 2019 Review

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Phase I – Request for Information

Develop a Request for Information (RFI) setting out the Board's approach on whether and how to align the *IFRS for SMEs* Standard with new and amended IFRS Standards and IFRIC Interpretations

Phase II – Feedback analysis

Decide if the Board should develop an Exposure Draft of amendments to the *IFRS for SMEs* Standard, and if so, what should be included

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IFRS for SMEs Standard and IFRS Standards

- *IFRS for SMEs* Standard was developed based on principles of IFRS Standards
- Board discussed approach to 2019 Review:

Alignment principles

- The purpose of the alignment principles is to help the Board determine whether and how to align the *IFRS for SMEs* Standard with new and amended IFRS Standards

Relevance

Is it a problem relevant to entities applying the *IFRS for SMEs* Standard?

Simplicity

Simplify:
- recognition and measurement principles
- accounting policy choices
- disclosures
- drafting

Faithful Representation

Is information still a faithful representation of the phenomena it purports to represent?

Feedback on Discussion Paper

25

Classification	Presentation	Disclosure
Timing feature	Separate presentation of financial liabilities	Priority on liquidation
Amount feature	Attribution within equity	Maximum dilution of ordinary shares
Contractual terms		Terms and conditions

Key
- Green: broadly agree with no or limited qualifications
- Amber: partially agree with some issues that need addressing or mixed views
- Red: broadly disagree and/or concerns raised

128 comment letters

Next steps The Board will discuss the project's direction at a future meeting

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FICE project direction alternatives

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TBD

Clarify classification principles in the DP (use timing and amount features)

Clarify implicit classification principles in IAS 32 (rather than rewriting IAS 32)

'Fill in gaps' in IAS 32 without clarifying underlying principles

Provide classification guidance and illustrative examples

Improve presentation and/or disclosure

Alternative **A**	Alternative **B**	Alternative **C**	Alternative **D**	Alternative **E**
Fundamental review	Modify or refine the DP	Clarifying amendments to IAS 32	Narrow-scope amendments to IAS 32	Disclosure-only project

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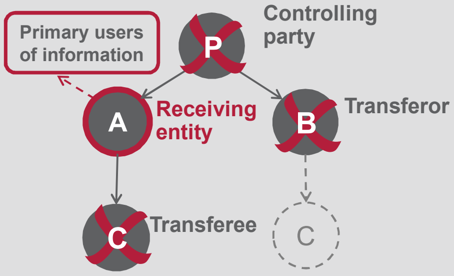
Business Combinations under Common Control

Problem — Absence of IFRS requirements reduces comparability and understandability of financial information

Approach



Entity A acquires Entity C

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

In determining when and how a current value approach or a predecessor approach should be applied, consider:

- whether and how transactions in the scope of the project can be different from business combinations addressed in IFRS 3 *Business Combinations*;
- information needs of primary users; and
- costs of providing and using information.

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Business Combinations under Common Control

Board's Tentative Decisions

No need to pursue a single approach for all transactions in the scope of the project

Transactions that affect non-controlling shareholders of the receiving entity	**Transactions that do *not* affect non-controlling shareholders**
Start with the acquisition method and consider whether and how to modify it	Consider requiring a different approach, such as a form of predecessor approach

Next steps — **Discussion Paper is planned for the first half of 2020**

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Management Commentary project

- **2010** — IFRS Practice Statement 1 *Management Commentary* published
- **2017** — Revision of Practice Statement added to the Board's agenda
- **H2 2018** — Management Commentary Consultative Group established; Stakeholder consultations and Board discussions begin
- **2019** — Stakeholder consultations and Board discussions continue
- **H2 2020** — Expected issuance of Exposure Draft

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What is management commentary?

- A narrative report that gives context for the financial statements and additional insight into the company's long-term prospects
- Sits within the boundaries of financial reporting and is aimed at primary users of financial reports—existing and potential investors, lenders and other creditors

Environmental, social and governance (ESG) matters—normally part of wider corporate reporting—are discussed in management commentary if necessary for primary users to make economic decisions

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Management commentary project focus

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Why revise?	Focus of revision
Developments in narrative reporting Gaps in current reporting practice Increasing need for additional information	Meet primary users' information needs Retain a principles-based approach but expand the guidance to: • consolidate innovations • address gaps in reporting • support rigorous application Particular emphasis on: • company-specific matters • intangibles and ESG matters • matters that underpin long-term success • coherent discussion linked to strategy

Intended to be compatible with jurisdictional requirements and subject-matter frameworks (eg TCFD, SASB)

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Research projects—Early stage

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Provisions	Assess whether to make targeted improvements to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
Subsidiaries that are SMEs	Research whether subsidiaries that are SMEs could apply recognition & measurement requirements of IFRS Standards with disclosure requirements of the *IFRS for SMEs* Standard
Extractive Activities	Gather evidence to decide whether to start a project to replace IFRS 6 *Exploration for and Evaluation of Mineral Resources*
Pension Benefits that Depend on Asset Returns	Address inconsistency arising when amount of pension benefits depends on the return of a specified pool of assets, but pension liability is measured using a discount rate determined by reference to high quality corporate bond rates

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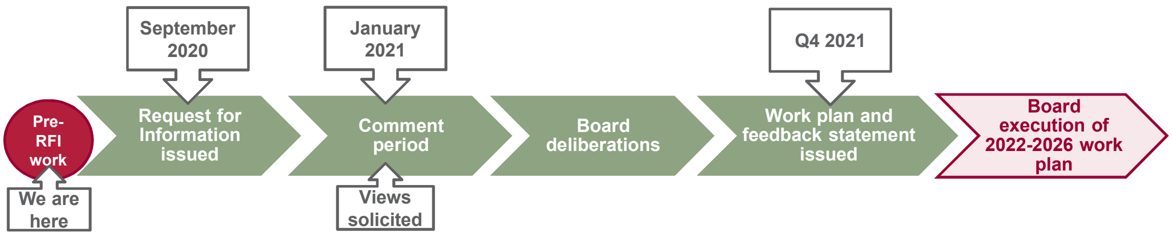
Research pipeline–Projects to start in the future

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.

2020 Agenda Consultation

The purpose of an agenda consultation is to seek feedback on:

1. Strategic direction and balance of work plan
2. Criteria for assessing projects to be added
3. Priority of financial reporting issues



Context for the 2020 Agenda Consultation
How we are doing against 2015 Agenda Consultation goals

Complete major Standards

- **Conceptual Framework** *Completed 2018*
- **Insurance Contracts** *Completed 2017*

Better communication in financial reporting

- **Primary Financial Statements** *ED expected 2019*
- **Disclosure Initiative**
- **Management Commentary** *ED expected 2020*
- **Taxonomy** *– ongoing*

More support for existing Standards

Allocate additional resource *Completed; more issues addressed and significantly faster*

Post-implementation reviews

- IFRS 3 IFRS 8 IFRS 13 *Completed 2018*
- IFRS 10 IFRS 11 IFRS 12
- IFRS 5–*not started*

Focus research programme

Programme refocused

- Research projects
  - *In progress*
- Pipeline projects
  - *have started work on most, but not all projects, as intended before 2020 Agenda Consultation*

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Context for the 2020 Agenda Consultation
Take-aways from 2015 Agenda Consultation

- The significant achievements against the 2015 Agenda Consultation goals demonstrate the benefits of a more focussed agenda and disciplined research process in order to make more timely progress.
- However, the Board may not meet all of its goals, in part, because it added new projects (IFRS17 amendments; IBOR reform; and update to management commentary, including aspects of environmental, social and governance developments) subsequent to the 2015 Agenda Consultation.
- As such, for the 2020 Agenda Consultation, capacity to add new research and standard-setting projects could potentially be limited:
  - A number of projects are still in process
  - Capacity should be retained for issues arising after conclusion of the 2020 Agenda Consultation
  - Expansion of other activities may limit capacity for research and standard-setting
  - Expansion of research and standard-setting projects could affect timeliness of those projects and of other activities (eg, processing of Interpretations Committee submissions)

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Why were IFRS 10,11 and 12 developed?

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IFRS 10

- A single consolidation (control) model
- Exemption for consolidation—investment entities

IFRS 11

- Classification of joint arrangements based on rights and obligations
- Elimination of accounting options

IFRS 12

- Combined and enhanced disclosure requirements

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Any other news to share?

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The IFRS Taxonomy

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The IFRS Taxonomy reflects the presentation and disclosure requirements of IFRS Standards and related common reporting practice in a timely and accurate manner

consists of 'elements' used by preparers to tag the information in IFRS financial statements

makes IFRS disclosures more accessible to users of tagged electronic data

facilitates communication between preparers and users

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Any helpful material to mention?

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Resources available on our website

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Website
www.ifrs.org

Video

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/

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Get involved

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Questions

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Question 1

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The Board issued the Materiality Practice Statement in 2017 as part of its Disclosure Initiative. Is the MPS used in your jurisdiction?

A. Yes – it's mandatory
B. It is not mandatory, but some entities use the Practice Statement
C. We use the Practice Statement to help develop similar requirements
D. We do not use the Practice Statement

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Question 2

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Have you started to plan for outreach in your jurisdiction to respond to any of the major consultations due to take place in 2020?

A. Yes
B. No

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Question 3

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Does your jurisdiction use the Management Commentary Practice Statement?

A. Yes – it's mandatory
B. It is not mandatory, but some entities use the Practice Statement
C. We use the Practice Statement to help develop local requirements
D. We do not use directly but some preparers use it as an example of good practice
E. We do not use the Practice Statement

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Question 4

Does your jurisdiction/region require the electronic tagging of data for some or all entities?

A. Yes – we require electronic tagging of data using the IFRS Taxonomy
B. Yes – we require electronic tagging of data but not the IFRS Taxonomy
C. We do not require electronic tagging of data

Question 5

From time to time the Board makes educational materials available, including Board members articles and webinars explaining specific aspects of IFRS Standards. Do you use these materials?

A. Yes, regularly
B. Yes, infrequently
C. No, but will do so after the WSS conference

Dynamic Risk Managment

Dynamic Risk Management: Business Activity of Financial Institutions

The difference between **interest revenue** and **interest expense** represents **net interest income (NII)**.

Interest Revenue — (**Deposit Interest** + **Liability Interest**) = **NII**

Dynamic Risk Management is the process that involves understanding and managing how and when a change in interest rates can impact NII. As NII is the net of interest revenue and interest expense, a change in interest rates that has an equal impact on both would not impact NII.

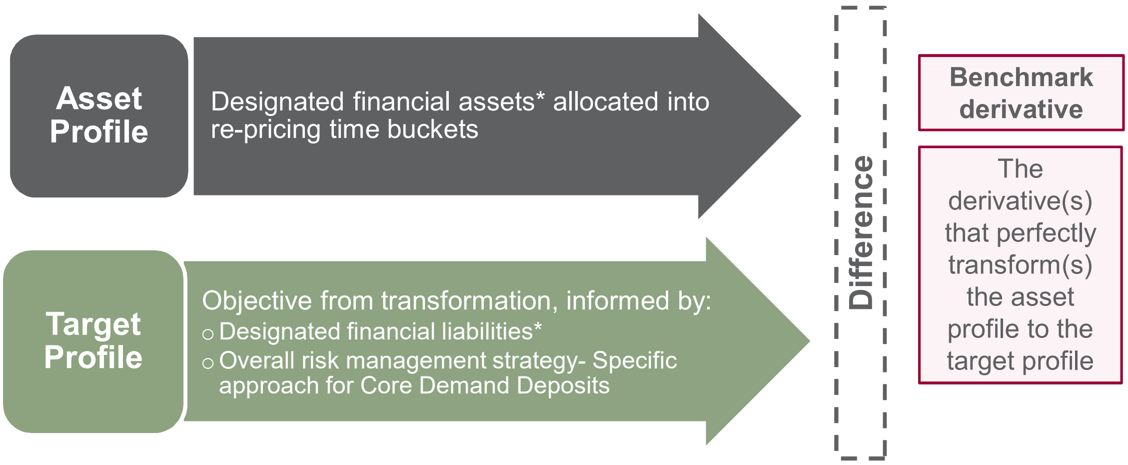
Consequently, one of the best ways to prevent NII from changing due to a change in interest rates is to "match" assets and liabilities, a common approach used by financial institutions.

Dynamic Risk Management: Outline of the model

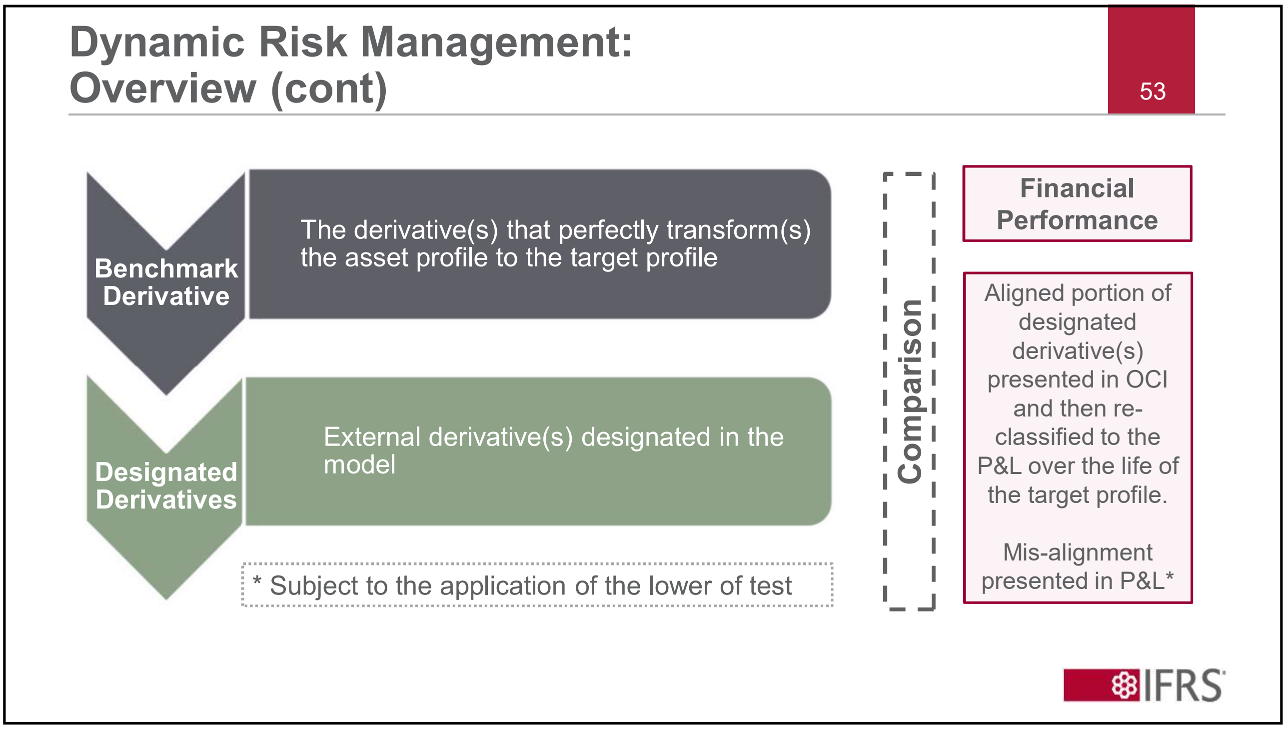
When derivatives (A) are successful in aligning the asset profile (B) with the target profile (C), changes in fair value of such derivatives are deferred in OCI and reclassified to the statement of profit or loss.

Assuming perfect alignment, the results reported in the statement of profit or loss should reflect the entity's target profile.

Dynamic Risk Management: Overview



* Subject to qualifying criteria


Dynamic Risk Management:
Overview (cont)
53
Benchmark Derivative
The derivative(s) that perfectly transform(s) the asset profile to the target profile
Designated Derivatives
External derivative(s) designated in the model
* Subject to the application of the lower of test
Comparison
Financial Performance
Aligned portion of designated derivative(s) presented in OCI and then re-classified to the P&L over the life of the target profile.
Mis-alignment presented in P&L*
IFRS

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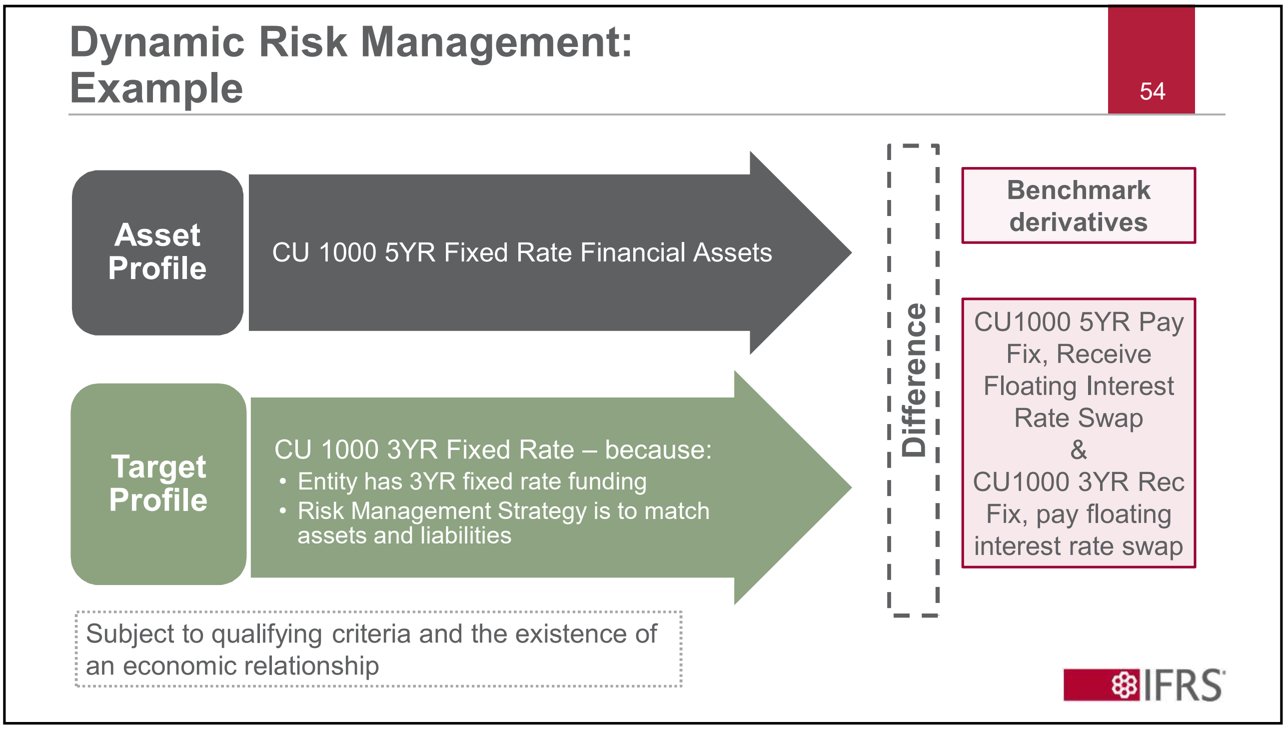
Dynamic Risk Management:
Example
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Asset Profile
CU 1000 5YR Fixed Rate Financial Assets
Target Profile
CU 1000 3YR Fixed Rate – because:
• Entity has 3YR fixed rate funding
• Risk Management Strategy is to match assets and liabilities
Subject to qualifying criteria and the existence of an economic relationship
Difference
Benchmark derivatives
CU1000 5YR Pay Fix, Receive Floating Interest Rate Swap
&
CU1000 3YR Rec Fix, pay floating interest rate swap
IFRS

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National Standard-setters Times

This publication has been prepared to support the *IASB Update—Q&A with IASB Vice-Chair and Executive Technical Director* discussion at the World Standard-setters Conference on 30 September 2019. It provides an overview of the work of the International Accounting Standards Board (Board) between 1 October 2018 and 15 September 2019 and highlights upcoming consultations on which the Board will be seeking input.

1 Technical activities October 2018 – September 2019

International Accounting Standards Board (Board) activities

Amendments to IFRS Standards

In October 2018, the Board issued amendments to the definition of a business and to the definition of material.

Amendment of the definition of a business	
Which IFRS Standard?	IFRS 3 *Business Combinations*
When is the change effective?	1 January 2020 Earlier application is permitted
New definition of a business	An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities

The amendments to the definition of a business are intended to help companies determine whether an acquisition is of a business or a group of assets. Distinguishing between a business and a group of assets is particularly important because an acquirer recognises goodwill only when acquiring a business.

The amended definition emphasises that to be considered a business an acquired set of assets must include an input and a substantive process that significantly contribute to creating output. In addition to amending the wording of the definition, the Board has provided supplementary application guidance.

The amendments arose from a Post-implementation Review of IFRS 3, an assessment carried out to determine whether IFRS 3 works as intended.

Amendment of the definition of material	
Which IFRS Standard?	IAS 1 *Presentation of Financial Statements* IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
When is the change effective?	1 January 2020 Earlier application is permitted
New definition of material	Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the 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

IFRS®

The amendments to the definition of material will assist companies to make materiality judgements.

The definition of material, an important accounting concept in IFRS Standards, helps companies decide whether information should be included in their financial statements.

The amendments are a response to findings that some companies experienced difficulties applying the previous definition when judging whether information is material for inclusion in the financial statements.

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards.

Proposed amendments to IFRS Standards

Proposed clarifications for companies assessing whether contracts will be loss making (onerous)	
Which IFRS Standard?	IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
Comment deadline	15 April 2019
Next steps	The Board will decide how to proceed with the project

In December 2018, the Board proposed amendments to IAS 37 to specify which costs a company should include when assessing whether a contract will be loss making (onerous).

The proposed amendments specify that:

- a company determines that a contract will be loss making—and describes it as onerous—if the costs the company expects to incur to fulfil the contract are higher than the economic benefits it expects to receive from it; and
- the costs of fulfilling a contract include both incremental costs, such as the costs of materials, and an allocation of other costs directly related to the contract, such as the depreciation charge for equipment the company uses to fulfil contracts.

The proposed amendments aim to provide greater clarity to companies and therefore support consistent application of IAS 37.

The Board has considered a summary of feedback on the proposed amendments at its May 2019 meeting. The Board has not yet decided how to proceed.

Proposed targeted amendments to IFRS Standards in response to IBOR reform	
Which IFRS Standard?	IAS 39 *Financial Instruments: Recognition and Measurement* IFRS 9 *Financial Instruments*
Comment deadline	19 June 2019
Next steps	The Board expects to issue final amendments in September 2019

In May 2019, the Board proposed changes to the old and new financial instruments Standards, IAS 39 and IFRS 9, in the light of the reform of interest rate benchmarks such as interbank offer rates (IBORs).

The Board proposed to amend IAS 39 and IFRS 9 to provide temporary relief from specific hedge accounting requirements that could have resulted in the discontinuation of hedge accounting solely due to the uncertainty arising from interest rate benchmark reform.

The Board is considering the accounting implications arising from the reform in two phases. These proposed amendments relate to the effects of uncertainty in the period leading up to the replacement of interest rate benchmarks. In the second phase, the Board will assess the potential accounting implications of actual changes of documents arising from the reform and determine whether action is needed.

Proposed annual improvements 2018–2020	
Which IFRS Standard?	IFRS 1 *First-time Adoption of International Financial Reporting Standards* IFRS 9 *Financial Instruments* IFRS 16 *Leases* (Illustrative Examples) IAS 41 *Agriculture*
Comment deadline	20 August 2019
Next steps	The Board will consider feedback on the proposed amendments

In May 2019, the Board proposed narrow-scope amendments to four IFRS Standards as part of its maintenance and improvements of IFRS Standards.

Annual improvements are limited to changes that either clarify the wording in an IFRS Standard or correct relatively minor unintended consequences, oversights or conflicts between requirements in the Standards. Matters dealt with through annual improvements often arise from questions submitted to the IFRS Interpretations Committee.

Proposed update to *Conceptual Framework* reference in IFRS 3	
Which IFRS Standard?	IFRS 3 *Business Combinations*
Comment deadline	27 September 2019
Next steps	The Board will consider feedback on the proposed amendments

In May 2019, the Board proposed narrow-scope amendments to IFRS 3. The amendments would update a reference to the *Conceptual Framework for Financial Reporting* without changing the accounting requirements for business combinations.

IFRS 3 specifies how a company should account for the assets and liabilities it acquires when it obtains control of a business. It refers companies to the Board's *Conceptual Framework* to determine what constitutes an asset or a liability. IFRS 3 refers to an old version of the *Conceptual Framework*. The Board proposed to update IFRS 3 so that it refers instead to the latest version, issued in March 2018.

Updating the reference without making any other changes to IFRS 3 could change the accounting requirements for business combinations because the liability definition in the *Conceptual Framework* is broader than that in previous versions. Companies applying the liability definition in the *Conceptual Framework* would need to record provisions and contingent liabilities when they acquire a business they would not record in other circumstances. To avoid conflicts between the initial recognition and the subsequent accounting, the Board also proposed that for provisions and contingent liabilities, companies refer to IAS 37 instead of the *Conceptual Framework* to determine what constitutes a liability.

The Board is also considering whether and how to amend IAS 37 to align it with the *Conceptual Framework*.

Proposed amendments to aid implementation of the new insurance contracts Standard	
Which IFRS Standard?	IFRS 17 *Insurance Contracts*
Comment deadline	25 September 2019
Next steps	The Board aims to issue final amendments in mid-2020

In June 2019, the Board proposed amendments to the new insurance contracts Standard, IFRS 17. The aim of the amendments is to:

- continue supporting implementation by reducing the costs of implementing IFRS 17 and making it easier for companies to explain their results when they apply IFRS 17; and
- alleviate concerns and challenges raised about implementing IFRS 17, following discussions with those affected by IFRS 17 after it was issued in May 2017.

The proposed amendments are designed to minimise the risk of disruption to implementation already underway. They include a proposed deferral of the effective date of IFRS 17 by one year to 2022. They do not change the fundamental principles of the Standard or reduce the usefulness of information for investors.

Proposed amendments to accounting for deferred tax	
Which IFRS Standard?	IAS 12 *Income Taxes*
Comment deadline	14 November 2019
Next steps	The Board will consider feedback on the proposed amendments

In July 2019, the Board proposed amendments to the IFRS Standard for income tax, IAS 12. The proposed amendments clarify how companies account for deferred tax on leases and decommissioning obligations.

IAS 12 specifies how a company accounts for income tax, including deferred tax, which represents amounts of tax payable or recoverable in the future. In specific circumstances, companies are exempt from recognising deferred tax when they recognise assets or liabilities for the first time (initial recognition exemption). There has been some uncertainty about whether the initial recognition exemption applies to leases and decommissioning obligations.

According to the proposed amendments, the initial recognition exemption in IAS 12 would not apply to leases and decommissioning obligations—transactions for which companies recognise both an asset and a corresponding liability. The proposed amendments would result in companies recognising deferred tax on such transactions.

Proposed amendments to improve accounting policy disclosures	
Which IFRS Standard?	IAS 1 *Presentation of Financial Statements* IFRS Practice Statement 2 *Making Materiality Judgements*
Comment deadline	29 November 2019
Next steps	The Board will consider feedback on the proposed amendments

In August 2019, the Board proposed narrow-scope amendments to IAS 1 and IFRS Practice Statement 2 to help companies provide useful accounting policy disclosures to users of financial statements.

IAS 1 requires companies to disclose their 'significant' accounting policies. The Board proposed to replace the reference to 'significant' with a requirement to disclose 'material' accounting policies. The proposed amendments state that information about an accounting policy is material if, when considered together with other information included in a company's financial statements, it can reasonably be expected to influence decisions that users of financial statements make about the company.

The Board also proposed to add guidance to IAS 1 to help companies understand what makes an accounting policy material and to update IFRS Practice Statement 2 by adding explanations and examples to help companies apply the concept of materiality in making decisions about accounting policy disclosures.

Project summaries

Project summaries, which are issued at conclusion of a project, are overviews of information already available to the public through Board papers. They do not provide any new material and do not form part of IFRS Standards.

Project summary on *Share-based Payment—Sources of Accounting Complexity*	
Which IFRS Standard?	IFRS 2 *Share-based Payment*

In October 2018, the Board published its project summary of research work on IFRS 2.

The Board examined why IFRS 2 generated many application questions that resulted in narrow-scope amendments to IFRS 2. The Board completed its research and concluded that no further amendments to IFRS 2 are needed.

Review of the Standard on fair value measurement	
Which IFRS Standard?	IFRS 13 *Fair Value Measurement*

In December 2018, the Board published a summary report on its Post-implementation Review (PIR) of the fair value measurement Standard, IFRS 13.

The Board conducts a PIR of new Standards and major amendments to a Standard after they have been in use around the world for at least two or three years. The purpose is to consider—with input from stakeholders—whether the Standard works as intended and whether the information it requires companies to provide is useful to users of financial statements. A PIR also assesses whether any unexpected costs have arisen during implementation.

IFRS 13 was issued in 2011 and came into effect in 2013. It provides principle-based guidance on how to measure fair value and sets out fair value related disclosure requirements. IFRS 13 does not determine when fair value measurement is required or permitted.

The PIR of IFRS 13 showed that the information companies provide applying the Standard is useful to investors. The Board also concluded that no unexpected costs have arisen from applying IFRS 13. The Board has an active project on disclosures about fair value measurement. The project is part of the Targeted Standards-level Review of Disclosures, which is part of the Board's work on Better Communication in Financial Reporting.

Project summaries on IFRS 8 and discount rates

In February 2019, the Board published two documents summarising its work on possible improvements to two IFRS Standards and on discount rates in IFRS Standards:

- the Project Summary on IFRS 8 *Operating Segments* provides an overview of feedback on the Board's proposals in its Exposure Draft *Improvements to IFRS 8—Proposed amendments to IFRS 8 and IAS 34*, published in March 2017. The summary also explains why the Board decided not to proceed with those proposals.
- the Project Summary on discount rates provides an overview of research considered by the Board from 2014 to 2017 in its project on discount rates in IFRS Standards.

Project summary on *Disclosure Initiative—Principles of Disclosure*

In March 2019, the Board published a document summarising its work on the *Disclosure Initiative—Principles of Disclosure* research project. The Disclosure Initiative is also part of the Board's wider work under the theme Better Communication in Financial Reporting.

The document summarises:

- research performed by the Board, including feedback received on the *Disclosure Initiative—Principles of Disclosure* Discussion Paper published in March 2017; and
- conclusions reached in the light of that research, including the Board's decision to undertake a Targeted Standards-level Review of Disclosures project. The Board is currently considering potential changes to the disclosure requirements in IAS 19 *Employee Benefits* and IFRS 13 as part of this work.

IFRS Interpretations Committee (Committee) activities

Narrow-scope standard-setting

Between 1 October 2018 and 15 September 2019, the Committee's work resulted in the Board publishing the following proposed amendments:

- proposed clarifications for companies assessing whether contracts will be loss making (onerous);
- proposed amendments to accounting for deferred tax; and
- proposed annual improvements 2018–2020.

The proposals are discussed above.

Agenda decisions

Between 1 October 2018 and 15 September 2019, the Committee finalised 16 agenda decisions. Half of those agenda decisions relate to the new financial instruments, revenue recognition and leases Standards—IFRS 9, IFRS 15 and IFRS 16.

Refer to Section 4 of this publication for details about agenda decisions published between 1 October 2018 and 15 September 2019.

② Upcoming major consultations

Last quarter of 2019

Primary Financial Statements	
What?	Exposure Draft

The Board is developing improvements to the structure and content of the primary financial statements, with a focus on the statement(s) of financial performance.

Companies currently use different performance measures in their financial statements, often without clarifying what information is included in or excluded from such measures. This means that investors and regulators cannot easily compare companies' financial performances, even within the same industry.

The Board is also developing new proposed disclosures about performance measures used by a company that are not part of IFRS Standards in order to improve transparency and consistency.

Goodwill and Impairment	
What?	Discussion Paper

The Board is developing improvements to the accounting for goodwill and improved disclosure about business combinations and their subsequent performance, after feedback from the Post-implementation Review of IFRS 3.

Comprehensive Review of *IFRS for SMEs* Standard	
What?	Request for Information

The Board is developing a Request for Information focused on obtaining views on whether and how to update the *IFRS for SMEs* Standard to align with changes in IFRS Standards.

Dynamic Risk Management	
What?	Core Model

The Board is exploring whether it can develop an accounting model that will provide users of financial statements with better information about a company's dynamic interest rate risk management activities and how it manages those activities.

Many companies use hedging to manage exposure to financial risks such as movements in foreign exchange or interest rates or changes in commodity prices. IFRS 9 introduced improved hedge accounting and disclosure requirements to enable companies to better reflect their risk management. However, those improvements did not cover situations in which a company manages those risks 'dynamically'—ie when the risk position being hedged changes frequently and is hedging an open portfolio of changing assets and liabilities. Consequently, companies sometimes struggle to reflect their risk management, which means that investors cannot easily understand, and companies find it difficult to explain, the effect of hedging on a company's financial position and future cash flows. As a next step before publishing a consultation document the Board plans to discuss the draft model with companies through outreach.

First half of 2020

Rate-regulated Activities	
What?	Exposure Draft

The Board is developing a new accounting model to give users of financial statements better information about a company's incremental rights and obligations arising from its rate-regulated activities.

Business Combinations under Common Control	
What?	Discussion Paper

The Board is developing requirements to improve the comparability and transparency of accounting for business combinations under common control to help investors compare and better understand information that companies provide in financial statements about such transactions.

IFRS Standards do not specify how to account for combinations of companies or businesses controlled by the same party. As a result, companies account for such transactions in different ways, which makes it difficult for investors and regulators to compare the effects of those transactions on companies' financial positions and performances.

Second half of 2020

Management Commentary	
What?	Exposure Draft

The Board is developing a proposed update of the IFRS Practice Statement 1 *Management Commentary* issued in 2010. The update focuses on the needs of the primary users of financial statements. The update will include consideration of:

- developments from other narrative reporting initiatives; and
- acknowledged gaps in narrative reporting practice indicating that the goals of the *Management Commentary* and other narrative reporting regimes are unmet.

Management commentary complements the financial statements by providing other financial information—insight into the company's strategy for creating value over time and its progress in implementing its strategy. Management commentary also sets out the potential impact that the company's strategy will have on financial performance, which may not captured by the financial statements. Environmental, social and governance (ESG) matters—normally part of wider corporate reporting—are discussed in management commentary if necessary for primary users to make economic decisions.

2020 Agenda Consultation	
What?	Request for Information

The Board undertakes a public consultation on its work plan (agenda) every five years by way of a public Request for Information. The Board will issue its next Request for Information in 2020.

The primary objective of the consultation is to seek public input on the strategic direction and balance of the Board's work plan, including the criteria for assessing projects that may be added to the Board's work plan. The consultation will also seek views on financial reporting issues that should be given priority by the Board and on projects to withdraw from the Board's work plan.

3 Other news

New Board members

The Trustees of the IFRS Foundation have appointed Tadeu Cendon and Rika Suzuki as Board members for a five-year term, effective 1 July 2019.

Mr Cendon has almost three decades of experience in auditing and consulting. He joins the Board from PwC Brazil Accounting and Consulting Services, where he has worked as Partner responsible for providing accounting advice to audit teams and multinational companies reporting under IFRS Standards. He has also served as the Director for Professional Development at the Brazilian Institute of Independent Auditors (IBRACON).

Ms Suzuki was the IFRS Leader and Assurance Partner of PwC Aarata LLC in Japan, where she provided advice on accounting and reporting issues under IFRS Standards, Japanese GAAP and US GAAP. She also supervised reviews of IFRS transition and application for large multinationals and other listed companies. Ms Suzuki was a member of the Accounting Standards Board of Japan (ASBJ)'s Special Committee for IFRS Implementation. She also chaired the Japanese Institute of Certified Public Accountants (JICPA)'s Working Groups for Japan's Modified International Standards (JMIS) and Revenue Recognition.

Mr Cendon will fill one of the Board's Americas seats while Ms Suzuki will fill a seat from the Asia-Oceania region.

Amaro Gomes, in an Americas seat, and Takatsugu Ochi, in an Asia-Oceania seat, ended their second terms on 30 June 2019.

IFRS Taxonomy 2019

The IFRS Taxonomy facilitates electronic reporting of financial information prepared in accordance with IFRS Standards. Preparers can use the IFRS Taxonomy to tag disclosures, making them more easily accessible to investors.

The IFRS Taxonomy 2019, published in March 2019, incorporates changes resulting from two final updates to the IFRS Taxonomy 2018:

- IFRS Taxonomy 2018—Update 1 Common Practice (IFRS 13). This update includes new elements and an enhanced taxonomy model that better reflect information companies commonly disclose about fair value measurement.
- IFRS Taxonomy 2018—Update 2 General Improvements. This update includes changes designed to improve the tagging of the data using the IFRS Taxonomy and to make it easier to navigate the IFRS Taxonomy.

Proposed amendments to Due Process Handbook

In April 2019, the IFRS Foundation Trustees invited comments on proposed amendments to its Due Process Handbook.

The Trustee's Due Process Oversight Committee (DPOC) is responsible for overseeing the Board and the Interpretations Committee's compliance with the due process set out in the Handbook.

The main proposed changes are to:

- update the procedures relating to the use of effects analysis to ensure that they are consistent with current activities and make it clear that such analyses take place at all stages of the standard-setting process; and
- clarify the role of agenda decisions published by the Committee and introduce agenda decisions as a tool for the Board.

The proposed amendments reflect responses to the 2017 stakeholder perception survey that identified the IFRS Foundation's due process as highly regarded but asked if improvements could be introduced to improve efficiency without having a negative impact on the quality of work.

Stakeholder engagement

Developing IFRS Standards for the global economy is a collaborative exercise founded on transparency, full and fair consultation, and accountability. The Board's network of advisory committees and bodies represent the many different stakeholder groups that have an interest in and are affected by financial reporting. These groups enable the Board to efficiently consult with interested parties from a range of backgrounds and geographical regions.

Between 1 October 2018 and 15 September 2019, the following meetings of advisory committees and bodies to the Board's technical activities were held.

Group	No. of meetings
Accounting Standards Advisory Forum (ASAF)	4
Emerging Economies Group (EEG)	2
Global Preparers Forum (GPF) Capital Markets Advisory Committee (CMAC)	5

The groups have been consulted on all areas of the Board's work programme including research, standard-setting projects and implementation projects.

The IFRS Foundation announced the membership of Accounting Standards Advisory Forum in October 2018 for the three-year period 2018–2021. The first meeting with the new composition took place in December 2018.

The membership of advisory committees and bodies is crucial to the Board receiving effective advice. The support of national-standard setters in helping identify candidates is encouraged.

Group	No. of meetings
IFRS Taxonomy Consultative Group	4
Transition Resource Group for IFRS 17	1
Management Commentary Consultative Group	2

The above three groups are constituted to provide advice on specific aspects of the Board's work.

Transition Resource Group for IFRS 17

The fourth meeting of the Transition Resource Group for IFRS 17 (TRG) was held on 4 April 2019. From February 2018 to April 2019 there have been four TRG meetings covering all 127 submissions up to April 2019. The TRG meeting summaries, papers for the meeting, as well as the updated TRG agenda paper tracker for an easy access guide to all TRG papers, by category, are available on the IFRS Foundation website.

4 Educational materials published 2018–2019

The Board and the Committee provide educational materials to support the implementation and consistent application of IFRS Standards. In addition to Transition Resource Group meeting summaries, supporting educational materials include:

- webcasts, podcasts and webinars;
- articles and other publications; and
- Committee agenda decisions.

Webcasts and publications for investors

In February 2019, educational material for investors about IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* were published.

IFRS 15—A webcast outlines the information companies are expected to provide about their revenue in financial statements and notes prepared applying IFRS 15. Several case studies explain the new revenue recognition model and the changes resulting from its application.

The webcast also discusses disclosure requirements introduced by IFRS 15, including those relating to the disaggregation of revenues, the use of judgements and estimates, and contract assets and liabilities.

IFRS 16—Free Cash Flow (FCF) is one of the non-GAAP measures most commonly used by investors. A publication highlights attributes of FCF measures reported by lessees that limit comparability with FCF measures reported by companies that buy assets. The publication demonstrates this through a simplified case study and explains an adjustment approach to compute comparable FCF measures that makes use of new information provided applying IFRS 16.

Supporting modules for *IFRS for SMEs* Standard

A package of 35 supporting modules to help those applying the *IFRS for SMEs* Standard was made available. The Standard is specifically aimed at companies that do not have public accountability—companies that do not have debt or equity traded in a public market and do not hold assets in a fiduciary capacity for a broad group of outsiders.

The modules are also helpful to those using financial statements prepared applying the *IFRS for SMEs* Standard and to students and others who are learning about it.

There is one supporting module per section of the Standard. Each module explains the requirements in the corresponding section of the Standard, discusses the significant estimates and other judgements relevant for that section, and provides a comparison with full IFRS Standards. In addition, the package of modules contains more than one thousand examples and over 350 multiple-choice questions, allowing people to test their own understanding of the Standard.

Board member articles

Board members have written several articles about the Board's work in 2018–2019, including the following.

Materiality modernised (January 2019)—Gary Kabureck explains the steps the Board has taken to modernise the concept of materiality.

Returns, reinvestment opportunities and dividend distribution (February 2019)—Nick Anderson examines the importance of cash-flow generation and other factors a company may consider in determining the level of dividend payment, including the relationship between IFRS Standards and the capital maintenance requirements of individual jurisdictions.

Changes in financing liabilities—what does good disclosure look like? (February 2019)—Nick Anderson discusses the objectives of the new disclosure requirement about changes in liabilities arising from financing activities following the amendment to IAS 7 *Statement of Cash Flows* that became effective in 2017. He also explains what companies can do to make their disclosures as useful as possible to users of financial statements.

Agenda decisions—time is of the essence (March 2019)—Sue Lloyd explains the Board's view that companies should be entitled to sufficient time to implement changes in accounting policy that result from an agenda decision published by the Committee.

Webcasts about agenda decisions

Webcasts summarising the Committee's discussion and explaining the conclusion it reached about some of its agenda decisions are available on the IFRS Foundation website.

Borrowing costs and revenue recognition—The Committee published an agenda decision on 'over time transfer of a constructed good' to respond to a question about the application of IAS 23 *Borrowing Costs* to the construction of a multi-unit housing development. A webcast published in June 2019 discusses the application of IAS 23 and its interaction with IFRS 15 *Revenue from Contracts with Customers* in the context of the agenda decision.

Curing of a credit-impaired financial asset—The Committee considered how a company should present amounts in its statement of profit or loss if a credit-impaired financial asset is subsequently paid in full or is no longer credit-impaired (cured). A webcast published in July 2019 walks through the application of the relevant requirements on this issue in IFRS 9 *Financial Instruments*.

New quarterly podcasts

In July 2019, the first of a new quarterly podcast focusing on the work undertaken by the Committee to support consistent application of IFRS Standards was published. Among the topics covered in the first podcast were questions about applying IFRS 9, IFRS 15 and IFRS 16, as well as the accounting for holdings of cryptocurrencies.

The podcasts will report on discussions at meetings of the Committee and provide an overview of other relevant activities in the period.

Committee agenda decisions

Between 1 October 2018 and 15 September 2019, the Committee finalised the following 16 agenda decisions, which include explanatory material. Explanatory material in an agenda decision sets out how IFRS Standards apply to a particular set of facts and circumstances outlined in the agenda decision. The paragraphs below summarise the request submitted to the Committee and the Committee's conclusions—for a complete understanding of the request and the Committee's considerations, please refer to the full agenda decision on the IFRS Foundation website.

January 2019

1—Deposits relating to taxes other than income tax

Which IFRS Standard?	IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
Request	The request asked about the accounting for deposits relating to taxes other than income tax in a particular set of circumstances.
Committee's conclusions	The right arising from the tax deposit (described in the agenda decision) meets the definition of an asset. In the absence of an IFRS Standard that specifically applies to that asset, the company applies paragraphs 10–11 of IAS 8 in developing and applying an accounting policy for the asset.

2—Assessment of promised goods or services

Which IFRS Standard?	IFRS 15 *Revenue from Contracts with Customers*
Request	The request asked whether a stock exchange transfers an admission service that is distinct from a listing service to customers. The customer pays a non-refundable upfront fee and an ongoing listing fee.
Committee's conclusions	In the contract described in the agenda decision, the stock exchange does not transfer any good or service to the customer other than the service of being listed on the exchange.

3—Investments in a subsidiary accounted for at cost: partial disposal

Which IFRS Standard?	IAS 27 *Separate Financial Statements*
Request	The request asked about the accounting for a retained interest in a former subsidiary applying IFRS 9 after a partial disposal.
Committee's conclusions	Question A—Assuming the retained interest is not held for trading, the retained interest is eligible for the presentation election in paragraph 4.1.4 of IFRS 9. A company would make this presentation election at the date of losing control of the former subsidiary. Question B—On the date of losing control, the company recognises in profit or loss any difference between the cost of the retained interest and its fair value.

4—Investments in a subsidiary accounted for at cost: step acquisition

Which IFRS Standard?	IAS 27 *Separate Financial Statements*
Request	The request asked about the accounting for an investment in a subsidiary at cost after a step acquisition—the company had applied IFRS 9 to its initial interest in the subsidiary.
Committee's conclusions	Question A—The cost of the investment in the subsidiary could be either 1) the fair value of the initial interest at the date of obtaining control plus any consideration paid for the additional interest; or 2) the consideration paid for the initial interest plus any consideration paid for the additional interest. Question B—If applying approach 2) in Question A, a company recognises in profit or loss any difference between the fair value of the initial interest at the date of obtaining control and the consideration paid for that interest.

March 2019

5—Credit enhancement in the measurement of expected credit losses

Which IFRS Standard?	IFRS 9 *Financial Instruments*
Request	The request asked about a credit enhancement used to manage credit risk on a financial asset when measuring expected credit losses on that asset.
Committee's conclusions	If a credit enhancement is required to be recognised separately by IFRS Standards, a company cannot include the cash flows expected from it in the measurement of expected credit losses on the associated financial asset.

6—Physical settlement of contracts to buy or sell a non-financial item

Which IFRS Standard?	IFRS 9 *Financial Instruments*
Request	The request asked about a physically settled commodity contract required to be accounted for as a derivative applying IFRS 9.
Committee's conclusions	IFRS 9 neither permits nor requires a company to reassess or reverse its accounting for a derivative contract because that contract is ultimately physically settled.

7—Curing of a credit-impaired financial asset

Which IFRS Standard?	IFRS 9 *Financial Instruments*
Request	The request asked how a company presents amounts recognised in profit or loss when a credit-impaired financial asset is subsequently cured (ie paid in full or no longer credit-impaired).
Committee's conclusions	In the statement of profit or loss, a company presents the difference described in the agenda decision (in essence the economic recovery of interest on the asset) as a reversal of impairment losses.

8—Application of the highly probable requirement when a specific derivative is designated as a hedging instrument

Which IFRS Standard?	IFRS 9 *Financial Instruments*
Request	The request asked how a company applies the 'highly probable' requirement in IFRS 9 when the notional amount of the derivative designated as a hedging instrument (load following swap) varies depending on the outcome of the hedged item (forecast energy sales).
Committee's conclusions	In a cash flow hedge, a forecast transaction can be a hedged item if, and only if, it is highly probable. The terms of the hedging instrument do not affect the highly probable assessment because the highly probable requirement is applicable to the hedged item.

9—Customer's right to receive access to the supplier's software hosted on the cloud

Which IFRS Standard?	IAS 38 *Intangible Assets*
Request	The request asked about the accounting for a cloud computing arrangement in which the customer pays a fee in exchange for a right to receive access to the supplier's application software for a specified term.
Committee's conclusions	A contract that conveys to the customer only the right to receive access to the supplier's software in the future is a service contract. The customer receives the service—the access to the software—over the contract term.

10—Sale of output by a joint operator

Which IFRS Standard?	IFRS 11 *Joint arrangements*
Request	The request asked about the recognition of revenue by a joint operator when the output it receives from a joint operation in a period is different from the output to which it is entitled.
Committee's conclusions	In the circumstances described in the agenda decision, the joint operator recognises revenue that depicts only the transfer of output to its customers in each period. The joint operator does not recognise revenue for the output to which it is entitled but which it has not received from the joint operation and sold.

11—Liabilities in relation to a joint operator's interest in a joint operation

Which IFRS Standard?	IFRS 11 *Joint arrangements*
Request	The request asked how a joint operator accounts for a lease liability when it has primary responsibility for that liability and also has a right to recover a share of lease costs from its fellow joint operators.
Committee's conclusions	The liabilities a joint operator recognises include those for which it has primary responsibility.

12—Over time transfer of constructed good

Which IFRS Standard?	IAS 23 *Borrowing Costs*
Request	The request asked about the capitalisation of borrowing costs in relation to the construction of a building for which a company recognises revenue over time.
Committee's conclusions	In the circumstances described in the agenda decision, none of the assets recognised by the company (a receivable, a contract asset or inventory) are qualifying assets. Therefore, the company does not capitalise borrowing costs.

June 2019

13—Effect of a potential discount on plan classification

Which IFRS Standard?	IAS 19 *Employee Benefits*
Request	The request asked how a right to a potential discount on contributions affects the classification of a particular pension plan.
Committee's conclusions	The existence of a right to a potential discount would not in itself result in classifying a pension plan as a defined benefit plan. However, classification of a plan as defined benefit or defined contribution requires assessing all relevant terms and conditions of the plan, as well as any informal practices that might give rise to a constructive obligation.

14—Holdings of cryptocurrencies

Which IFRS Standards?	IAS 2 *Inventories* IAS 38 *Intangible Assets*
Request	At the request of the Board, the Committee discussed how IFRS Standards apply to holdings of cryptocurrencies.
Committee's conclusions	IAS 2 applies to cryptocurrencies (as described in the agenda decision) when they are held for sale in the ordinary course of business. If IAS 2 is not applicable, a company applies IAS 38 to holdings of cryptocurrencies.

15—Costs to fulfil a contract

Which IFRS Standard?	IFRS 15 *Revenue from Contracts with customers*
Request	The request asked about the recognition of construction costs incurred to fulfil a contract as a company satisfies a performance obligation over time.
Committee's conclusions	The costs of construction described in the agenda decision are costs that relate to the company's past performance. Therefore, those costs do not meet the criteria in paragraph 95 of IFRS 15 to be recognised as an asset.

16—Subsurface rights

Which IFRS Standard?	IFRS 16 *Leases*
Request	The request asked about the accounting for a contract in which a pipeline operator obtains the right to place an oil pipeline in a specified underground space for 20 years in exchange for consideration.
Committee's conclusions	The contract described in the agenda decision contains a lease to which IFRS 16 applies.

Notes

Find out more

For more information visit

www.ifrs.org

This publication has been compiled by the staff of the IFRS Foundation for the convenience of interested parties. The views expressed in this document are those of the staff who prepared it and do not necessarily reflect the views of the International Accounting Standards Board (Board) or the IFRS Foundation (Foundation). This publication has not undergone the Foundation's due process. The Board takes official positions only after extensive review, in accordance with the Foundation's due process.

Primary Financial Statements

World
Standard-setters
Conference
2019

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Objective of this session

Help you prepare for the forthcoming consultation by:

- providing an overview of the project
- explaining the project next steps
- providing an opportunity for Q&A

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Before we begin…

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- We will ask you to participate in live polls on the sli.do platform.
- Insert https://www.sli.do/ in the browser of your electronic device i.e. mobile phone, tablet or laptop. Then select the correct session from the dropdown menu.

Warm-up poll

In your view, how important is improving performance reporting?

A. Improvements to performance reporting are essential to improving quality of financial reporting

B. It would be good to make some improvements

C. Performance reporting needs no improvement

Introduction

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2015 Agenda Consultation


August 2015

Request for Views
2015 Agenda Consultation

Comments to be received by 31 December 2015

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"The main priority for the Board over the next period is to address performance reporting"
Corporate Reporting Users' Forum, January 2016

"We regard this as a priority and urge the Board to place it on the near term standards-level agenda"
CFA Institute, February 2016

"This project stood out as one of the most important topics for investors"
Paper 21, IASB meeting, April 2016

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Project timeline

7

Project history	Upcoming consultation	After consultation
2015 Agenda Consultation identified project as a priority	Publish Exposure Draft at end of 2019	Board redeliberations from H2 2020 onwards
Board discussions to develop Exposure Draft (H2 2016–2019)	comment period until 30 June 2020 (expected)	Issue final Standard

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Polling survey 1

8

How can we help with outreach in your jurisdiction?

A. providing presentation materials

B. making IFRS Foundation staff or Board members available to participate in outreach

C. organising a meeting with IFRS Foundation staff to discuss outreach planning

Is there any other help we could provide with outreach? (open question)

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Overview of the key proposals in the ED

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Key proposals in the ED & expected benefits

	Key proposals	Key benefits expected	Slide
❶	Introduce defined subtotals and categories in the statement of profit or loss	Provide additional relevant information and a structure that is more comparable between entities	11–16
❷	Introduce principles and guidance for aggregation and disaggregation	Provide additional relevant information Avoid obscuring material information	17
❸	Amend requirements for analysis of operating expenses	Provide additional relevant information	18
❹	Introduce disclosures on unusual items	Provide additional relevant information, in a single location	19
❺	Introduce disclosures on Management Performance Measures (MPMs)	Provide transparency & discipline in use of such measures, in a single location	20–21
❻	Introduce targeted improvements to the statement of cash flows	Improve comparability between entities	22

❶ Operating profit—current practice

Many users use operating profit in their analysis; for assessing margins and for forecasting future cash flows

Many companies present operating profit (and variants) as a subtotal, however it is calculated inconsistently across companies.

Company X	Company Y
Revenue	Revenue
Net interest on defined benefit liabilities	Share of profit of associates and JVs
Income from investments in financial assets	
Operating profit	**Operating profit**
Share of profit of associates and JVs	Income from investments in financial assets
	Net interest on defined benefit liabilities
Profit	**Profit**

❶ Operating profit—proposed approach

Operating profit = profit from continuing operations before tax and before…

Investing
(defined by the Board)

Financing
(defined by the Board)

Share of profit of integral associates and joint ventures

- Though defined as a residual, the Board expects operating profit to capture income and expense from the entity's main business activities.
- Whether an item is 'unusual' does not affect whether it is included in operating profit.
- Associates and JVs are below operating profit, so financing or tax income and expenses from such entities are not included in operating profit and do not distort margin calculations.

➊ Investing & financing

	Investing	Financing
Objective	Communicate returns from investments that are generated individually and largely independently of other resources held by an entity	Communicate income and expenses from assets and liabilities related to an entity's financing
Includes items such as:	• income and expenses from financial assets, other than cash and cash equivalents • the share of profit or loss of non-integral associates and joint ventures • income and expenses on investment property	• income and expenses from cash and cash equivalents • income and expenses on liabilities arising from financing activities • unwinding of discount on pensions and provisions

➊ Introducing required and defined subtotals*

Revenue	16,500
Changes in inventories of finished goods and work in progress	(1,000)
Raw material and consumables used	(6,000)
Employee benefits expense	(4,000)
Amortisation expense	(800)
Depreciation expense	(1,200)
Impairment of property, plant and equipment	(500)
Operating profit	**3,000**
Share of profit of **integral** JVs and associates	500
Operating profit and share of profit or loss of integral associates and JVs	**3,500**
Changes in the fair value of financial assets	250
Dividend income	50
Share of profit of **non-integral** JVs and associates	100
Profit before financing and income tax	**3,900**
Interest income from cash and cash equivalents	100
Expenses from financing activities	(1000)
Unwinding of discount on pension liabilities and provisions	(100)
Profit before tax	2,900

Operating

Integral associates and JVs

Investing

Financing

*Proposal for general corporates

❶ Definitions take into account different business activities

For example for a bank whose main business activities include investing, providing financing to customers and other services:

Operating profit includes:
- Interest expense
- Income and expenses from investments made in the course of the entity's main business activity

No profit before financing and tax subtotal is presented

Interest income*	X
Interest expense	(X)
Net interest income	X
Fee and commission income	X
Fee and commission expense	(X)
Net fee and commission income	X
Net trading income	X
Net investment income*	X
Credit impairment losses	(X)
Employee benefit expenses	(X)
Operating profit	X
Share of profit of integral associates and JVs	X
Operating profit and share of profit of integral associates and JVs	X
Share of profit of non-integral associates and joint ventures	X
Income from investments outside main business activities	X
Unwinding of discount on pension liabilities	(X)
Profit before tax	X

*Interest revenue calculated using the effective interest method would be presented separately.

Presentation of associates and joint ventures

Preparer A: My associates and JVs are a part of my main business, so I want to include my share of their results in my key performance measures.

User B: The share of associates' and joint ventures' profit is after financing and after tax so I want to analyse them separately.

Proposals

- Separately present 'integral' and 'non-integral' associates and joint ventures in statements of financial performance and cash flows.
- Use definition of income/expenses from investments to classify as 'integral' or 'non-integral': generate returns largely independently of other resources.
- Definition supplemented with indicators for determining whether a joint venture or associate is 'integral' or 'non-integral'.

❷ Aggregation & disaggregation

Guidance on process

identify assets, liabilities, equity, income and expenses that arise from individual transactions or other events → classify into groups based on shared characteristics, resulting in line items in the primary financial statements that share at least one characteristic → separate based on further characteristics, resulting in the separate disclosure of material items in the notes

Guidance on aggregations of dissimilar items

- using a non-descriptive label such as 'other' would not faithfully represent those items without additional information;
- consider whether such items can be disaggregated;
- consider whether such items may be described in a way that faithfully represents the dissimilar items; or
- provide information in the notes about the composition of the aggregation.

❸ Analysis of operating expenses

Statement of profit or loss	Notes
Present analysis by nature or by function, whichever provides the most useful information	Disclose analysis by nature, if statement of profit or loss presents analysis by function
• Not a free choice—the Board proposes to provide a set of factors for entities to consider when making this assessment • Would remove option to present analysis of expenses in the notes only	• Analysis of total operating expenses—no requirement to analyse each functional line item by nature.

❹ Unusual items

Definition

Unusual income and expenses are those with limited predictive value. Income and expenses have limited predictive value when it is reasonable to expect that income or expenses that are similar in type and amount will not arise for several future annual reporting periods.

Income and expenses from the recurring remeasurement of items measured at a current value would not normally be classified as unusual

Disclosures

Amount & narrative description	Disaggregated by: • line items presented in statement of profit or loss; and • line items disclosed in analysis of operating expenses by nature, if the entity analyses expenses by function in the statement of profit or loss

❺ Management performance measures (MPMs)

Disclosure in the notes of subtotals of income and expenses that:

Are used in public communications with users of financial statements, **outside financial statements**	**Complement** totals or subtotals included in IFRS Standards	Communicate **management's view** of an aspect of an entity's financial performance

Accompanied by disclosures in a **single note** to **enhance transparency**, including a **reconciliation** to a measure included in IFRS Standards —see next slide

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❺ MPM reconciliation

The MPM is disclosed in a **separate reconciliation** in the **notes**:

Adjusted operating profit (MPM)	4,400	Tax	NCI
Restructuring expenses for the closure of Factory A	(1,000)	200	50
Impairment of asset B	(400)	80	-
Operating profit (IFRS-specified)	3,000		

Most directly comparable subtotal/total specified by IFRS Standards—can be:

- any of the subtotals required by para. 81A of IAS 1;
- any of the three subtotals proposed in this project;
- profit before tax, profit from continuing operations or measures similar to gross profit; or
- operating profit before depreciation and amortisation

Tax effect is based on a **reasonable pro rata allocation** of the current and deferred tax of the entity in the tax jurisdiction concerned; or a more appropriate allocation.

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❻ Statement of cash flows

Proposals

Single starting point for the indirect reconciliation: **Operating profit**

Removal of classification options for interest and dividends

Cash flow item	IAS 7 classification	Proposal for non-financial entities	Proposal for financial entities
Interest paid	Operating or financing	Financing	Operating or financing*
Dividends paid	Operating or financing	Financing	Financing
Interest received	Operating or investing	Investing	Operating, investing or financing*
Dividends received	Operating or investing	Investing	Operating or investing* (investing for equity-accounted investments)

* Depends on classification of related income/expenses in P&L

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Recap—key proposals and expected benefits

	Key proposals	Key benefits expected
1	Introduce defined subtotals and categories in the statement of profit or loss	Provide additional relevant information and a structure that is more comparable between entities
2	Introduce principles and guidance for aggregation and disaggregation	Provide additional relevant information Avoid obscuring material information
3	Amend requirements for analysis of operating expenses	Provide additional relevant information
4	Introduce disclosures on unusual items	Provide additional relevant information, in a single location
5	Introduce disclosures on Management Performance Measures (MPMs)	Provide transparency & discipline in use of such measures, in a single location
6	Introduce targeted improvements to the statement of cash flows	Improve comparability between entities

The Exposure Draft

New IFRS Standard	Proposed **new requirements** on the structure and content of financial statements	+	Related requirements brought forward from **IAS 1** with limited wording changes
Amendments to other Standards	• IAS 7—statement of cash flows • IAS 33—EPS • IAS 34—interim reporting • IFRS 12—associates and JVs		Other requirements of **IAS 1**—moved to IAS 8 and IFRS 7

→ **Withdraw IAS 1**

Polling survey 2 – question 1

25

Which proposals do you think will be well received in your jurisdiction? (select all that apply)

A. operating and financing subtotals

B. integral and non-integral associates and joint ventures

C. unusual income and expenses

D. disaggregation including analysis of expenses by nature and by function

E. management performance measures

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Polling survey 2 – questions 2 and 3

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Which proposals do you think will be contentious in your jurisdiction? (select all that apply)

A. operating and financing subtotals

B. integral and non-integral associates and joint ventures

C. unusual income and expenses

D. disaggregation incl. analysis of expenses by nature and by function

E. management performance measures

Please share any other thoughts on feedback expected in your jurisdiction (open question)

Better information about business combinations

Goodwill and Impairment project

Jianqiao Lu, IASB Member
Dehao Fang, IASB Technical Staff

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Agenda

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What problems is the Board considering?

3

What problems is the Board considering?

What the Board has heard

- Information on subsequent performance of an acquisition inadequate
- Goodwill impairment losses ‘too late’
- Impairment test costly and complex
- Amortisation should be reintroduced
- Challenges identifying and measuring some intangible assets

What is the objective of the project?

Explore whether companies can provide more useful information about business combinations, enabling users to hold management to account for their acquisition decisions at a reasonable cost

4

Better disclosures about business combinations

5

Better disclosures for business combinations

6

Feedback

- **Users** want to understand:
  - key drivers of the acquisition price
  - subsequent performance of the acquisition
- **Preparers—**IFRS 3 disclosures excessive

Preliminary views

- **Improve the disclosure objectives**
  - evaluate strategic rationale for business combination
  - understand key drivers of acquisition price
  - evaluate subsequent performance of acquisition
- Add **subsequent performance** disclosure requirements
- **Targeted disclosure improvements**

6

Better disclosures for business combinations

Disclosure at acquisition

- Strategic rationale for the business combination (high level strategy)
- Key objectives of business combination (detailed targets)
- Metrics management will use to monitor performance

Subsequent disclosures

- Monitoring performance
  - amounts of metrics (targets)
  - if business combination not monitored – explain that
  - if metrics used changed – explain that

Subsequent performance (1/2)

Why is information needed?

- Stewardship
- Valuation
- Segment information alone insufficient

What metrics should be disclosed?

- Diversity of business combinations
  - No single metric suitable
  - Operational or financial metrics
- Management approach
  - Internal information more robust and cheaper
  - Insight into management assessments

Subsequent performance (2/2)

9

How long should information be provided for?
- General support for – short timeframe
- Suggest year of acquisition and two subsequent annual reporting periods
- More if management continues to review

Should all material business combinations be disclosed?
- Could be onerous disclosure for serial acquirers
- Set a higher threshold, eg chief operating decision maker (IFRS 8 *Operating Segments*)

Barriers?
- Integration
- Commercial sensitivity
- Forward-looking information

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Targeted improvements to existing requirements (1/3)

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Existing requirements

Qualitative factors that make up goodwill – eg expected synergies

Feedback

- Generic and boilerplate information
- Users want quantitative information on expected synergies

Preliminary views

Disclose:
- Description of synergies and expected timing
- (Range of) amounts of synergies
- (Range of) expected costs to achieve synergies

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Targeted improvements to existing requirements (2/3)

11

Existing requirements	Major class of assets acquired and liabilities assumed
Feedback	Debt and defined benefit pension obligations not separately disclosed
Preliminary views	Disclose the following major classes of liabilities: • Liabilities arising from financing activities • Defined benefit pensions obligations

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Targeted improvements to existing requirements (3/3)

12

Existing requirements	Acquiree's revenue, profit or loss and pro forma information
Feedback	• 'Profit or loss' not defined in pro forma disclosure • Little guidance on preparation of pro forma disclosures • Users need information to predict performance and provide comparability
Preliminary views	• Disclosure of acquiree's revenue, operating profit or loss and cash flow from operating activities, since acquisition date • Do <u>not</u> remove requirement for pro forma information

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Amortisation of goodwill vs impairment-only model

13

Reason for reconsidering amortisation of goodwill

14

Not feasible to design impairment test to target acquired goodwill

Provide a simple mechanism for reducing acquired goodwill

Reintroduce amortisation of goodwill?

Take some pressure off the impairment test

Hold management to account by including an amortisation charge in the income statement

14

Arguments for reintroducing amortisation (1/2)

15

- PIR feedback and subsequent research call into question Board's reasons for introducing impairment-only approach:
  - impairment test costly and complex, is it operational?
  - impairment losses 'too late', is it rigorous?
- Evidence of high failure rate of acquisitions – concerns over carrying amounts of goodwill

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Arguments for reintroducing amortisation (2/2)

16

- Not feasible to devise a more effective impairment test
- Amortisation is a cost-effective mechanism that can hold management to account for its acquisition decisions
- Goodwill has a limited useful life
- Impairment-only approach mislabels consumption of goodwill as an impairment loss

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Arguments for retaining impairment-only approach

- Information from impairment test is useful
- Amortisation provides no useful information and can mislabel some impairment losses as consumption
- Board was aware of 'shielding issue' when developing IFRS 3 but still concluded impairment test rigorous and operational
- Impairment test assesses whether carrying amounts of acquired goodwill and other assets in CGU are recoverable from cash flows generated jointly

Arguments for impairment-only approach (cont.)

- If the test is operated correctly, acquired goodwill balances are not overstated
- It is not possible to estimate how goodwill diminishes over time; an arbitrary amortisation charge is not effective at holding management to account
- New disclosures to provide better information on subsequent performance
- Amortisation is not an appropriate response to issues with application of the test
- Amount of cost saving from an amortisation approach is debatable

Preliminary views

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Staff view

- **Neither amortisation nor impairment-only is perfect answer**
- **No compelling evidence to justify reintroduction of amortisation**

Preliminary views

- **Do not reintroduce amortisation of goodwill**
- **Present total equity before goodwill in balance sheets**

Small majority: both arguments to be included in DP

Discussion Paper

- Seek new evidence/views to help Board move the debate on
- Explore stakeholders' understanding of 'too late' issue and reason for their concern
- Discuss whether existing impairment test plus new disclosure sufficiently holds management to account or whether amortisation is necessary

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Relief from mandatory annual quantitative impairment test

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Relief from mandatory annual impairment test

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Existing requirements

- Mandatory annual quantitative test for goodwill and some intangible assets
- In removing requirement to amortise goodwill and some intangible assets in 2004, Board acknowledged a need for a **rigorous and operational impairment test**

Feedback

- Quantitative annual impairment test is costly and complex
- Recognition of impairment losses not timely and provides limited information

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Revert to an indicator-only approach

22

Preliminary views

Permit relief from mandatory annual quantitative test and only test if there are indicators of possible impairment

Small majority and seek feedback in DP

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Revert to an indicator-only approach

Justification for the indicator-only approach
▪ existing test assesses whether carrying amount of CGU containing goodwill is recoverable ▪ shielding limits the effectiveness of the impairment test in targeting goodwill ▪ frequency of quantitative impairment test should not depend on whether CGU contains goodwill

Pros	Cons
▪ consistent with impairment test for other assets	▪ could make impairment test slightly less robust
▪ reduces the cost and complexity of current test without any significant information loss	▪ could further increase management (and auditors') judgement in impairment testing
▪ retaining a mandatory annual quantitative test would not meet a cost-benefit analysis	▪ risks loss of good governance mechanism and useful disclosures

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Value in use (post-tax inputs & future restructuring and enhancement cash flows)

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VIU—future restructurings and future enhancements

25

Existing requirements

When estimating VIU, cash flows from future enhancements excluded

Rationale: test assets in current condition (consistent with IAS 37)

Feedback

Causes cost and complexity

Not consistent with management budgets/forecasts

Preliminary view

Include cash flows from future enhancements

No threshold for including those cash flows

No additional qualitative disclosures

Discussion

Remove restriction:

⬆ Reduce cost and complexity
Base test on same unit of account as for FV

⬇ Risk of unjustifiably optimistic inputs

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VIU—use of post-tax inputs

26

Existing requirements

Pre-tax basis future cash flows & pre-tax discount rate

Disclose the pre-tax discount rate

Rationale: Post-tax inputs without specifying the tax attribute could cause double counting of some future tax consequences

Feedback

In practice test is performed on post-tax basis

Pre-tax discount rate not directly observable

Preliminary view

Allow post-tax inputs and discount rates in VIU estimates

Discussion

Requirement to use post-tax inputs (consistent with other Standards)

Require entities to use internally consistent assumptions for cash flows & discount rates

Disclosure of post-tax discount rate more useful information

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Intangible assets

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Intangible assets

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Problem	**Challenges identifying and measuring some intangible assets** ▪ **cost** ▪ **reliability of fair value**
Findings	**Mixed views on cost and usefulness of information**
Preliminary view	**Identifiable intangible assets NOT to be included in goodwill**

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Next steps

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Next steps

- Discussion Paper to be published
- Comment period for Discussion Paper of 180 days

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Additional activities after DP issuance

Possible activities

- **Snapshot**: a high-level and simplified summary of the main aspects of a Discussion Paper
- **Podcast**: a digital audio highlighting the main aspects of a Discussion Paper
- **Webcast**: a digital video having the discussion with Board members/IASB staff on the main aspects of a Discussion Paper
- **Regional round-table discussion with IASB**: round-table meeting with the IASB members in your jurisdiction where the jurisdiction's stakeholders can participate, including video links
- **Fieldwork**: one-to-one visits or interviews with preparers, auditors, regulators or investors in your jurisdiction, including video links

Slido questions

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Slido questions

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- We will ask you to participate in live polls on the sli.do platform.
- Insert https://www.sli.do/ in the browser of your electronic device i.e. mobile phone, tablet or laptop. Then select the correct session from the dropdown menu.

Slido: Subsequent performance information for all material business combinations?

Question 1:
Do you think an entity should disclose subsequent performance information for all material business combinations whether management monitor them or not?

A. Yes
B. No

Slido: Define management as CODM?

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Question 2:
If an entity discloses its business combinations based on what management monitors, do you think that management should be defined as the Chief Operating Decision Maker?

A. Yes
B. No

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Slido: Reason(s) for stakeholders' concerns on 'too late' issue

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Question 3:
What do you think is the main reason for stakeholders' concerns over the timeliness of goodwill impairment?

A. Management optimism in estimates
B. Existing test does not target goodwill directly because of 'shielding'
C. Both

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Slido: Would clarifying purpose of test reduce concerns?

Question 4:
The impairment test cannot directly target goodwill. Would explaining why this is the case reduce stakeholders' concerns?

A. Yes
B. No

Slido: Better way to hold management to account

Question 5:
Which approach do you think would work better with the new disclosure requirements in holding management to account?

A. Existing impairment-only model
B. Amortisation of goodwill (with impairment)

Slido: Intangible assets

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Question 6:
How should intangible assets, such as customer relationships and brands, acquired in a business combination be recognised?

A. Separate recognition—retaining existing requirement (Board's preliminary view)
B. Include those intangibles in goodwill
C. Consider the recognition rules for intangibles, including those generated internally, in a larger project

Slido: Additional activities

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Question 7:
What materials/activities would be helpful in your jurisdiction to help stimulate feedback to the Discussion paper?
Please select all answers you think applicable.

A. Snapshot
B. Podcast
C. Webcast
D. Regional round-table discussion with IASB
E. Fieldwork
F. Other

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Get involved

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Disclosure Initiative

Nick Anderson, IASB Member
Aishat Akinwale, IASB Technical Staff

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Central theme of the Board's work

Better Communication in Financial Reporting

	Financial statements		Information outside the financial statements
Content	Primary Financial Statements	Disclosure Initiative	Management Commentary
Delivery	IFRS Taxonomy		

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- Insert https://www.sli.do/ in the browser of your electronic device i.e. mobile phone, tablet or laptop
- Select the correct session from the dropdown menu and wait for further instructions

Warming up

I decided to attend this session because …

A. I love IFRS disclosures
B. I have lots of ideas about how disclosures in financial statements could be improved
C. I have many questions for the presenters
D. I made a mistake but it is too late to leave the room now

Agenda

5

- The disclosure problem
- What has the Board already done?
- Targeted Standards-level Review of Disclosures
- Disclosure of Accounting Policies

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The disclosure problem

6

- The Board has identified three main concerns about disclosures in financial statements:
  - not enough relevant information
  - too much irrelevant information
  - ineffective communication

enabling preparer judgement + improved disclosure requirements = improved disclosures & better communication

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What has the Board already done?

What has the Board already done?

8

1 Removed barriers to the application of judgement

2 Provided tools to help companies make more effective materiality judgements

3 Provided real examples of how companies have improved communication in financial statements

4 Developed materials to help companies provide better information about financing liabilities

What has the Board already done?

5 Researched what will be **most effective** in helping to address the disclosure problem

http://go.ifrs.org/di-principles-of-disclosure-project-summary

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Research findings and outcomes

There are multiple contributors to the disclosure problem and **many stakeholders will need to be involved in finding a solution**

Disclosure requirements in IFRS Standards often contribute to the disclosure problem

Standards-level activity would be most effective

→ Board prioritised Targeted Standards-level Review of Disclosures project

Accounting policy disclosures often do not provide the information that users want

→ Board added a project on Disclosure of Accounting Policies

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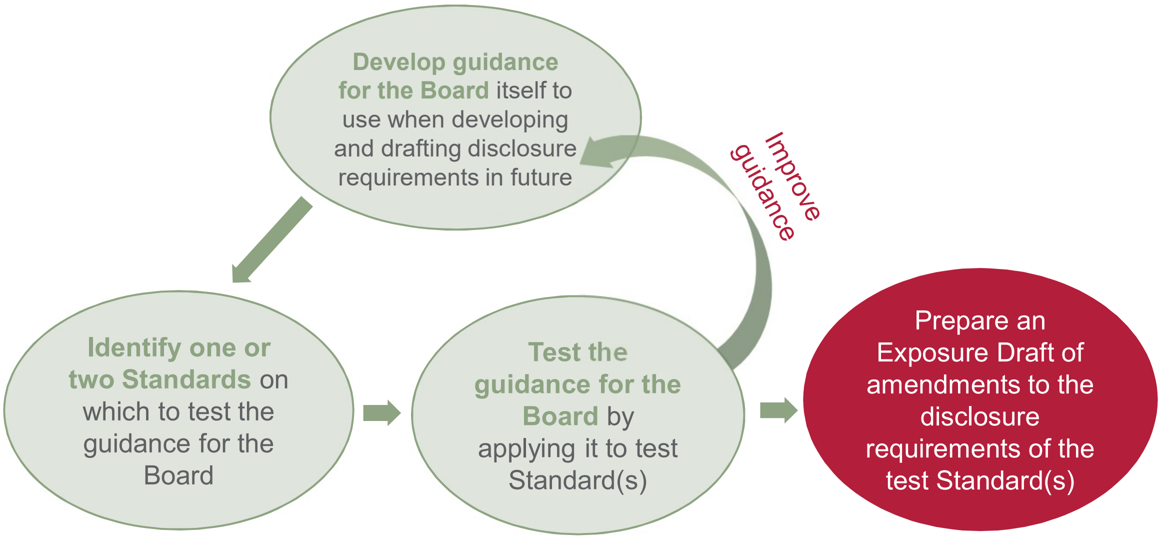
Question 1

Do you agree that standard-level activity is needed to address the disclosure problem?

A. Yes
B. No
C. Undecided

Targeted Standards-level Review of Disclosures

The Board's approach



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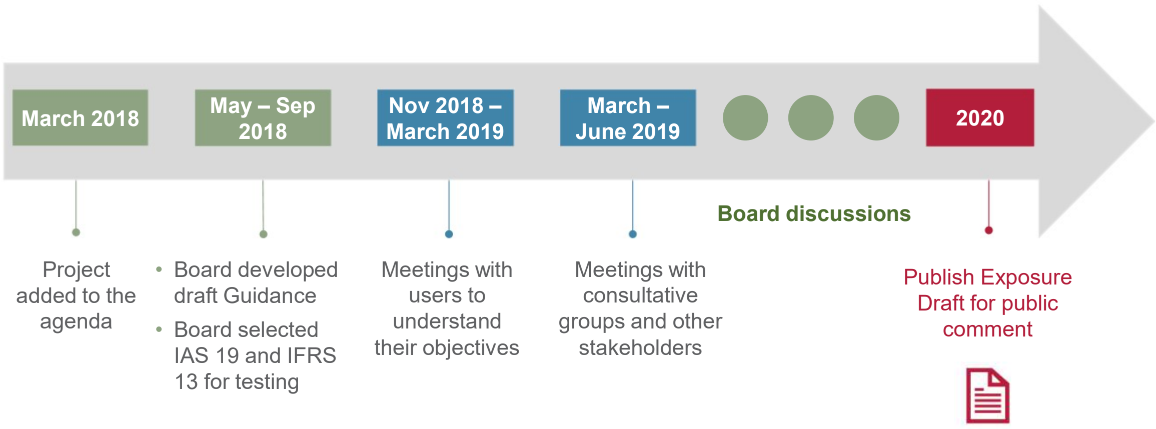
Project timeline



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Overview

1 Draft guidance for the Board

2 Outreach conducted

3 IAS 19 *Employee Benefits*

4 IFRS 13 *Fair Value Measurement*

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Question 2

How do you think the Board could improve the way it develops and drafts disclosure content? (select all that apply)

A. Clearly explain the objectives of particular disclosure information
B. Perform more cost-benefit research with stakeholders
C. Reduce the use of prescriptive language
D. Develop disclosures at the same time as the related recognition and measurement requirements

IFRS

1 Draft guidance for the Board – “*Content*”

Develop more effective disclosure objectives to help preparers exercise judgement about what to disclose

Specific disclosure objectives

- Explain **why** particular information is useful to users of financial statements
- Supplement with items of information an entity *could* disclose to meet those objectives

High-level, catch-all disclosure objective

- Prompt entities to consider whether the information provided to comply with the specific disclosure objectives meets overall user information needs on the topic

1 Draft guidance for the Board – “*Drafting*”

Communicate intent in an effective way to encourage behavioural change

- Use prescriptive language to require entities to comply with disclosure objectives
- Use *less* prescriptive language when referring to specific items for disclosure

Example

An entity **shall** disclose information that enables users of financial statements to understand the key risks of, and restrictions over, the entity’s property plant and equipment.

Users need such information to evaluate how those risks and restrictions might affect the entity’s ability to use, sell or otherwise derive economic benefits from its property, plant and equipment in future reporting periods.

To meet this objective, an entity **[‘shall consider disclosing’ or ‘will normally disclose’]**:

a. property, plant and equipment pledged as security for liabilities or commitments
b. …

1 Draft guidance for the Board – “*Process*”

Understand what information stakeholders want and why

Tailored outreach programme with users of financial statements

Consult with other stakeholders to understand priorities and concerns

- Preparers
- Regulators
- Auditors
- Standard-setters

Consider and discuss necessary disclosures as the Board develops proposed recognition and measurement requirements

Leverage learnings from the IFRS Taxonomy and electronic reporting

2 Outreach conducted on IAS 19 and IFRS 13

Tailored user programme

21 meetings

35 users

Consultation meetings

- Capital Markets Advisory Committee (CMAC)
- Global Preparers Forum (GPF)
- Accounting Standards Advisory Forum
- IFRS Taxonomy Consultative Group
- Joint CMAC and GPF

Between November 2018 and June 2019

Question 3

Do you think employee benefit disclosures provided by companies today are useful?

A. Many are useful
B. Some are useful
C. Only a few are useful
D. None are useful

3 What we heard on employee benefits

Users of financial statements

Employee benefit disclosures provided today often *do not* meet their primary objectives

- Better information about expected cash flow effects would be more useful
- Ineffective communication about the effect of these plans on the primary financial statements is a problem
- Users focus *primarily* on defined benefit plans

Preparers and other stakeholders

Many of the disclosures required by IAS 19 are difficult and onerous to prepare

3

Tentative Board decisions

Defined benefit plans

Include specific disclosure objectives for entities to disclose information about …

Amounts and the components of those amounts in the primary financial statements

For example

The cost of all defined benefit plan arrangements recognised in the group income statement is shown below:

	2019 (£m)
Current service cost (including administration expenses)	(1.5)
Past service cost	(1.6)
Net interest expense	(1.2)
Total amount recognised in the income statement	**(4.3)**

The net pension obligation in respect of defined benefit plans reported in the group balance sheet are as follows:

At 31 March 2019	Assets (£m)	Present value of liabilities (£m)	Deficit (£m)
UK pension plan	190.5	(251.9)	(61.4)
US pension plan	130.1	(146.5)	(16.4)
Other plans	16.2	(16.7)	(0.5)
Retirement benefit obligation	**336.8**	**(415.1)**	**(78.3)**
Deferred tax asset			13.2
Net pension obligation			**(65.1)**

3

Tentative Board decisions

Defined benefit plans

Include specific disclosure objectives for entities to disclose information about …

Expected future cash flows resulting from the defined benefit obligation and the nature of those cash flows

For example

The Group has agreed a funding plan with the Plan Trustees that addresses the funding deficit over a maximum period of 15 years. The funding deficit as at 30 June 2017 was £8.6 billion demonstrating that the market value of the plan assets are not sufficient to meet the expected future benefit payments.

The deficit will be met over a period of 10 years. The Group is scheduled to make future deficit payments to the pension scheme in line with the table below:

Year to 31 March	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Deficit Contribution (£m)	850	2,000	1,250	900	900	907	907	907	907	907

Ordinary cash contributions to the scheme of £264 million have been made in the current year, £303 million will be made in 2019 and then rising by 3% per annum to 2027.

IFRS

3 Tentative Board decisions
Defined benefit plans

Include specific disclosure objectives for entities to disclose information about …

- nature of the benefits provided by the plans, investment risks the plans expose the entity to and strategies for managing the plans and the associated risks
- time period over which payments will continue to be made to members of plans that are closed to new members and for which the entity still has an obligation
- significant actuarial assumptions
- drivers of changes in the net defined benefit liability or asset during a period

Include a high-level, catch-all objective that …

- captures the key information needs of users
- addresses aggregation and disaggregation of information provided

3 Tentative Board decisions
Other employee benefit plans

Defined contribution plans | **Short-term employee benefits**

Include a high-level, catch-all disclosure objective about the …

effect on the statements of financial performance and cash flows

Termination benefits and other long-term benefits

Include a high-level, catch-all disclosure objective about the …

nature of the benefits provided

effect on the statements of financial performance, financial position and cash flows

3 Tentative Board decisions
Other employee benefit plans

Multi-employer or group plan

Accounted for as:	Comply with disclosure objectives …
Defined benefit plan	for defined benefit plans
Defined contribution plan	for defined contribution plans
if it were a defined contribution plan	for defined contribution plans
	about the nature of the benefits provided by the plans, investment risks the plans expose the entity and strategies for managing the plans and the associated risks

Question 4

Do you agree that the Board proposals on disclosure objectives for employee benefits will result in more useful information?

A. Strongly agree
B. Agree
C. Neither agree nor disagree
D. Disagree
E. Strongly disagree

3 Other user needs on employee benefits

The Board decided not to explicitly address user information needs about:

- Alternative defined benefit plan valuations to that required by IAS 19 → Beyond the scope of the project
- Sensitivity of the defined benefit obligation to different assumptions → Most critical user need are about the assumptions and measurement uncertainties
- Forecasting future defined benefit obligations → Underlying need is addressed by *all* specific disclosure objectives for defined benefit plans

4 What we heard on fair value measurements

Users of financial statements

Fair value disclosures provided today often *do* meet their primary objectives

- Potential changes to IFRS 13 are not critical
- Expressed concerns about the application of materiality to IFRS 13 disclosures
- Suggested additional disclosures for Level 2 fair value measurements

Preparers and other stakeholders

Many of the disclosures required by IFRS 13 are difficult and onerous to prepare

Users rarely ask any questions about those disclosures

Question 5

Which of the following statements do you most agree with on how to address the feedback on Level 2 fair value measurement disclosures?

A. Require entities to provide specific disclosures for Level 2 fair value measurements similar to those required for Level 3 today

B. Encourage entities to provide those disclosures

C. Entities should better apply materiality and provide the relevant disclosures for material fair value measurements

IFRS

Future Board discussions

Board discussions

- **Disclosure objectives:** IFRS 13
- **Specific items for disclosure:** IAS 19 and IFRS 13
- **Refine proposals by comparing with existing requirements:** IAS 19 and IFRS 13
- **Revisit draft Guidance for the Board**

Publish Exposure Draft for public comment

IFRS

Disclosure of Accounting Policies

Disclosure of Accounting Policies

Identified problem

Accounting policy disclosures provided today are often not useful to users of financial statements

Exposure Draft *Disclosure of Accounting Policies*
(IAS 1 and IFRS Practice Statement 2)

Proposals

- Require entities to disclose **material** accounting policies to clarify threshold for disclosing information
- Add guidance to IAS 1 and Materiality Practice Statement to help companies apply materiality to accounting policies

Next steps

- Comment window is open until **29 November 2019**

Questions

Join the IFRS Foundation team

visit go.ifrs.org/careers

2019 Comprehensive Review of the *IFRS for SMEs* Standard (2019 Review)

Darrel Scott, IASB Board Member
Yousouf Hansye, IASB Technical Staff

World Standard-setters Conference 2019

#WSS_2019

IFRS

1

Development of the *IFRS for SMEs* Standard

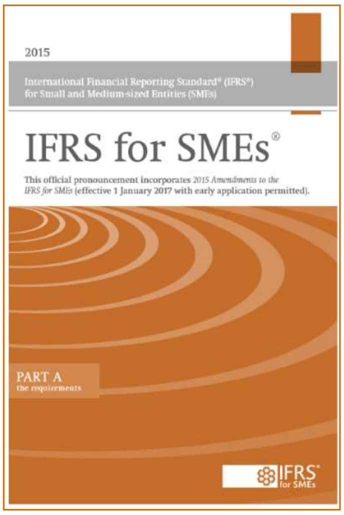
July 2009	• *IFRS for SMEs* Standard issued
2010	• SME Implementation Group (SMEIG) established
2012	• 1st Review of the *IFRS for SMEs* Standard commenced
May 2015	• Amendments to the *IFRS for SMEs* Standard issued (effective 1 January 2017)

IFRS

2

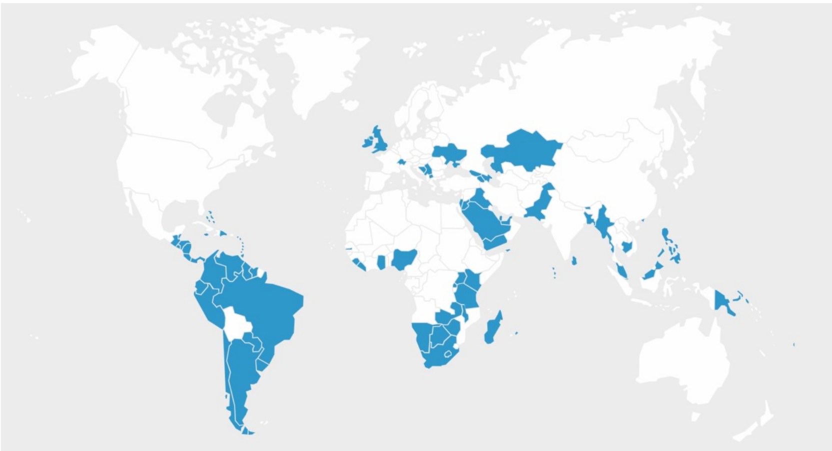
Overview of the *IFRS for SMEs* Standard

- 250 pages long
- Based on principles from full IFRS Standards
- Tailored for small and medium-sized entities (SMEs) that are not publicly accountable
- Focuses on information needs of lenders and other users of SME financial statements



IFRS

Adoption of the *IFRS for SMEs* Standard



86 of 166 jurisdictions require or permit use of the *IFRS for SMEs* Standard

= the *IFRS for SMEs* Standard is required or permitted

IFRS

Slido—Question 1

Does your jurisdiction require or permit use of the *IFRS for SMEs* Standard?

A. Yes

B. Entities are required or permitted to use a Standard based on the *IFRS for SMEs* Standard (ie: a modified version of the *IFRS for SMEs* Standard)

C. No

2019 Review

Overview of the 2019 Review

Phase I – Request for Information

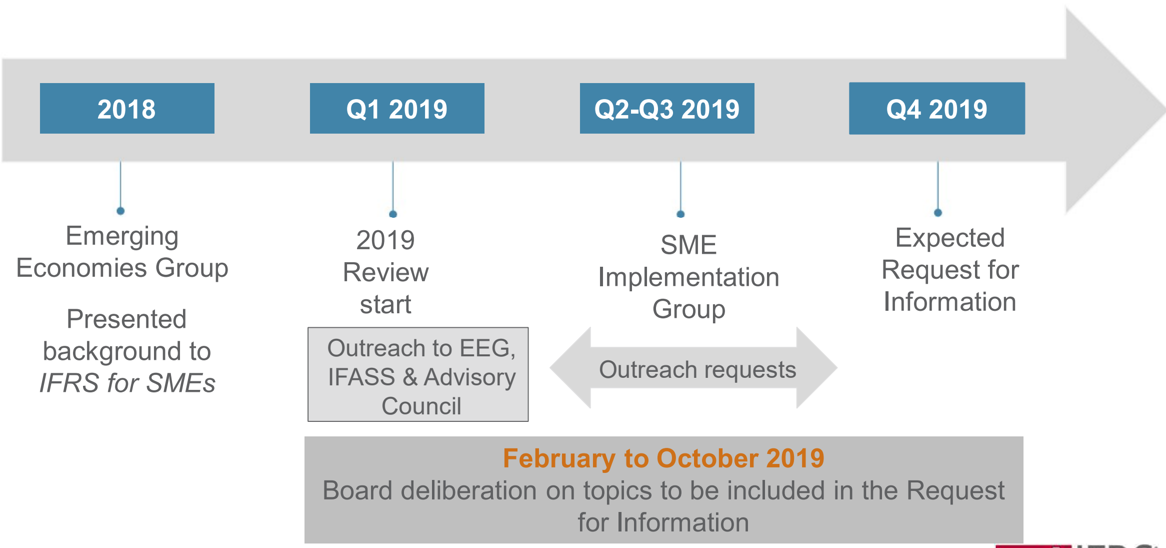
Develop a Request for Information (RFI) setting out the Board's approach on whether and how to align the *IFRS for SMEs* Standard with new and amended IFRS Standards and IFRIC Interpretations

Phase II – Feedback analysis

Decide if the Board should develop an Exposure Draft of amendments to the *IFRS for SMEs* Standard, and if so, what should be included

IFRS

IFRS for SMEs 2019 Review – Phase 1



IFRS

Topics to be included in the 2019 Review

9

- Scope of the *IFRS for SMEs* Standard
- Approach to alignment *IFRS for SMEs* Standard and IFRS Standards
- Alignment of new and amended IFRS Standards and IFRIC Interpretations
- Existing differences between IFRS Standards and the *IFRS for SMEs* Standard eg: borrowing costs
- Matters of interest to entities applying the *IFRS for SMEs* Standard but not covered by IFRS Standards eg: cryptocurrency

IFRS

9

Scope of the *IFRS for SMEs* Standard

IFRS

10

Scope of the *IFRS for SMEs* Standard

- The *IFRS for SMEs* Standard is intended for use by entities that:[1]

Do not have public accountability and **Publish general purpose financial statements for external users**

Public accountability exists if:

An entity's debt or equity instruments are traded on a public market or it is in the process of issuing such instruments for trading in a public market

or

An entity holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses

[1] *IFRS for SMEs* Standard, paragraph 1.1 and 1.2

Scope of the *IFRS for SMEs* Standard

Some respondents[1] to the 2015 RFI suggested the Board:

- extend the scope to include some publicly accountable entities
- allow jurisdictions to decide whether publicly accountable entities can use the *IFRS for SMEs* Standard
- clarify the meaning of 'fiduciary capacity' in the definition of public accountability—the term is interpreted inconsistently across jurisdictions

[1] See paragraphs BC179 and BC182 of the *IFRS for SMEs* Standard Part B

Scope: 2019 Research

13

The staff sought advice[1] on permitting some entities whose securities are traded in public markets to apply the *IFRS for SMEs* Standard, for example if the entity's:

- shares are traded on an alternative market
- shares are closely held
- shares are not regularly traded
- shareholders unanimously agree

[1] IFRS Advisory Council, Emerging Economies Group, International Forum of Accounting Standard Setters (IFASS) and SMEIG

IFRS

13

Scope: 2019 Research

14

The staff sought advice[1] on permitting some entities which hold assets in a fiduciary capacity to apply the *IFRS for SMEs* Standard, for example if the entity:

- is strictly defined and has limited group of members
- has fewer than a specified number of members
- members unanimously agree

[1] IFRS Advisory Council, Emerging Economies Group, International Forum of Accounting Standard Setters (IFASS) and SMEIG

IFRS

14

Feedback to the 2019 research

- Staff sought advice from the IFRS Advisory Council, Emerging Economies Group, International Forum of Accounting Standard Setters and SMEIG
- Overall lack of support
  - potential increased complexity of the *IFRS for SMEs* Standard
  - reduced comparability of financial statements
  - drafting exemptions to public accountability definition would be difficult and may lead to diversity in practice
  - jurisdictions should rather be permitted to decide which entities should apply the *IFRS for SMEs* Standard

IFRS

Slido—Question 2

The staff plan to recommend that the Board sets out in the RFI, the feedback to the outreach and it explains that it does not intend to amend the scope of the Standard. Do you:

A. Agree with the scope of the *IFRS for SMEs* Standard

B. Disagree with the scope of the *IFRS for SMEs* Standard and believe some publicly accountable entities should be permitted to apply the *IFRS for SMEs* Standard

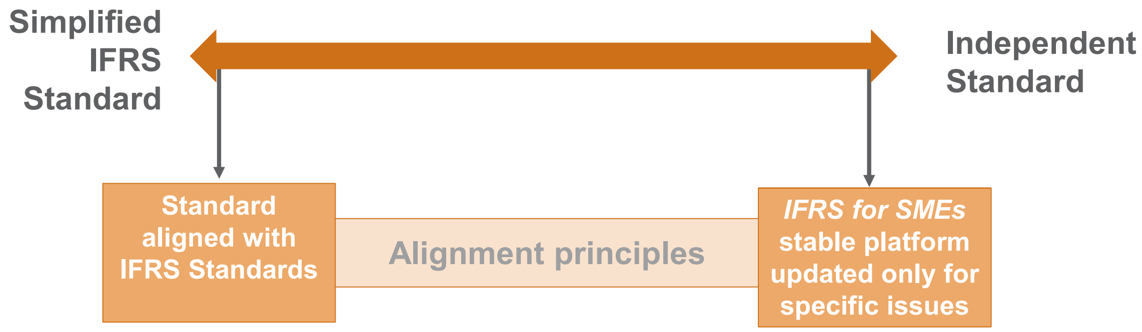
IFRS

Approach to alignment *IFRS for SMEs* Standard and IFRS Standards

IFRS

IFRS for SMEs Standard and IFRS Standards

- *IFRS for SMEs* Standard was developed based on principles of IFRS Standards
- Board discussed approach to 2019 Review:



IFRS

Alignment principles

- The purpose of the alignment principles is to help the Board determine whether and how to align the *IFRS for SMEs* Standard with new and amended IFRS Standards

Relevance

Is it a problem relevant to entities applying the *IFRS for SMEs* Standard?

→

Simplicity

Simplify:
- recognition and measurement principles
- accounting policy choices
- disclosures
- drafting

→

Faithful Representation

Is information still a faithful representation of the phenomena it purports to represent?

IFRS

Slido—Question 3

The Board has developed alignment principles for determining whether and how to align the *IFRS for SMEs* Standard. Do you:

A. Agree with the principles

B. Disagree with the principles

C. Do not care providing the Standard provides useful information

IFRS

IFRS Standards to be considered as part of the 2019 Review

Overview of IFRS Standards to be considered as part of the 2019 Review

Seeking views to align

- 2018 *Conceptual Framework for Financial Reporting*
- IFRS 9
- IFRS 3
- IFRIC Interpretations
- IFRS 15
- IFRS 10
- IFRS Amendments
- IFRS 16
- IFRS 13
- IFRS 12

Seeking views not to align

- IFRS 11
- IFRS 14

2018 *Conceptual Framework for Financial Reporting*

Fundamental concepts from the *Conceptual Framework* provide the foundation of the *IFRS for SMEs* Standard and the IFRS Standards

- Section 2 *Concepts and Pervasive Principles* of the *IFRS for SMEs* Standard is currently aligned with the 1989 *Framework for the Preparation and Presentation of Financial Statements*
- The 2019 RFI will seek views on :
  - aligning Section 2 with the 2018 *Conceptual Framework*
  - make consequential amendments to other Sections of the *IFRS for SMEs* Standard
  - retain the undue cost and effort concept in the *IFRS for SMEs* Standard

IFRS

Alignment of new IFRS Standards
Financial instruments and revenue

IFRS 9 *Financial Instruments*

- Retain Section 11 examples
- Add classification principle, if examples not applicable
- Add simplified expected credit loss impairment model
- Ask if there is a need for a fall-back?
- If so update to IFRS 9?

IFRS 15 *Revenue from Contracts with Customers*

Three alternative approaches to be set out in RFI:
1. Update Section 23 to align the outcomes with IFRS 15
2. Rewrite Section 23 to align with IFRS 15
3. Wait until next review

June 2019 Board meeting, AP 30C **and** July 2019 Board meeting AP 30D

IFRS

Alignment of new IFRS Standards
Leases

25

IFRS 16
Leases

- Require a single lease accounting model for all leases but introduce recognition exemptions for short-term leases and leases of low-value assets
- Exempt entities from requirement to separate lease components from non-lease components
- Simplify measurement requirements for variable lease payments and optional payments relating to extension options
- Additional simplifications for: threshold for low-value assets; discount rate; determining and reassessing lease term; subsequent (reassessment) of lease liability; retaining finance lease disclosures of the *IFRS for SMEs* Standard

June 2019 Board meeting, AP 30E

IFRS

Alignment of IFRS Standards
Acquisitions and consolidation

26

IFRS 3
Business Combinations

- Add requirements for step acquisitions
- Acquisition cost as expense
- Fair value measurement of contingent consideration subject to undue cost or effort
- Align the definition of a business
- **Not to align**: additional guidance for reacquired rights, clarify assembled workforce is not to be recognised, recognition criteria for intangible asset acquired in a business combination and introducing option to measure NCIs at fair value

IFRS 10
Consolidated Financial Statements

- Definition of control with IFRS 10
- Retain presumption that control exists if investor has direct power over an investee solely from voting rights
- Do not introduce consolidation exception for investment entities

July 2019 Board meeting, AP 30A **and** AP 30B

IFRS

Alignment of IFRS Standards
Fair value

IFRS 13
Fair Value Measurement

- Update definition of fair value
- Introduce IFRS 13 fair value hierarchy to provide clearer guidance for fair value measurement
- Carry forward the existing examples for inputs and levels in the hierarchy
- Move guidance and main disclosure requirements for fair value measurement to Section 2

June 2019 Board meeting, AP 30B

IFRS Standards not-aligned

IFRS 11
Joint Arrangements

Clarify in the RFI that the Board does not intend to align Section 15 with IFRS 11, as part of 2019 Review

IFRS 14
Regulatory Deferral Accounts

Clarify in the RFI that the Board does not align with IFRS 14 because:

- IFRS 14 may be replaced by the Board’s current project
- number of entities likely to be affected are limited
- not aligning would not harm users as IFRS 14 applies to first-time adopters

July 2019 Board meeting, AP 30B **and** June 2019 Board meeting, AP 30D

Slido—Question 4a

Do you support the Board's tentative decision to consult on aligning the *IFRS for SMEs* Standard with IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases*, IFRS 3 *Business Combinations*, IFRS 10 *Consolidated Financial Statements* and IFRS 13 *Fair Value Measurement*?

A. Yes

B. No

IFRS

Slido—Question 4b

If you have answered **No** to question 4a, which of the following new and amended Standards you do not support the Board's tentative decision to consult on aligning the *IFRS for SMEs* Standard?

A. IFRS 9 *Financial Instruments*

B. IFRS 15 *Revenue from Contracts with Customers*

C. IFRS 16 *Leases*

D. IFRS 3 *Business Combinations*

E. IFRS 10 *Consolidated Financial Statements*

F. IFRS 13 *Fair Value Measurement*

IFRS

Slido—Question 5

Do you support the Board's tentative decision not to consult on aligning the *IFRS for SMEs* Standard with IFRS 11 *Joint Arrangements* and IFRS 14 *Regulatory Deferral Accounts*?

A. Yes

B. No

IFRIC Interpretations and Amendments to IFRS Standards

- Alignment recommended

Note: For IFRIC Interpretations and Amendments to IFRS Standards for which alignment is not recommended, see slides 47- 49 in the Appendix

Alignment of IFRIC Interpretations

IFRIC Interpretation	Addresses	Reason alignment recommended
IFRIC 21 *Levies*	Interpretation clarifies the obligating event that gives rise to a liability to pay a levy	The topic is relevant as government levies may be applicable to SMEs
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	Interpretation clarifies the date of the transaction on derecognition of a non-monetary item when the related income, expense or asset has been recognised	The topic is relevant as SMEs may receive foreign currency advance payments
IFRIC 23 *Uncertainty over Income Tax Treatments*	IFRIC 23 adds to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in the accounting for income taxes	The topic is relevant to SMEs and can facilitate application of Section 29

Amendments to IFRS Standards (1 of 2)

Amendment	Reason alignment recommended
Definition of Material (Amendments to IAS 1 and IAS 8)	Guidance would simplify application of materiality therefore *IFRS for SMEs* Standard would be consistent with IFRS Standards
Disclosure Initiative (Amendments to IAS 7)	Users of SME financial statements are interested in solvency and liquidity information
Transfers of Investment Property (Amendments to IAS 40)	The amendment provides useful clarification on when investment property may be transferred and will assist preparers
Annual Improvements to IFRS Standards 2011-2013 Cycle (IAS 40)	Consult on relevance to SMEs
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	The amendment is a useful clarification

Amendments to IFRS Standards (2 of 2)

Amendment	Reasons alignment recommended
Annual Improvements to IFRS Standards 2010-2012 Cycle (IFRS 2)	The amendment ensures consistent classification of conditions attached to share-based payments and will assist preparers
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	The amendment would simplify the accounting for entities applying the *IFRS for SMEs* Standard and provides a relief that should be given to SMEs
Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 38)	The amendment is a simplification about the cost, complexity and practical difficulties of fair value measurement
Recognition of Deferred Tax Assets for unrealised losses	Consult on the need for guidance on topics covered by the amendment

Existing differences between IFRS Standards and the *IFRS for SMEs* Standard

- Section 25 requires all **borrowing costs** incurred to be recognised as an expense in profit or loss
- Respondents to the 2012 Review requested that the Board reconsider allowing borrowing costs to be capitalised instead of expensed
- The staff are recommending the Board includes three alternative approaches in the RFI:

1. Require entities to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset
2. Introduce an accounting policy election for SMEs to either capitalise or expense borrowing costs
3. Maintain the current requirements

Other matters eg: cryptocurrencies

37

- Holdings of **cryptocurrencies** and issuance of cryptoassets may be prevalent in SMEs
- RFI will seek views on the prevalence
- The staff are recommending three alternative approaches to be set in the RFI are:

1. Do nothing
2. Introduce a revaluation model for intangible assets in Section 18
3. Introduce a separate Section in the *IFRS for SMEs* Standard on cryptocurrency

September 2019 Board meeting, AP 30F

IFRS

Slido—Question 6

38

Is the holding of cryptocurrency and the issuing of crypto assets widespread and material in your jurisdiction among entities applying the *IFRS for SMEs* Standard and/or SME entities?

A. Yes

B. No

IFRS

Slido—Question 7

Which alternative to address the holding of cryptoassets do you support?

A. Alternative 1—do nothing

B. Alternative 2—introduce a revaluation model for intangible assets in Section 18

C. Alternative 3—introduce a separate Section in the *IFRS for SMEs* Standard on cryptocurrency

Other activities

Draft Q&A 35.1

On transition should an entity base its assessment of whether an investment property can be measured reliably at fair value without undue cost or effort on information about the costs and benefits at the:

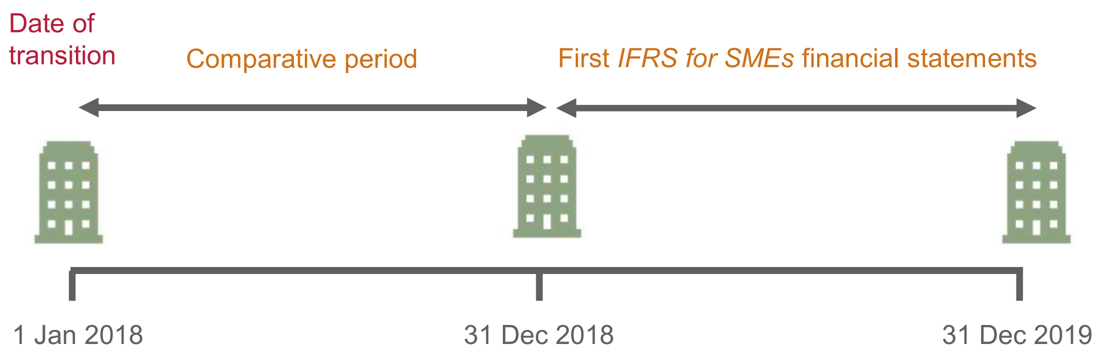
- entity's date of transition; or
- date of preparing the first financial statements?

An entity bases its assessment about the costs and benefits at the entity's date of transition.

Additional cost or effort due to the elapse of time between the date of transition and the date of preparing the first *IFRS for SMEs* financial statements shall not be considered.

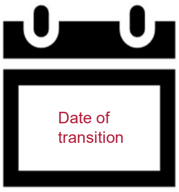
IFRS

Draft Q&A 35.1



IFRS

Draft Q&A 35.1



Para 35.7: On the date of transition to the *IFRS for SMEs* Standard, unless there is an exception or exemption, apply the *IFRS for SMEs* Standard in measuring all recognised assets and liabilities.

Para 16.7: Investment property whose fair value can be measured reliably without undue cost or effort shall be measured at fair value at each reporting date.

IFRS

Slido—Question 8

Do you agree with the draft Q&A that:

An entity bases its assessment of whether, at the date of transition, an investment property can be measured reliably at fair value without undue cost or effort on information about the costs and benefits at the entity's date of transition.

Additional cost or effort due to the elapse of time between the date of transition and the date of preparing the first *IFRS for SMEs* financial statements shall not be considered.

A. Yes

B. No

IFRS

Resources available on our website

The IFRS for SMEs Standards

News and events

www.ifrs.org
Website

Modules
Supporting IFRS for SMEs Standards

Guidance for micro entities

SME Implementation Group

Fact sheet

Presentations

SMEIG Q&As

https://www.ifrs.org/issued-standards/ifrs-for-smes/

IFRS

Appendix

IFRS

Amendments to IFRS Standards

- Alignment not recommended

IFRS

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Amendments to IFRS Standards

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IFRS for SMEs Section	Amendment	Effective Date
No equivalent Section	Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*	January 2018
Section 3 *Financial Statement Presentation*	Annual Improvements 2009-2011 Cycle (IAS 1)	January 2013
	Disclosure Initiative (Amendments to IAS 1)	January 2016
Section 9 *Consolidated and Separate Financial Statements*	Annual Improvements to IFRS Standards 2014-2016 Cycle (IFRS 12)	January 2012
Section 11 *Basic Financial Instruments*; Section 12 *Other Financial Instrument Issues*	Annual Improvements to IFRS Standards 2012-2014 Cycle (IFRS 7)	January 2016
	Novation of Derivatives and Continuation of Hedge Accounting	June 2013

IFRS

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Amendments to IFRS Standards

IFRS for SMEs Section	Amendment	Effective Date
Section 14 *Investments in Associates*	Annual Improvements to IFRS Standards 2014-2016 Cycle (IAS 28)	January 2018
	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	Indefinitely deferred
Section 15 *Investments in Joint Ventures*	*Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* (Amendments to IFRS 10, IFRS 11 and IFRS 12)	January 2013
Section 18 *Intangible Assets other than Goodwill*	Annual Improvements to IFRS Standards 2010-2012 Cycle (IAS 38)	July 2014
Section 23 *Revenue*	Effective Date of IFRS 15	January 2018

Amendments to IFRS Standards

IFRS for SMEs Section	Amendment	Effective Date
Section 27 *Impairment of Assets*	*Recoverable Amount Disclosures for Non-Financial Assets*	January 2014
	Defined Benefit Plans: Employee Contributions	July 2014
	Plan Amendment, Curtailment or Settlement	January 2019
	Annual Improvements to IFRS Standards 2012-2014 Cycle (IAS 19)	January 2016
Section 29 Income Tax	Annual Improvements to IFRS Standards 2015-2017 Cycle (IAS 12)	January 2019
Section 35 *Transition to the IFRS for SMEs Standard*	Annual Improvements to IFRS Standards 2011-2013 Cycle (IFRS 1)	
	Annual Improvements to IFRS Standards 2014-2016 Cycle (IFRS 1)	January 2018

Financial Instrument —*what next?*

Sue Lloyd, IASB Vice-Chair
Riana Wiesner, IASB Technical Staff
Angie Ah Kun, IASB Technical Staff
Fernando Chiqueto, IASB Technical Staff
Uni Choi, IASB Technical staff

World Standard-setters Conference 2019

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IFRS

Agenda

Financial Instruments with Characteristics of Equity
- Overview of the proposals in the Discussion Paper and the feedback received

Dynamic Risk Management
- Overview of the model and next steps

IBOR Reform
- Overview of the Board's decisions and next steps

IFRS

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IFRS

Where are you from?

Question 1:
Where are you from?

A. Africa
B. Asia Oceania
C. Europe
D. Latin America
E. The Middle East
F. North America

IFRS

Which topic are you most interested in?

**Question 2:
Which topic are you most interested in?**

A. Financial Instruments with Characteristics of Equity
B. Dynamic Risk Management
C. IBOR Reform and its Effects on Financial Reporting

Financial Instruments with Characteristics of Equity

Uni Choi, IASB Technical Staff
Angie Ah Kun, IASB Technical Staff

FICE project overview

- Project objective
  - improve the information that entities provide in their financial statements about financial instruments that they have issued
  - address challenges with applying IAS 32 *Financial Instruments: Presentation*
- Project timeline

June 2018	H1 2019	H2 2019
Discussion paper published	Analysis of feedback	Decide project direction

What is the problem?

IAS 32 works well for most financial instruments but…

Financial innovation since IAS 32 was issued has resulted in challenges with applying it to a growing number of complex financial instruments

Some inconsistent outcomes for economically similar instruments

Limited information provided for equity instruments

Resulting in application challenges and accounting diversity in practice

Diversity makes it difficult for investors to assess how these financial instruments affect companies' financial position and performance

Which topic are you most interested in?

Question 3:
What do you see as the biggest challenge when applying IAS 32?

A. Classification of derivatives on own equity (fixed-for-fixed condition)
B. Accounting for NCI puts
C. Accounting for contingent convertible instruments
D. Lack of information about equity instruments provided in the financial statements
E. Other practice problems
F. Other conceptual problems

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DP proposals—classification principle

A financial instrument issued by an entity is a financial liability if the answer is yes to one or both of the following questions:

Does the issuer have an unavoidable obligation to transfer cash or another financial asset before liquidation?

Timing feature

Does the issuer have an unavoidable obligation to transfer an amount independent of the issuer's available economic resources?

Amount feature

Otherwise, it is an equity instrument

IFRS

DP proposals—classification outcomes and presentation proposals

Amount feature / Timing feature	Obligation for **an amount independent** of the entity's available economic resources	No obligation for an amount independent of the entity's available economic resources
Obligation to transfer of cash or another financial asset **at a specified time other than at liquidation**	**Liability**	**Liability***
No obligation to transfer economic resources **before liquidation**	**Liability**	**Equity****

Presentation proposals
*Present income and expenses in OCI without recycling
**Attribute total comprehensive income to subclasses of equity

DP proposals—disclosure

Priority on liquidation

- Priority of all financial liabilities and equity instruments on liquidation of the entity

Potential dilution of ordinary shares

- Applies to financial instruments that may be settled in own shares
- Shows maximum number of ordinary shares an entity may need to deliver to settle such financial instruments outstanding at the reporting date, eg assuming all convertible bonds will be converted into shares
- A reconciliation of movement during the period

Terms and conditions

- Applies to financial liabilities and equity instruments
- Terms and conditions that are relevant to determining the timing and amount of cash flows of a financial instrument
- For example, if the issuer has an option to redeem an instrument, the timing and the amount of the redemption and if it depends on a trigger event, the description of that event

DP feedback— overview

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Classification

- Timing feature
- Amount Feature
- Contractual terms

Presentation

- Separate presentation of financial liabilities
- Attribution within equity

Disclosure

- Priority on liquidation
- Potential dilution of ordinary shares
- Contractual terms and conditions

Key

- Green: Broadly agree with some limited qualifications/questions
- Amber: Partially agree with a number of concerns
- Red: Broadly disagree and a significant level of concerns raised

Amount feature—obligations that arise only at liquidation

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Today (IAS 32)	Discussion Paper	Feedback received
A financial instrument is generally **not a financial liability** if it requires the entity to deliver cash or another financial asset only on the liquidation of the issuer	A financial instrument **is a financial liability** if the amount of the obligation is independent of the entity's available economic resources regardless of when the obligation requires settlement, ie liability classification even if such settlement is only required at liquidation of the entity	Concerns expressed about: • Inconsistency with the going concern assumption • Changes in classification affecting many financial instruments, eg hybrid bonds, regulatory capital instruments • Measurement challenges • Accounting for issuer's call option

Classification of derivatives on own equity

Today (IAS 32)	Discussion Paper	Feedback received
A derivative is classified as a financial asset or a financial liability **unless** the derivative meets the so-called 'fixed-for-fixed' condition (gross-physically settled) Practice challenges exist in relation to interpretation of the fixed for fixed condition	A derivative would be classified as a financial asset or a financial liability if: • it is net-cash settled; and/or • the net amount of the derivative is affected by a variable that is independent of the entity's available economic resources The DP discuses examples of variables, eg anti-dilution provisions and foreign currency	• Guidance in this area is welcomed • Request for further clarity and more examples • Determining whether a variable is independent of an entity's economic resources requires significant judgements and may lead to new interpretation issues

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Accounting for written put options on NCI

Today (IAS 32)	Discussion Paper	Feedback received
If a contract that contains an obligation for an entity to repurchase its own equity instruments for cash or another financial asset, recognise a financial liability for the present value of the redemption amount and **'reclassify'** from equity Accounting diversity exists especially the reclassification of equity	The DP proposes: • recognition of a financial liability and **derecognition of equity instruments** rather than 'reclassification' • in the case of written put option, recognition of '**an implicit call option**' that represents the holder's right to keep the shares	• Strong support for the Board addressing the issue • Concerns expressed about: - the consequences of derecognising equity instruments, eg the effects on profit or loss allocation and EPS calculation - Recognition of gross financial liabilities

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Disclosures

Today	Discussion Paper	Feedback received
• Limited disclosure requirements for equity instruments • No specific disclosure requirements on priority of financial instruments on liquidation • Disclosure required for earnings per share but it does not capture all potential dilution	Disclosure proposed for: • Priority on liquidation • Potential dilution of ordinary shares • Contractual terms and conditions that affects the timing and amount of cash flows (eg contingent conversion options, issuer call options)	• Broad support, particularly strong support from investors • Some concerns about priority on liquidation • Some warned against 'disclosure overload' of terms and conditions • Request for improvement to the EPS disclosure requirements

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Presentation

	Discussion Paper	Feedback received
Separate presentation of financial liabilities	• Present in OCI without recycling income and expenses on financial liabilities with 'equity-like' returns • Present in a separate line item on balance sheet	• Useful to distinguish • Mixed views on OCI vs profit or loss • Mixed views on recycling vs non-recycling
Attribution of total comprehensive income to equity instruments	• Non-derivatives: attribution based on dividends paid or declared • Derivatives: multiple methods considered using fair value as the basis	• Costs > Benefits • Complex to understand—attribution methods for derivatives in particular • Some support for attribution for non-derivatives

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Contractual terms

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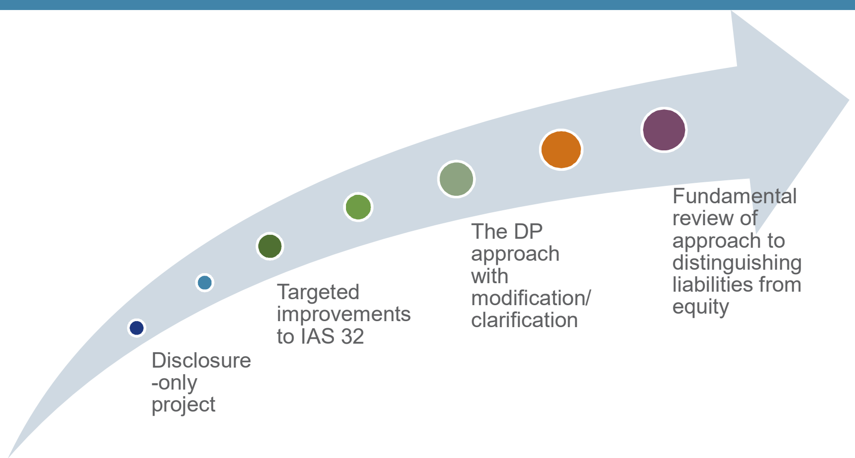
Today (IAS 32) & Discussion Paper	Feedback received
Classification of financial instruments should be based on the contractual terms, ie classification should not take into account: • economic incentives of the issuer • the effects of law and regulations	• General agreement • Practice issues highlighted • Request for: - application guidance - clarification on the interaction between some requirements in IAS 32 (eg interaction between indirect obligation requirement and contingent settlement provision requirement) • Consider a longer-term project to address the issue more comprehensively

DP feedback—Do stakeholders think standard-setting is required?

20

General support for standard-setting to address known practice issues
but
a wide range of different directions suggested for the project



FICE project direction alternatives

TBD

Clarify classification principles in the DP (use timing and amount features)

Clarify implicit classification principles in IAS 32 (rather than rewriting IAS 32)

‘Fill in gaps’ in IAS 32 without clarifying underlying principles

Provide classification guidance and illustrative examples

Improve presentation and/or disclosure

Alternative **A**	Alternative **B**	Alternative **C**	Alternative **D**	Alternative **E**
Fundamental review	Modify or refine the DP	Clarifying amendments to IAS 32	Narrow-scope amendments to IAS 32	Disclosure-only project

Dynamic Risk Management

Riana Wiesner, IASB Technical Staff

Background

Business Activity of Financial Institutions

The difference between **interest revenue** and **interest expense** represent **net interest income (NII)**.

Interest Revenue − (**Deposit Interest** + **Liability Interest**) = **NII**

Dynamic Risk Management is the process that involves understanding and managing how and when a change in interest rates can impact NII. As NII is the net of interest revenue and interest expense, a change in interest rates that has an equal impact on both would not impact NII.

Consequently, one of the best ways to prevent NII from changing due to a change in interest rates is to "match" assets and liabilities, a common approach used by financial institutions.

Transformation

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- IAS 39 and IFRS 9 require hedges to either be a fair value hedge or a cash flow hedge

Fair Value Hedge

A hedge of the exposure to changes in fair value.

Cash Flow Hedge

A hedge of the exposure to variability in cash flows.

- While the DRM accounting model uses Other Comprehensive Income and reclassification, it is neither a cash flow hedge nor is it a fair value hedge model
- The proposed model creates a new type of relationship focused on “transformation” whereby derivatives are used to alter a financial asset such that it meets the entity’s interest rate risk management objective

Transformation and capacity

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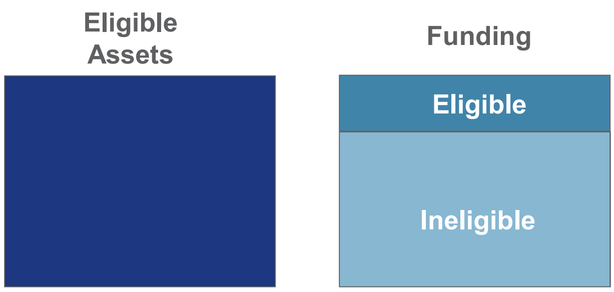
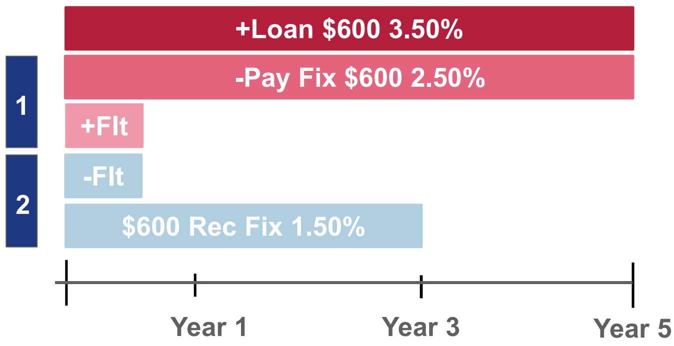
The intersection of risk management and the existing hedge accounting requirements creates the “**capacity issue**” where certain items are ineligible for hedge accounting even though they are considered from a risk management perspective. The best example is **core demand deposits**.



Transformation activities allow entities to alter financial assets such that they meet the risk management objective (ie, the altered assets match the liabilities).

Transformation—Example

An entity wants to transform a 5-year fixed rate financial asset such that it will re-price at the end of year 3, rather than the end of year 5. It can do so by using two interest rate swaps:



1 The five year pay fix, receive float interest rate swap “transforms” the loan from a fixed rate loan to a floating rate loan;

2 The three year receive fix, pay float interest rate swap transforms the combination to a 3-year fixed rate loan.

Transformation is important because matching assets and liabilities does not necessarily align with the fair value or cash flow hedge models.

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Objective and outline of the model

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Objective of the model

To **improve** the usefulness of **information** provided about interest rate risk management and how it affects a financial institution’s **current and future economic resources**.

Outline of the model

When derivatives (A) are successful in aligning the asset profile (B) with the target profile (C), changes in fair value of such derivatives are deferred in OCI and reclassified to the statement of profit or loss.

Assuming perfect alignment, the results reported in the statement of profit or loss should reflect the entity’s target profile.

A		B		C
Derivative instruments	+	**Asset profile**	=	**Target profile**

Asset Profile

Before transformation can begin, someone (ie, the entity) must know what it wants to transform.

The model calls the **financial assets subject to transformation** the "**Asset Profile**"

What is the asset profile?	The asset profile allocates designated financial assets into time buckets based on their re-pricing date
Board Tentative Decisions	Formal designation and documentation required Financial assets must be measured at amortised cost Future transactions must be highly probable

Target Profile

Similar to the asset profile, before transformation can begin, the entity must know what it wants to accomplish through transformation.

The model calls the **transformation objective** the "**Target Profile**"

How is the target profile determined?	The target profile must be based on the entity's risk management strategy which in turn is influenced by: i. The contractual tenor of financial liabilities; and ii. The entity's core deposits.

Target Profile—Example

Risk Management Strategy	Financial Liabilities	Deposit Approach
• Match assets and liabilities to stabilise net interest income	• CU 500 3-year fixed financial liabilities • CU 500 core demand deposits	• Treat the core demand deposit as 3-year fixed rate financial liabilities

In this example, the target profile is a 3 year fixed rate profile because:

- The entity's strategy is to match assets and liabilities to stabilise net interest income over a 3-year period; and
- The entity's financial liabilities are 3-year fixed rate considering the entity's approach to core deposits.

The combination of assets and derivatives required to accomplish the entity's objective creates a 3-year fixed rate financial asset.

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Model overview

DRM Model—Overview

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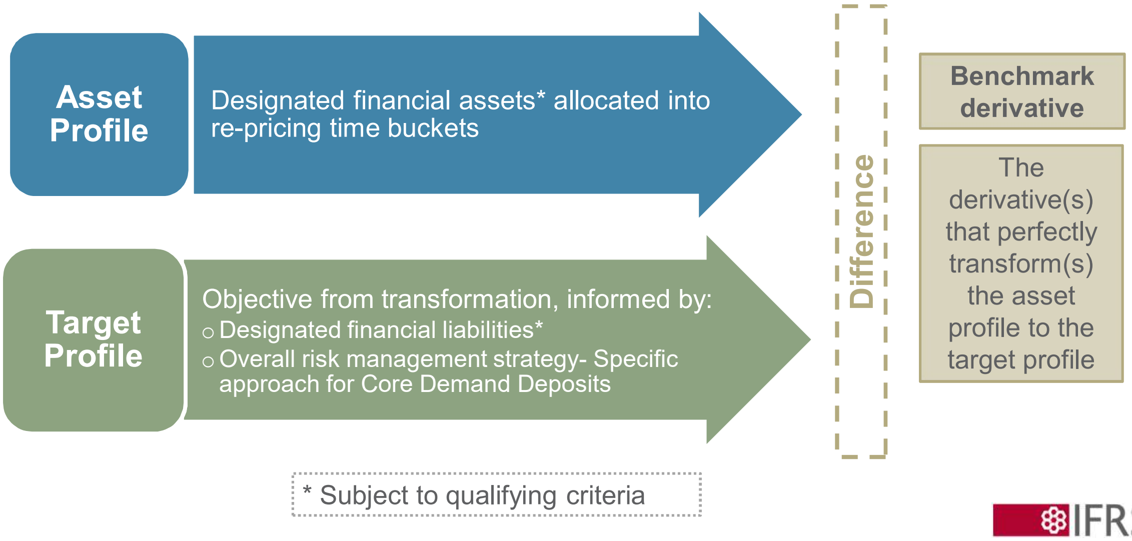

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DRM Model—Overview (cont)

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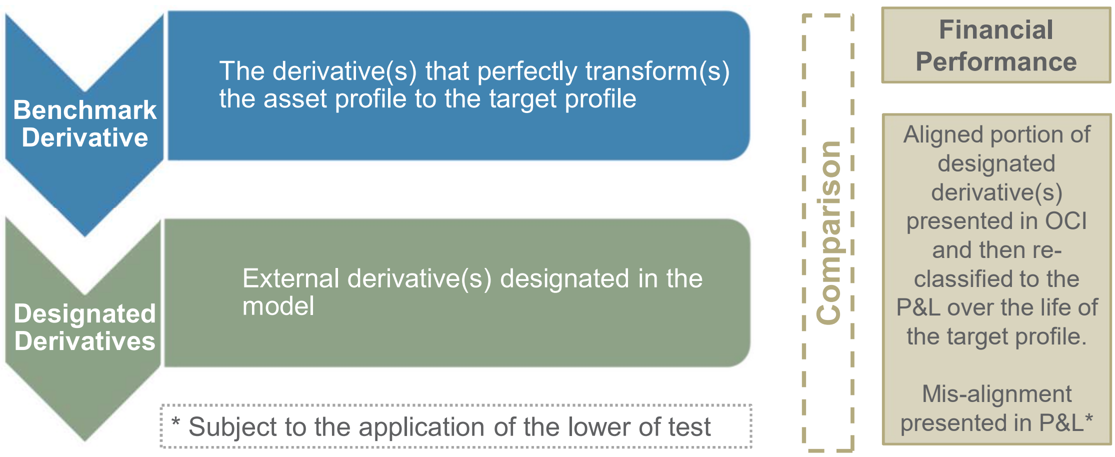

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DRM Model—Example

Asset Profile

CU 1000 5YR Fixed Rate Financial Assets

Target Profile

CU 1000 3YR Fixed Rate – because:
- Entity has 3YR fixed rate funding
- Risk Management Strategy is to match assets and liabilities

Difference

Benchmark derivatives

CU1000 5YR Pay Fix, Receive Floating Interest Rate Swap

&

CU1000 3YR Rec Fix, pay floating interest rate swap

Subject to qualifying criteria and the existence of an economic relationship

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Next steps

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DRM Model—Next Steps

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Next Steps

Q4 2019 – Commence outreach on core model

Outreach

- At this stage, the Board has tentatively decided not to issue a formal due process document
- The Board will consider the nature and format of outreach in the coming months
- Based on feedback received, the Board will determine next steps

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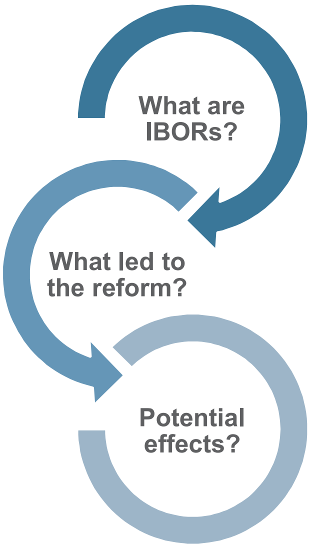
IBOR Reform

Fernando Chiqueto, IASB Technical Staff

IFRS

Background



Interest rate benchmarks such as interbank offered rates (IBORs) play an important role in global financial markets. They index a wide variety of financial products worth trillions of dollars, ranging from mortgages to derivatives.

Market developments have undermined the reliability of existing benchmarks. The Financial Stability Board has recommended reforms. Some jurisdictions have made progress towards replacing existing benchmarks with nearly risk-free rates (RFRs).

This has, in turn, led to uncertainty about the future of existing interest rate benchmarks. Such uncertainties have some market implications which may also affect entities' financial reporting.

Two-phase project

The Board identified two groups of accounting issues:

Phase I *Pre-replacement issues*

- Issues affecting financial reporting before the replacement of an existing benchmark with RFR.

Phase II *Replacement issues*

- Issues that might affect financial reporting when an existing benchmark is reformed or replaced with RFR.

The *pre-replacement issues* are more urgent because they may affect financial reporting before the reform is enacted. They can also be addressed prior to finalisation of the details of the reform. Therefore, the Board decided to address these issues as a priority.

The amendments to IFRS 9, IAS 39 and IFRS 7 address Phase I issues only

IBOR Reform—feedback on Exposure Draft

Highly probable and prospective assessments	Risk components and application	Disclosure and other information
Highly probable requirement	Separately identifiable risk components	Disclosures
Prospective assessment	Mandatory / end of application	Effective Date
IAS 39 retrospective assessment*		Transition

Key

- Green: broadly agree with no or limited qualifications
- Amber: partially agree with some issues that need addressing or mixed views
- Red: broadly disagree and/or concerns raised

84 comment letters

* Although the Exposure Draft did not include any proposed relief from the retrospective assessment, many commented that it is needed

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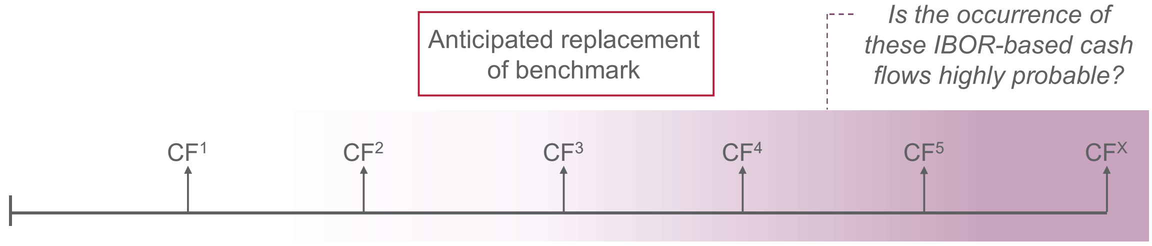
Highly probable requirement

Assume that an entity designates as the hedged item forecast cash flows referenced to IBOR. These cash flows are expected to occur after interest rate benchmark reform takes place.



Until the uncertainty is resolved, the entity should assume the forecast cash flows will not be altered as a result of the reform (ie will continue to be IBOR-based). If, however, the cash flows are no longer expected to occur for other reasons, then hedge accounting must be discontinued.

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Prospective assessments

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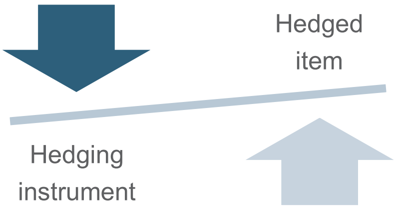
For example, in making prospective assessments, currently entities would have to consider possible changes to designated future cash flows.



These assessments might be affected by uncertainties around timing and amount of designated cash flows.

For example, entities might be uncertain about:

(a) what the cash flows from the hedging instrument and hedged item after the reform will be; and

(b) when the replacement will occur.

Until the uncertainty is resolved, entities should assume that the interest rate benchmark on which the cash flows of the hedged item and the hedging instrument are based is not altered as a result of the reform.

Retrospective assessment (IAS 39 only)

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In addition to the prospective assessment, IAS 39 requires a *retrospective assessment* where the actual results of the hedge must be within the range of 80–125%.

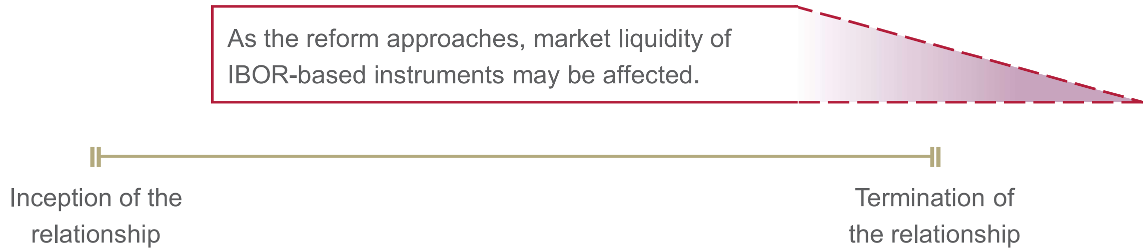
Uncertainties from the reform could affect timing and amount of designated cash flows and consequently the actual results of a hedge.

Entities must continue to measure the hedging instrument and hedged item as required by current IFRS Standards. This exception does not change the requirement to measure and recognise ineffectiveness in P&L.

Until the uncertainty is resolved, entities should not discontinue hedge accounting when the actual results of a hedge fall outside of the 80–125% range. Entities still need to comply with all other hedge accounting requirements, including the prospective assessment.

Separately identifiable risk components

For example, assume an entity designates the IBOR component of a fixed-rate financial liability as the hedged risk in a fair value hedge. At inception, the entity assesses the relevant facts and circumstances and concludes that IBOR is a separately identifiable risk component.



Entities will assess the separately identifiable requirement at the inception of the relationship only. In other words, the assessment is not reperformed over the life of the hedge. Similar exception applies to macro hedges.

End of application of the relief

Why is the end of application important?

- The exceptions should only apply during the period of uncertainty
- Once uncertainty is resolved, the exceptions should cease to apply

End of application

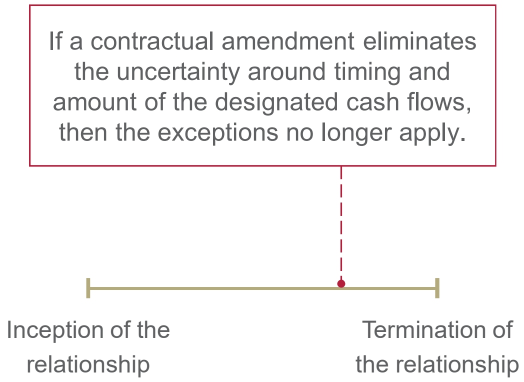
As a general principle, entities shall cease to apply the exceptions when uncertainties arising from the reform are no longer present or, if earlier, when the hedging relationship is discontinued.

End of application does not apply to separately identifiable risk components. That relief applies during the entire life of the hedging relationship.

End of application of the relief – example

Contractual amendments

- Contractual amendments might eliminate uncertainties arising from benchmark interest rate reform.
- For example, if a contractual amendment specifies the replacement date and the specific RFR, then the uncertainty regarding the timing and amount of the designated cash flows is eliminated when the contract is amended.
- However, some contractual amendments might not eliminate uncertainty. In such cases, uncertainty continues so the exceptions would still apply.



Disclosures

For those hedging relationships affected by the amendments, entities would be required to provide the following disclosures:

a) significant interest rate benchmarks to which the entity's hedging relationships are exposed;

b) how the entity is managing the process to transition to alternative benchmarks;

c) the extent of the entity's risk exposure that is directly affected by the reform;

d) significant assumptions or judgements the entity made in applying the exceptions; and

e) the nominal amount of the hedging instruments in those hedging relationships.

Disclosure requirements have been significantly reduced from the proposals in the ED

Phase II—*replacement issues*

Classification & measurement

- Determining what a modification is
- When does a modification result in derecognition
- In the case of a modification, how to account for change in benchmark rate
- Recognition of new financial instruments

Hedge accounting

- Changes in hedge documentation
- Flexible hedge designations
- Implications for macro hedges
- What happens when Phase 1 relief ends
- Valuation adjustments

Other topics

- Potential IBOR impacts on other IFRSs?
- Any new issues identified

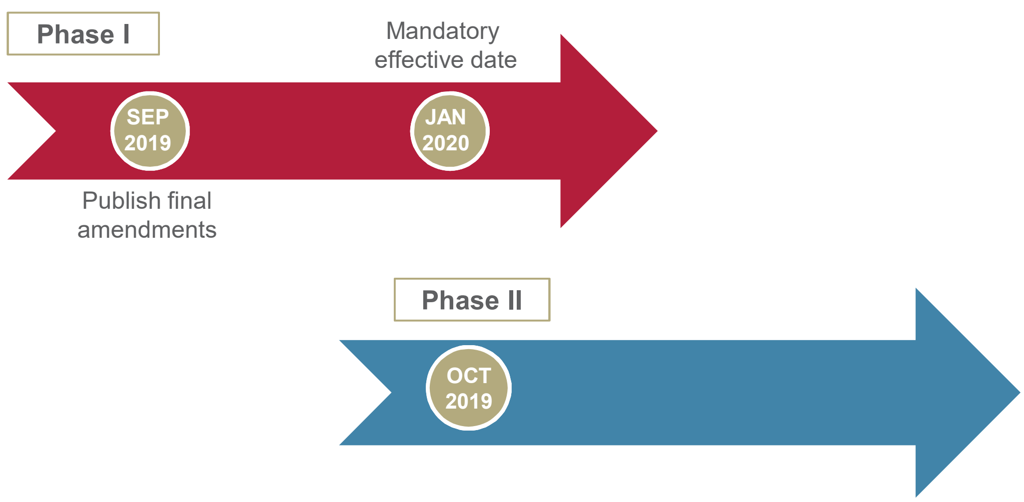
Disclosure

- Additional (or amendments to) disclosure requirements

October 2019 onwards

IFRS

Timeline and next steps



IFRS

Hot topics: IFRS Interpretation Committee

Patrina Buchanan, IASB Technical Staff
Jawaid Dossani, IASB Technical Staff

World Standard-setters Conference 2019

#WSS_2019

IFRS

Agenda

- Overview
- Recent agenda decisions
- Narrow-scope amendments
- Appendix: Resources

IFRS

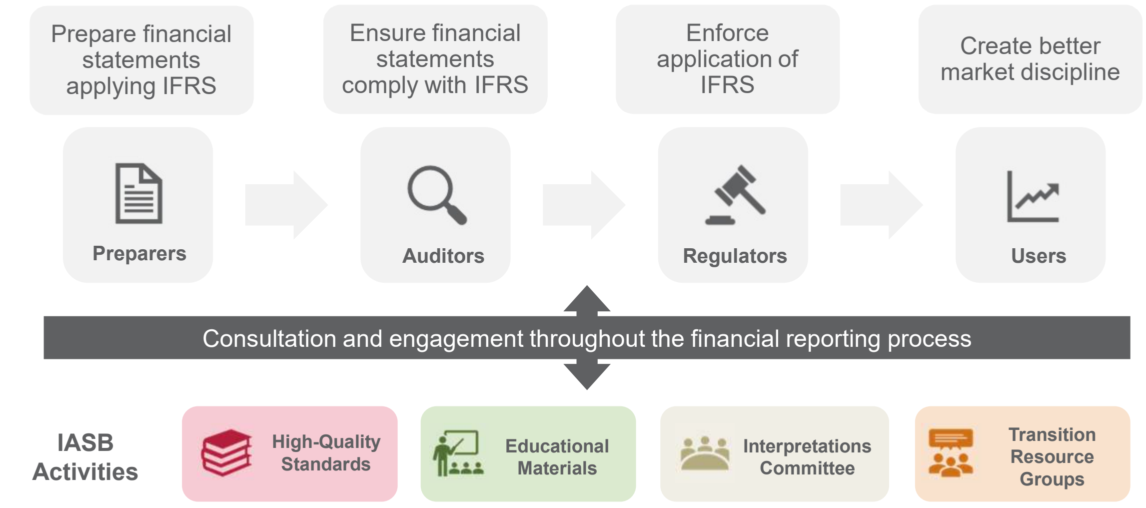
Overview

Why we support consistent application

Objective in supporting the Standards

We…	In order to…	Because it…
help stakeholders obtain a **common understanding** of the requirements - ie what they are aiming for	support **consistent application** of IFRS Standards	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



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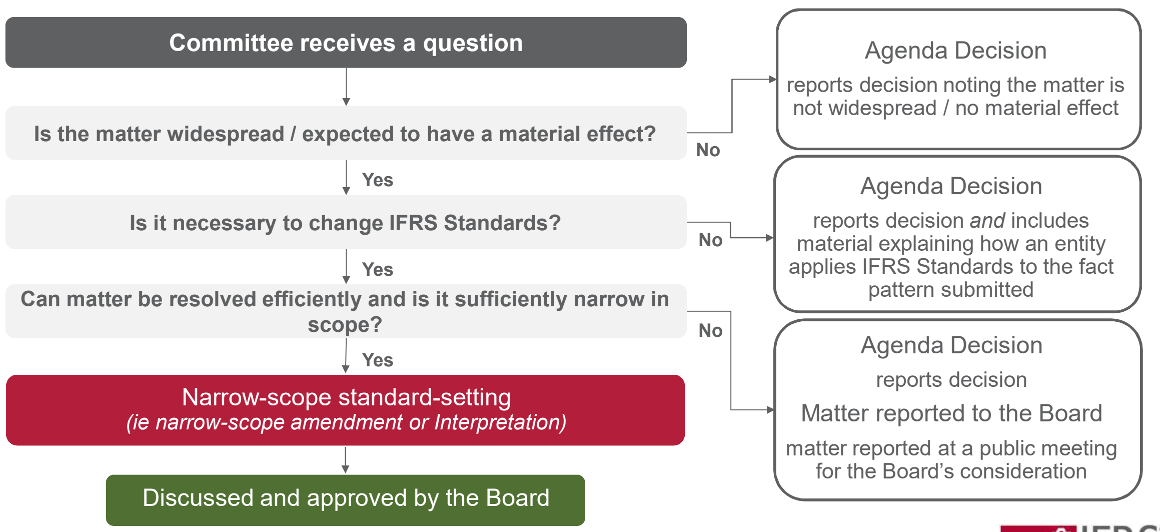
The Committee's process

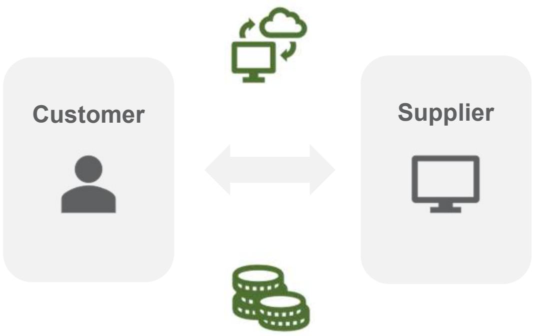


IFRS

Recent agenda decisions

Cloud computing arrangements (IAS 38)

'Software as a service'



Question
Software asset or service?

Software lease	Software intangible asset
IFRS 16	**IAS 38**

If no software asset:
Right of access = Service

Over time transfer of constructed good (IAS 23)

Does an entity capitalise borrowing costs in relation to construction of residential real estate units transferred to the customer over time?

Recognised assets	Qualifying Asset?
Receivable	No
Contract asset	No
Inventory (unsold units)	No

What is a qualifying asset?

An **asset** that **necessarily** takes a **substantial period** of time to **get ready** for its **intended use or sale**.

Lease liabilities in joint operations (IFRS 11)

Other joint operators

Operator

Enters into a lease (as sole signatory)

Right-of-use asset

Lease liability

PP&E used

Share of lease costs recovered

Unincorporated Joint Operation

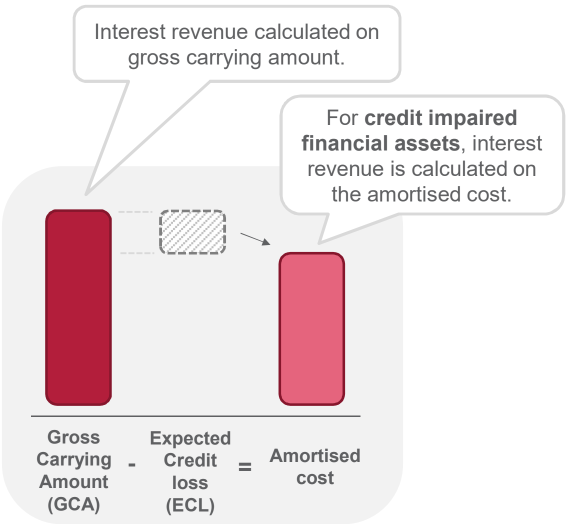
Question

Does the operator recognise the **entire lease liability** or **only its share**?

Conclusion

- All contractual arrangements
- **Primary responsibility**

Curing of a credit-impaired financial asset (IFRS 9)



A credit-impaired financial asset subsequently cures (ie paid in full or no longer credit-impaired)

Interest (GCA) - Interest (Amortised cost) = Difference when curing

Question

How should an entity present the difference?

Interest revenue ✗ or **Reversal of impairment loss** ✓

IFRS

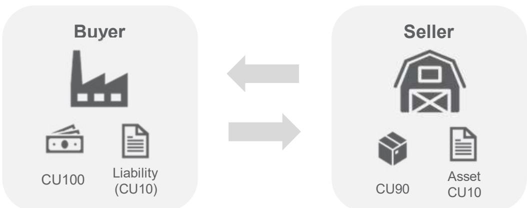
Physical settlement of contracts to buy or sell a non-financial item (IFRS 9)

Contracts fail the own-use scope exception in IFRS 9

Accounted for as derivatives at FVPL

Example of fact pattern (purchase)

- Contract to buy a commodity in the future for CU100.
- On settlement, FV of the derivative is (CU10).



Question

Should an entity reverse the loss of CU10 from the derivative liability on physical settlement?

Inventory	Revenue
Cash paid + Settlement of derivative	Cash received + Settlement of derivative

No reversal of FV gains or losses on derivative

IFRS

Assessment of promised goods or services (IFRS 15)

Does a contract include an initial service that is separate from the ongoing service promised in the contract?

- Customer pays a non-refundable upfront fee.
- Entity performs activities at contract inception.
- Do those activities transfer a good or service to the customer?

Fact pattern in the request

Stock exchange charges: **Non-refundable upfront fee** and an **ongoing listing fee.**

Undertakes activities to **enable admission to the exchange**.

Conclusion: Stock exchange does not promise to transfer any service other than the service of being listed on the exchange.

Holdings of cryptocurrencies

Does the entity hold the cryptocurrency **for sale** in the **ordinary course of business**?

No → **Apply IAS 38 *Intangible Assets***

Yes → **Apply IAS 2 *Inventories***

An entity does not account for holdings of cryptocurrencies as **cash** or a **financial asset**.

Disclosure requirements apply

Committee's September meeting

Agenda decisions to finalise

- Incremental borrowing rate (IFRS 16)
- Subsequent expenditure (IAS 41)
- Compensation for delays or cancellations (IFRS 15)
- Changes in liabilities arising from financing liabilities (IAS 7)
- Fair value hedge of FX risk on non-financial assets (IFRS 9)
- Presentation of uncertain tax liabilities or assets (IAS 1)

New Topics

- Translation of a hyperinflationary foreign operation (IAS 29)
- Definition of a lease – shipping contract (IFRS 16)
- Training costs to fulfil a contract (IFRS 15)

Note: The Committee will discuss the tentative agenda decision on 'Lease term on cancellable leases (IFRS 16)' at its November 2019 meeting.

Compensation for delays or cancellations (IFRS 15)

Airline's obligation to compensate customers for delayed or cancelled flights

Summary of the fact pattern

- Performance obligation is to transfer a **flight service.**
- Legislation gives the **right for compensation** for **delays and cancelations.**
- Legislation creates **enforceable rights**, and is part of the terms of the contract.

Question
How does an airline account for the obligation?

IFRS 15	Variable consideration	Part of the transaction price ✓
IAS 37	Provision	Compensation for harm or damage. ✗

Conclusion: The compensation relates to the entity's promise to transport the customer from one specified location to another within a specified time period after the scheduled flight time. Therefore, the compensation gives rise to **variable consideration**.

Fair value hedge of FX risk on non-financial assets (IFRS 9)

Fair value hedge of FX risk on non-financial assets held for consumption

The Committee assessed:	Can an entity have **exposure** to **foreign currency risk** on a **non-financial asset held for consumption** that could affect profit or loss?	Can it be a **separately identifiable** and **reliably measurable** risk component?	Can such designation be consistent with an entity's **risk management activities**?
An entity considers whether:	Fair value determined **only in one** particular foreign currency.	Hedged risk relates to changes in fair value arising from **translation**.	Does the entity really **manages exposure** to changes in fair value due to FX risk?

Also consider all other applicable requirements in IFRS 9, including those related to the **designation of hedging instruments** and **hedge effectiveness**.

Sufficient time for implementing agenda decisions

Agenda decisions provide new insights

Explanatory material in agenda decisions provides new insights → Entities may determine a need to change their accounting policy → Some changes require time to implement

Board's view

The Board expects companies to be entitled to sufficient time to implement changes in accounting policy that result from an agenda decision.

How the Board is trying to help?

New rubric in IFRIC Update

Feature: Agenda decisions—time is of the essence

More information on our website:
ifrs.org

Narrow-scope amendments

IFRS

Onerous Contracts—Costs of Fulfilling a Contract

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)

Proposals

1. Specify that when assessing whether a contract is onerous, the cost of fulfilling the contract includes both:
   - ✓ the **incremental costs**; and
   - ✓ 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.

Next steps

- To be discussed by the Board in September 2019.

IFRS

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.

Comment period ended on 20 August 2019.

Next steps:
To be discussed by the Board in Q4 2019.

Deferred tax related to assets and liabilities arising from a single transaction

Recognition of deferred tax
IAS 12 requires entities to recognise deferred tax for all **temporary differences**, with few exceptions.

Temporary differences are calculated by comparing the carrying amount of assets and liabilities with their **tax bases**.

Recognition exemption
Deferred tax are not recognised on the initial recognition of an asset (liability) in a transaction which:

- is not a business combination; and
- at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

The **tax base of an asset** is the amount that will be deductible for tax purposes.

The **tax base of an liability** is its carrying amount, less any amounts that will be deductible for tax purposes.

Deferred tax related to assets and liabilities arising from a single transaction

Entity enters into a lease

Receives tax deductions when payments are made

Lease asset

Lease liability

Use of lease asset (depreciation)

or

Repayment of lease liability

Entity determines if tax deductions relate to:

Tax deductions relate to

Lease asset	Tax bases = carrying amounts	**No temporary differences**
Lease liability	Taxes bases = nil	**Equal and offsetting temporary differences**

Does the **recognition exemption** apply and does an entity recognise **deferred tax**?

Deferred tax related to assets and liabilities arising from a single transaction

Board proposes to amendment IAS 12 *Income Taxes*

Purpose of the recognition exemption → 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

Share your views

- Comment letter deadline: 14 November 2019

Research: Lack of exchangeability (IAS 21)

25

Research

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

Staff proposals

Narrow-scope amendments to IAS 21

Identify the circumstances in which exchangeability is lacking → Require estimation of spot exchange rate. → Provide disclosures

Next steps

- To be discussed by the Board in Q4 2019.

IFRS

Questions?

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IFRS

Electronic reporting

Why everyone should care about the IFRS Taxonomy

Karlien Conings, Technical Staff
Rachel Knubley, Technical Staff

World Standard-setters Conference 2019

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Before we begin…

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- We will do live polls using the sli.do platform
- Insert https://www.sli.do/ in the browser of your electronic device i.e. mobile phone, tablet or laptop. Then select the correct session from the dropdown menu.
- Let's warm up with the following poll…

Question 1

How familiar are you with the IFRS Taxonomy?

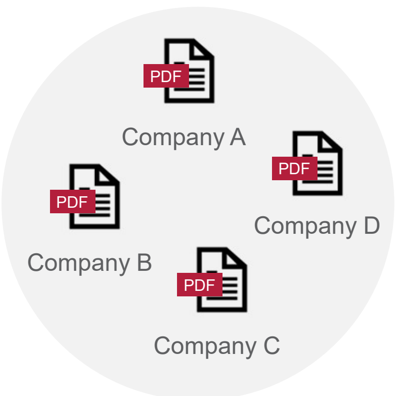
A. I am using the IFRS Taxonomy and have a good understanding of it.
B. I have a reasonable understanding of what it is.
C. I have a basic understanding of what it is.
D. I have heard of it but am not sure what it is.

Agenda

- Setting the scene
- What is the IFRS Taxonomy?
- Opportunities and challenges
- Interaction with standard-setting
- How to stay in touch with the IFRS Taxonomy

Setting the scene

Electronic reporting—PDF format



User needs

I want to understand company A's exposure to defined benefit pension plans. ✓

I want to download 100 companies' earnings per share (EPS) into a spreadsheet to calculate and compare their P/E ratio. ✗

Electronic data delivery

7

Third-party data providers

or

Electronic filings in a structured data format

XBRL
Company A

XBRL
Company B

XBRL
Company C

Book1 - Excel

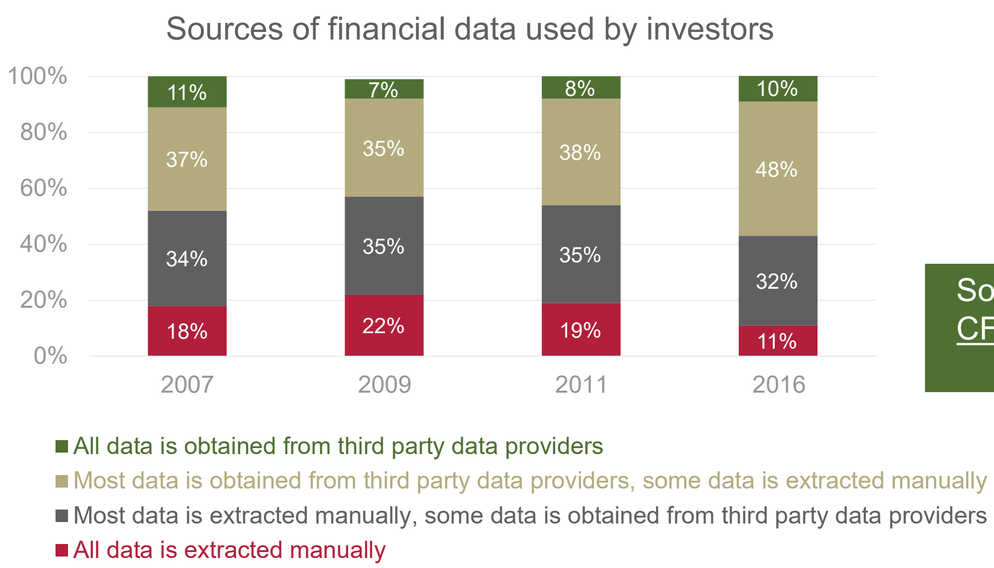
	A	B	C	D
1	**Company**	**EPS**	**Currency**	
2	Company A	3.35	USD	
3	Company B	16.73	USD	
4	Company C	22.12	GBP	
5	Company D	12.17	EUR	
6	Company E	33.61	EUR	

I want to download 100 companies' earnings per share (EPS) into a spreadsheet to calculate and compare their P/E ratio. ✓

IFRS

Use of electronic data delivery is increasing

8

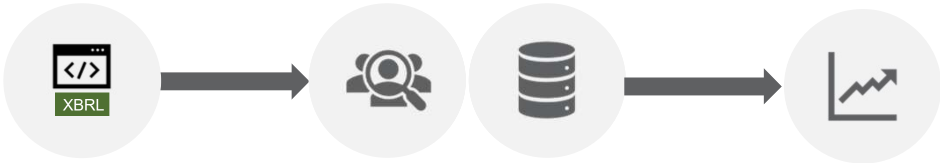


Source: 2016 CFA member survey

IFRS

Electronic filings in a structured data format

9



Companies

Prepare and file financial statements in electronic format

Regulators

- Set the filing requirements
- Collect & analyse data for supervision
- Make data publicly available

Users

Extract and analyse data to make investment decisions

The IFRS Taxonomy functions as the dictionary in this process, providing definitions of the concepts used and specifying the relationships between them

IFRS

More regulators requiring use of the IFRS Taxonomy

10

Prior to 2018

Chile, Peru, Denmark, Australia, South Korea…

2018

US Securities and Exchange Commission for IFRS filers

South Africa

2020

European Securities and Markets Authority

IFRS

Question 2

What are the filing requirements in your jurisdiction for companies preparing financial statements applying IFRS Standards?

A. They are currently required to file their financial statements electronically using the IFRS Taxonomy.

B. In the future they will be required to file their financial statements electronically using the IFRS Taxonomy.

C. There are no plans to require electronic filing using the IFRS Taxonomy.

D. I don't know.

IFRS

What is the IFRS Taxonomy?

IFRS

What is the IFRS Taxonomy? ❶ Identification

13

The IFRS Taxonomy lists the globally agreed computer codes (elements) that preparers can use to identify (tag) disclosures in IFRS financial statements

Consolidated statement of comprehensive income (extract)	
Revenue	30,650
Cost of sales	(26,000)
Gross Profit	**4,650**

Computer code

IFRS

What is the IFRS Taxonomy? ❷ References

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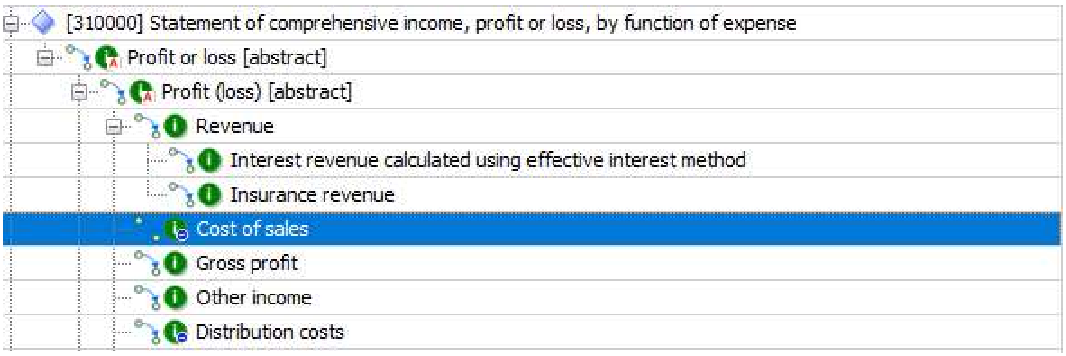
The IFRS Taxonomy describes the accounting meaning of each element and provides references to the IFRS Standards

Element label	Cost of Sales
Element reference	IAS 1.99 Disclosure IAS 1.103 Disclosure
Element documentation label	The amount of costs relating to expenses directly or indirectly attributed to the goods or services sold, which may include, but are not limited to, costs previously included in the measurement of inventory that has now been sold, unallocated production overheads and abnormal amounts of production costs of inventories.

IFRS

What is the IFRS Taxonomy? ❸ Classification

The IFRS Taxonomy classifies the presentation and disclosure requirements of the IFRS Standards and defines relationships between them—elements are organised into groups to facilitate browsing.



Content covered by the IFRS Taxonomy

IFRS Taxonomy elements

IFRS Standards

- presentation and disclosure requirements
- illustrative examples and implementation guidance

Common reporting practice

- information that companies commonly disclose when applying IFRS Standards

Question 3

17

How many elements are included in the 2019 IFRS Taxonomy?

A. More than 10,000
B. Between 5,000 and 10,000
C. Between 1,000 and 5,000
D. Less than 1,000

Example—Global Legal Identifier Foundation

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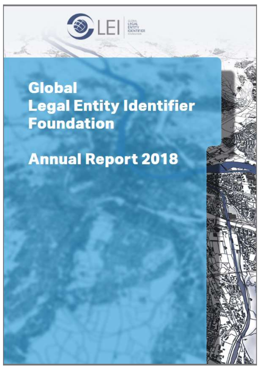
- The Global Legal Identifier Foundation has tagged its 2018 annual report using the IFRS Taxonomy and using Inline XBRL.
- Inline XBRL combines benefits of PDF reports & structured data—users can:
  - browse and view data in context as is currently the case in PDF
  - search using IFRS Taxonomy elements
  - link the disclosures back to the IFRS Standards
  - select a language of choice
  - export the information and associated IFRS Taxonomy elements



Opportunities and challenges for users of structured electronic filings

Opportunities—What the future may hold…

Improved accessibility—reduced costs and timely access to granular data for all companies

Supports fundamental research:

- facilitates comparisons
- new analytics

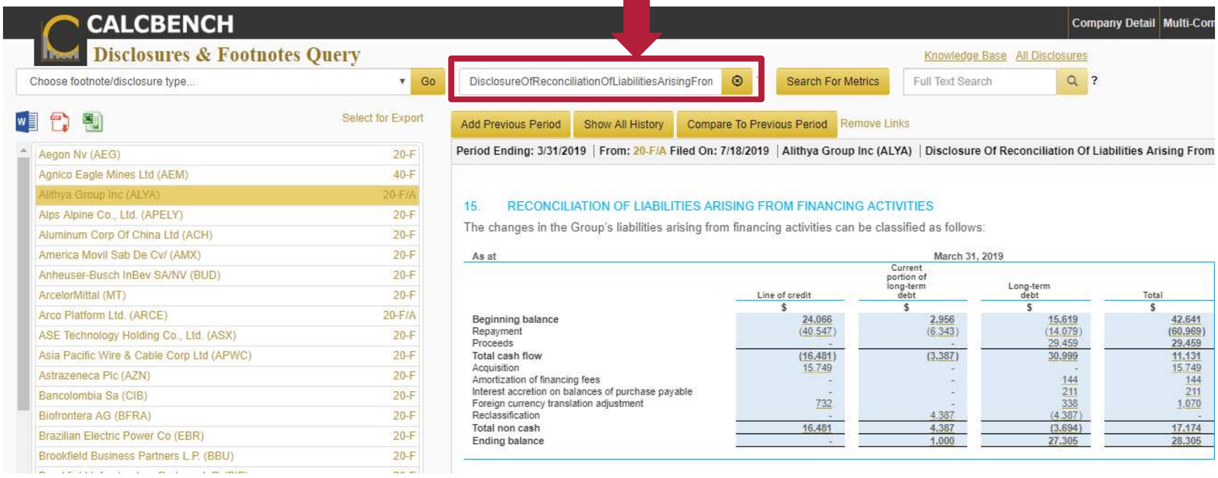
Fosters market innovation in reporting:

- interactive reporting
- better navigation

Enables users to make better economic decisions

Example 1—improved accessibility

Disclosure of reconciliation of liabilities arising from financing activities [text block] | text block | IAS 7.44D Example



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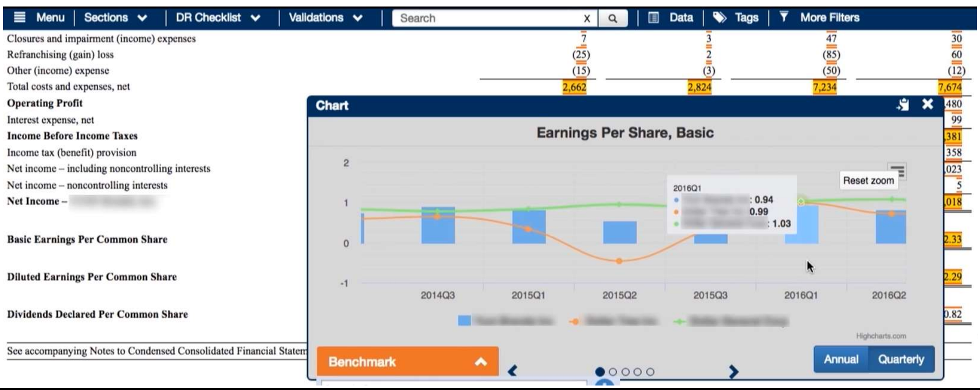
Example 2—facilitates comparisons

idaciti

Enhanced the free SEC Inline XBRL viewer to include new interactive features:

- converting a time series for an element into a graph to facilitate comparisons over time
- benchmarking to peers



Challenges for users of structured electronic filings

Lack of comparability

Difficult to communicate entity-specific information

Not available in a convenient format

Inconsistent availability

Data errors

May explain why investors are not using the data directly

Communicating entity-specific information

Consolidated balance sheets

ASSETS (in millions of Euros)	Notes
Goodwill	18
Other intangible assets	19
Property, plant and equipment operated under French public electricity distribution concessions	20
Property, plant and equipment operated under concessions for other activities	21
Property, plant and equipment used in generation and other tangible assets owned by the Group	22

The IFRS Taxonomy has an element to tag the 'total carrying amount of Property, plant and equipment'. However, this total is not reported by the entity.

No IFRS Taxonomy elements exist to tag the disaggregation reported by this company, as this does not reflect common reporting practice.

Some regulators require such entity-specific disclosures to be 'linked' to IFRS Taxonomy elements that are wider or narrower in meaning to enable electronic users to understand and analyse them.

How to address these challenges?

Many stakeholders have a role to play

The IFRS Foundation is currently focusing on the following areas:

1. Ensuring the IFRS Taxonomy content reflects the IFRS Standards and common reporting practice in a timely and accurate manner
2. Providing educational and other materials to support regulators, preparers and other stakeholders in their understanding and consistent application of the IFRS Taxonomy
3. Where appropriate, working with (or influencing) other organisations

Interaction with standard-setting

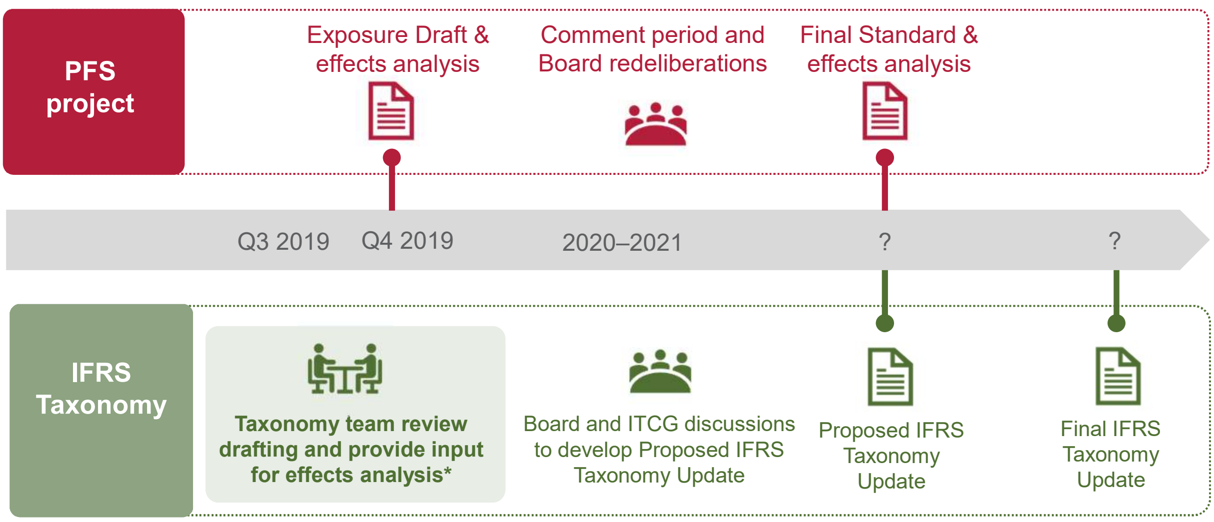
IFRS

Interaction with the IFRS Taxonomy team

- The Board has developed a draft framework for developing and drafting disclosure objectives and requirements in the future
- As part of this draft guidance, the Board tentatively decided that project teams should work with the IFRS Taxonomy team to fully understand:

- any common application challenges or inconsistencies with current disclosure objectives and requirements
- the interaction between disclosure proposals and common reporting practice
- whether disclosure proposals are 'technology neutral'
- any duplication or contradiction between requirements in IFRS Standards
- any potential issues with disclosure proposals
- whether disclosure proposals can be incorporated effectively into the IFRS Taxonomy

Example—the PFS project



*see June 2019 ITCG meeting paper

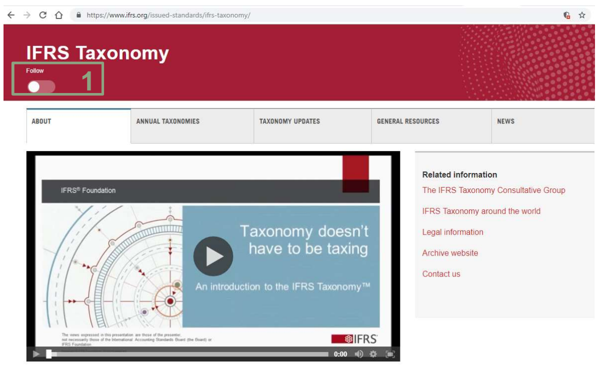
IFRS

How to stay in touch with the IFRS Taxonomy

IFRS

How can you stay in touch?

1. Follow the IFRS Taxonomy page on the IFRS Foundation's website
2. Observe discussions with the IFRS Taxonomy Consultative Group



How can you stay in touch?

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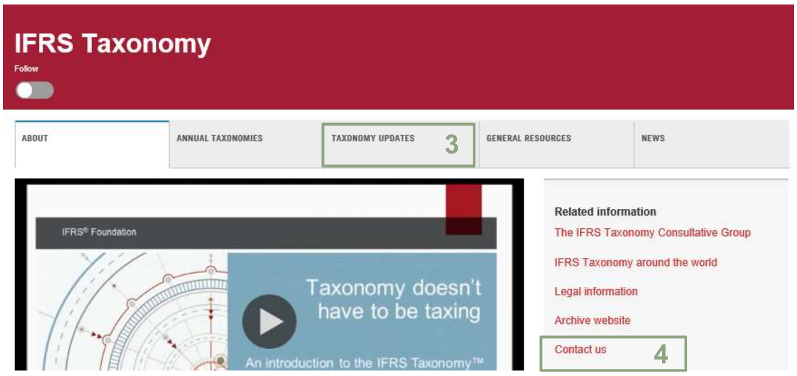
3 Comment on proposed IFRS Taxonomy updates

4 Contact us with suggestions for improvements



Question 4

32

Are you involved in the development of the IFRS Taxonomy?

A. Yes, I monitor the IFRS Taxonomy development process and my organisation provides comments on Proposed IFRS Taxonomy Updates.

B. No, but I might look into providing feedback on the development of the IFRS Taxonomy in the future.

C. I am not interested in providing feedback on the development of the IFRS Taxonomy.

Business Combinations under Common Control

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- Insert https://www.sli.do/ in the browser of your electronic device i.e. mobile phone, tablet or laptop
- Select the correct session from the dropdown menu and wait for further instructions.

IFRS

Agenda

Background

When to apply alternative approaches
- Transactions that affect non-controlling shareholders
- Transactions that do <u>not</u> affect non-controlling shareholders

How to apply alternative approaches
- Applying a current value approach
- Applying a predecessor approach

Background

Why we are doing the project

5

Issue

IFRS Standards **do not specify** how to account for business combinations under common control. As a result:

- Transactions are reported in different ways
- Lack of comparability

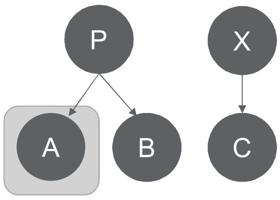
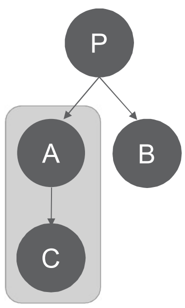
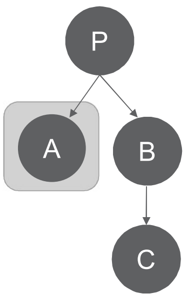
Objective

Develop **requirements** that would **improve comparability and transparency** of accounting for business combinations under common control and group restructurings by the receiving entity.

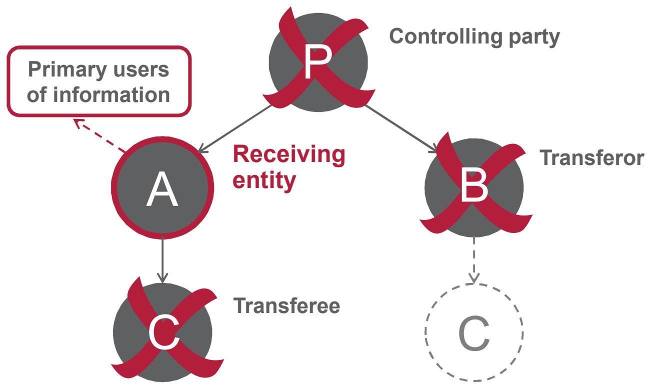
Business combinations under common control are common in practice, in particular in emerging economies.

Illustrating the issue

6

Before	After	Reporting by Entity A
Scenario 1 Entity A and Entity C are controlled by different parties 	**Entity A acquires Entity C** 	• The transaction is a **business combination** between third parties • IFRS 3 *Business Combinations* requires the acquisition method • Entity A reflects assets and liabilities of Entity C at **fair value**
Scenario 2 Entity A and Entity C are controlled by Entity P 		• The transaction is a **business combination under common control** • IFRS Standards do not specify how to account for such transactions • Entity A reflects assets and liabilities of Entity C at **fair value** or at **predecessor carrying amounts**

Focus on the receiving entity



- The project addresses reporting by the **receiving entity** in a business combination under common control. It **does not consider reporting** by the controlling party, the transferor or the transferee.
- The project focuses on information needs of the **primary users** of the receiving entity's financial statements. Primary users are existing and potential investors, lenders and other creditors. Different primary users can have different information needs.

It is also important that costs of providing and using information are justified by the benefits of that information. The cost-benefit analysis can vary under different scenarios.

Focus on the primary users of information

Non-controlling shareholders (NCS)

- Typically perpetual claim against receiving entity
- Transaction may affect value of claim
- Exposed to residual equity risks of receiving entity

Lenders and other creditors

- Contractual maturity of the claim against receiving entity
- Transaction may affect recoverability of claim
- Exposed to credit risk of receiving entity

Potential equity investors

- No existing claim against the combining entities at the time of transaction
- Investment decision is made for combined entity not just receiving entity

Controlling party

- Controls all combining entities before/after transaction
- Does not solely rely on receiving entity's financial statements for information

How we develop measurement approaches

Conceptual Framework for Financial Reporting

Existing requirements, practice and consultations

Measurement approaches being explored

A current value approach based on the acquisition method

Recognise acquired assets and liabilities at their fair values.

A predecessor approach

Recognise acquired assets and liabilities at their predecessor carrying amounts.

Considerations in the analysis

- *Nature of transactions*
- *Useful information*
- *Cost-benefit analysis*
- *Complexity*
- *Accounting arbitrage*

Where we are today

Transactions that affect non-controlling shareholders of the receiving entity

A current value approach

Transactions that do <u>not</u> affect non-controlling shareholders of the receiving entity

A predecessor approach

A current value approach for at least <u>some</u> transactions that affect NCS

A current value approach for all or some transactions that affect non-controlling shareholders?

Transactions within the scope of the BCUCC project

A predecessor approach for all other transactions within the scope, including those that affect lenders and other creditors and those undertaken in preparation for a sale.

Transactions that affect non-controlling shareholders

Are current values always appropriate for NCS?

Require a current value approach based on the acquisition method

For **ALL** transactions that affect NCS	For **SOME** transactions that affect NCS ✓
All non-controlling shareholders will receive current value information in all scenarios.	Some non-controlling shareholders will not receive current value information.
However, the benefits of providing that information may not justify the costs in all cases.	However, this approach aims to consider whether the benefits of providing that information justify the costs.
In addition, this approach may give rise to opportunities for accounting arbitrage (achieving a particular accounting outcome by issuing a few shares).	In addition, this approach could minimise opportunities for accounting arbitrage by specifying objective conditions for using a particular accounting treatment.

On balance, the staff expect to recommend that a current value approach is not required for all transactions that affect NCS

Which transactions that affect NCS?

How to make a distinction between transactions that affect NCS

Qualitative factors

- Traded equity instruments vs privately held
- NCS are not related parties (IAS 24)
- NCS discretion

Quantitative factor

- Size of interest held by NCS

Combination of qualitative and quantitative factors

The staff expect to recommend a qualitative distinction. A quantitative distinction would lack a conceptual basis and may give rise to opportunities for accounting arbitrage.

Alternatives for qualitative distinction for NCS

<table>
<tr><th></th><th colspan="3">Transactions that affect non-controlling shareholders of the receiving entity</th></tr>
<tr><th rowspan="2"></th><th rowspan="2">Receiving entity’s equity instruments are traded in a public market</th><th colspan="2">Privately held receiving entity</th></tr>
<tr><th>NCS discretion</th><th>NCS are related parties</th></tr>
<tr><td>A current value approach only for publicly held receiving entities</td><td>Current value approach</td><td colspan="2">Predecessor approach</td></tr>
<tr><td>A current value approach for all publicly held and some privately held receiving entities</td><td colspan="2">Current value approach</td><td>Predecessor approach</td></tr>
</table>

Polling question 1

The Board tentatively decided to pursue a current value approach based on the acquisition method for transactions that affect non-controlling shareholders of the receiving entity.

Do you agree with applying a current value approach to transactions that affect non-controlling shareholders of the receiving entity?

A. Yes—for all transactions that affect NCS of the receiving entity
B. Yes—for publicly traded entities only
C. Yes—for for publicly traded entities and some private entities
D. No—a current value approach should not be applied to such transactions

IFRS

Transactions that do not affect non-controlling shareholders

IFRS

Are all BCUCC transactions 'acquisitions'?

Is there a difference between BCUCC transactions that affect non-controlling shareholders of the receiving entity and those that do not?

BCUCC transactions that affect NCS of the receiving entity

Similar to business combinations between third parties, there is an **acquisition** of residual equity interest in the transferred entities for non-controlling shareholders of the receiving entity.

Consider a current value approach based on the acquisition method eg with additional disclosure

BCUCC transactions that do not affect NCS of the receiving entity

Unlike in business combinations between third parties, there is **no acquisition** of residual equity interest in the combining entities for their shareholders. The interest held by the controlling party continues unchanged.

Consider requiring a different approach, such as a form of predecessor approach

Information needs of lenders and other creditors

Nature of claims

- Cash flows are determined by contractual provisions
- Typically finite contractual maturity
- Priority of claims can vary

Focus of credit analysis

- Recoverability
- Specific time frames
- Capital structure

Information needs of debt investors and credit analysts

- Information about cash flows to the entity
- Information about recognised debt and unrecognised commitments

Focus of credit analysis

Debt investors and credit analysts use a variety of tools and techniques but there are two common areas of focus.

Predominance of cash flow analysis	**Focus on the total gross debt**
Cash flow measures or their proxies such as EBITDA, cash flow projections and cash flow-based ratios are at the heart of credit analysis.	Qualitative and quantitative information about both recognised debt and unrecognised commitments.

This information and credit analysis would be largely unaffected by whether a current value approach or a predecessor approach is used to account for business combinations under common control.

Information needs of potential equity investors

	Non-controlling shareholders	**Potential equity investors**
Economic decisions	Hold or sell an existing investment	
	Place a new investment	
Assessing the prospects for future net cash inflows	Use accounting data as input to valuation models. Existing and potential equity investors generally use the same valuation models.	
Assessing management's stewardship of the entity's economic resources	Need information to monitor management's stewardship and decide whether they can trust management with further capital.	

Both existing and potential equity investors focus on valuation in their analysis.

However, their economic position relative to combining entities is different.

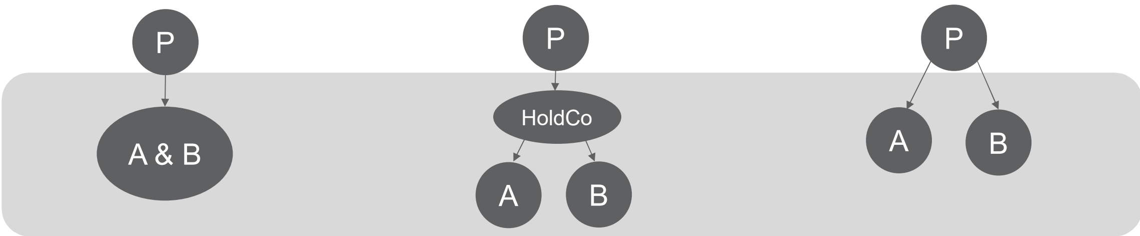
Existing NCS acquire residual interest in the transferred entities, or businesses, as a result of the transaction.

Potential equity investors will make their investment decisions relative to the combined entity.

Illustrating transactions that affect PEI
Step 1—group structure before the combination

Parent P controls and wholly owns complementary Businesses A and B. Parent P decides to sell Businesses A and B together in an IPO. The legal structure of the group pre IPO is different.

Scenario 1 | **Scenario 2** | **Scenario 3**



Businesses A and B can be sold together as a single legal entity.

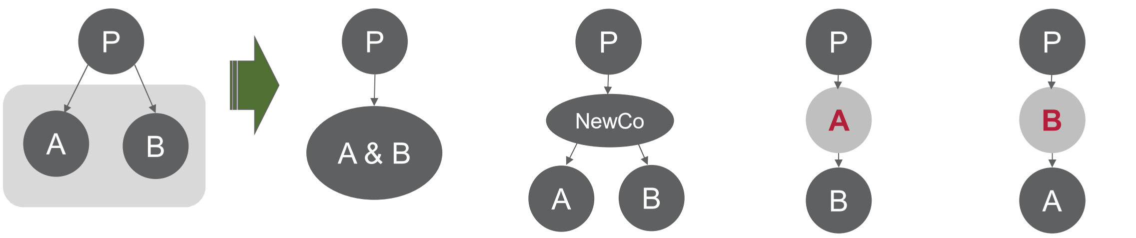
Businesses A and B are held via NewCo and can be sold together by selling HoldCo.

Businesses A and B are separate legal entities directly owned and controlled by Parent P. Parent P must undertake a restructuring to sell Entities A and B.

Illustrating transactions that affect PEI
Step 2—restructuring in preparation for an IPO

In Scenario 3, Parent P could undertake the restructuring in a number of different ways.

Scenario 3 | **Scenario 3.1** | **Scenario 3.2** | **Scenario 3.3** | **Scenario 3.4**



Businesses A and B are separate legal entities directly owned and controlled by Parent P

Legal merger of Entities A and B

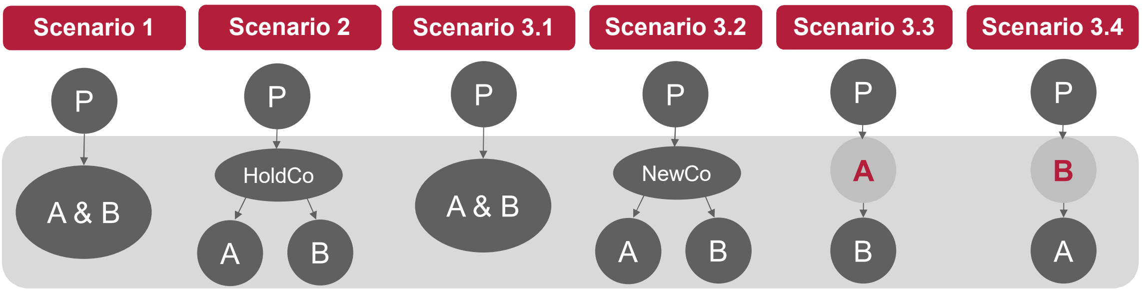
NewCo is formed to acquire Entities A and B

Entity A acquires Entity B

Entity B acquires Entity A

Illustrating transactions that affect PEI
Step 3—restructuring is complete

Parent P completes the restructuring in preparation for an IPO of Businesses A and B



- In all scenarios, potential equity investors in an IPO are investing in Businesses A and B
- In Scenarios 1 and 2, potential equity investors will receive historical information about Businesses A and B
- The same information could also be provided in all sub-scenarios of Scenario 3 by applying a form of predecessor approach

Polling question 2

The Board tentatively decided that it need not necessarily pursue a single approach for all transactions within the scope of the project and that it could pursue a predecessor approach for transactions that do not affect non-controlling shareholders.

Do you agree with applying a predecessor approach to transactions that do not affect non-controlling shareholders of the receiving entity?

A. Yes
B. No—a current value approach should be applied to all transactions
C. No—a different approach should be applied
D. I do not know

Applying a current value approach

Applying a current value approach
Start with the acquisition method

The Board is developing a current value approach based on the acquisition method for transactions that affect non-controlling shareholders of the receiving entity.

To the extent those transactions are similar to business combinations, similar information should be provided and to the extent they are different, different information should be provided.

Distribution	Disclosures	Contribution
If the consideration transferred exceeds the fair value of the acquired interest, recognise a distribution from the receiving entity's equity?	Provide additional disclosures to help users of the receiving entity's financial statements understand the effects of the transaction?	If the fair value of the acquired net assets exceeds the fair value of the consideration transferred, recognise a contribution to the receiving entity's equity instead of recognising a gain?

Illustrating a business combination

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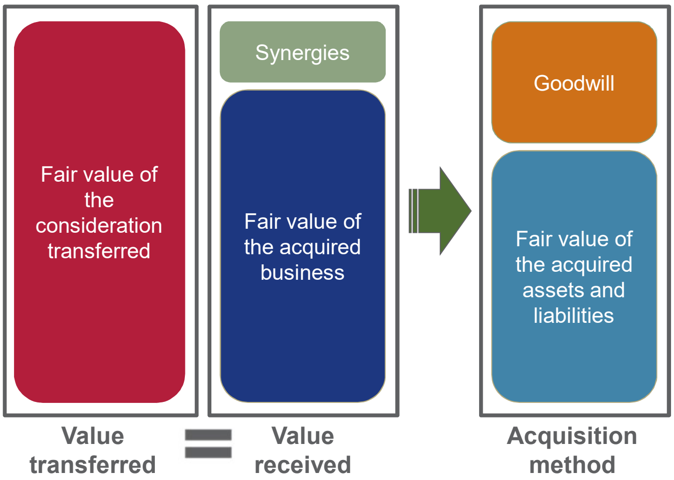
Consider a business combination from the perspective of the acquiring entity



- A business combination between independent parties is the result of **negotiations** and is expected to **benefit the acquiring entity**.
- Fair value of the consideration normally **reflects fair value of the acquired business and synergies** expected from the combination.
- Application of the acquisition method results in recognition of goodwill that comprises any **goodwill internally generated by the acquired business** and expected combination **synergies**.

Applying a current value approach Illustrating a BCUCC

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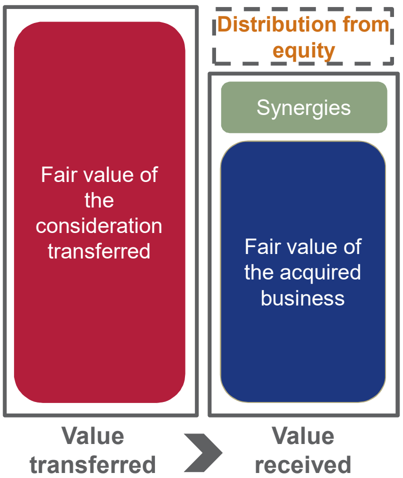
Consider a business combination under common control from the perspective of the receiving entity



- A business combination under common control may be:
  - directed by the controlling party; and
  - undertaken to produce benefits for other entities within the group instead of the receiving entity.
- In some cases, regulations may be in place to require transactions that affect NCS in the receiving entity to be conducted at fair value.
  - *however*, consideration may not always reflect fair value of the acquired business and expected synergies.
- Economically, any excess consideration over the fair value of the acquired business and expected combination synergies represents a distribution from the receiving entity's equity.

Applying a current value approach
Information about a distribution in a BCUCC

29

- The staff have identified two broad alternatives to providing information about a distribution in a business combination under common control in the receiving entity's financial statements.

Recognition

- Recognition would require measuring the distribution. The staff have identified two broad approaches to measuring a distribution.

Measure as the excess of the consideration over the fair value of the acquired business

Measure by immediately testing goodwill for impairment applying the mechanics of IAS 36 *Impairment of Assets*

Both approaches to measuring a distribution would be subject to measurement uncertainty.

or

Disclosure

- Instead of being recognised separately, any distribution is subsumed within goodwill that is subject to subsequent annual impairment tests.
- Notes to financial statements provide information about the transaction to help users evaluate its effects on the receiving entity's financial position and performance.

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Applying a current value approach
Information about a contribution in a BCUCC

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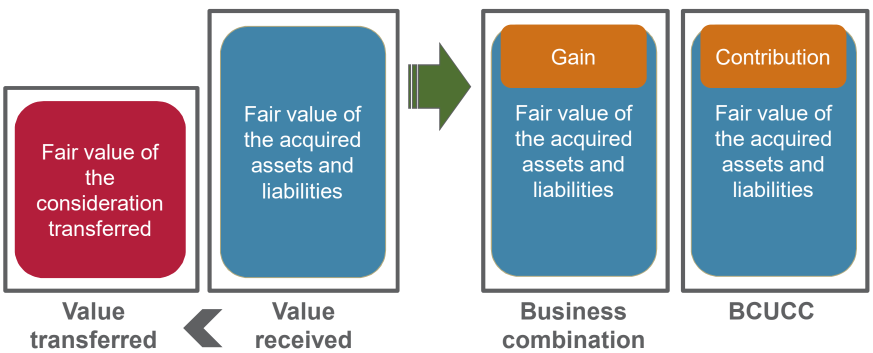
- Occasionally, an acquirer in a business combination will make a bargain purchase in which the fair value of the acquired assets and liabilities exceeds consideration transferred. Applying the acquisition method, the acquirer recognises that excess as a gain.
- In a business combination under common control, any such access represents a contribution to the receiving entity's equity rather than a gain and in the staff's view should be recognised as such.



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Polling question 3

In your view on applying a current value approach, which alternative for reporting a distribution should the Board pursue?

A. Recognising distribution in primary financial statements despite the measurement uncertainty involved
B. Providing information about the distribution in the notes
C. Neither of the above—information about a distribution applying a current value approach is not useful

Applying a predecessor approach

Applying a predecessor approach

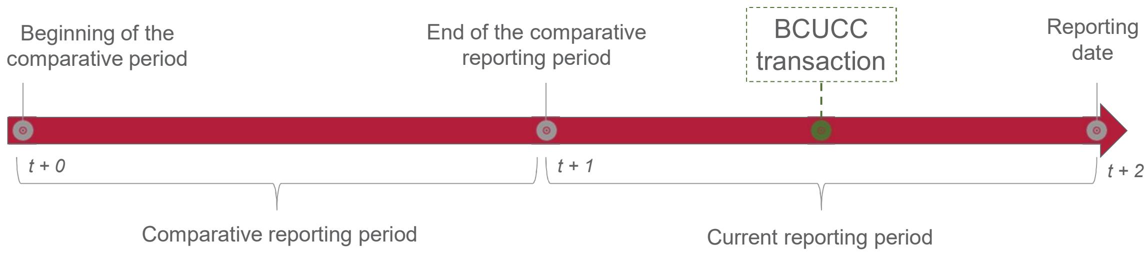
The Board decided that it could pursue a predecessor approach for transactions that do not affect non-controlling shareholders of the receiving entity.

Predecessor approach is a family of approaches. There is diversity in how a predecessor approach is applied in practice, in particular in relation to providing pre-combination information.

Pre-combination information	Predecessor carrying amounts	Presentation in equity
Entities reflect a business combination under common control from the date it occurred or as if the entities were combined from the beginning of the comparative period—or from a date when entities were first under common control, if later.	Entities recognise acquired assets and liabilities at their predecessor carrying amounts. In some cases, the carrying amounts at the transferred entities are used and in other cases the carrying amounts at the controlling party. Applying the reporting entity concept, the staff expect to recommend the former.	Any difference between the consideration transferred and the predecessor carrying amounts of the acquired assets and liabilities is recognised in equity. Presentation in equity is generally not prescribed by the Board.

Focus of the breakout session

Providing pre-combination information



Diversity in practice in providing pre-combination information

Alternative A

- Acquired assets, liabilities and results of operations are recognised from **the beginning of comparative period**.
- Pre-combination information on the face of financial statements is provided for all combining entities.

Alternative B

- Acquired assets, liabilities and results of operations are recognised from **the date of the transaction**.
- Pre-combination information on the face of financial statements is provided only for the receiving entity.

Does the previous reporting entity continue?

The staff think that Alternative A and Alternative B could result in the same information depending on whether the transaction results in (1) continuation of a previous reporting entity in a new legal form; or (2) a new set of assets, liabilities and results of operations reported together for the first time.

Providing pre-combination information on the face of financial statements

Continuation of a previous reporting entity		**A new set of net assets put together**	
Alternative A	Alternative B	Alternative A	Alternative B
Previous reporting entity		All combining entities/ businesses	Receiving entity only
Scenarios 1a and 2a		Scenarios 1b, 2b and 2c	

Pre-combination information Scenario 1a

Before BCUCC

- Parent P controls and wholly owns Entity A.
- **Entity A is a reporting entity**.

P → A

After BCUCC

- NewCo is formed to issue shares to Parent P in exchange for all shares of Entity A.
- NewCo is a reporting entity.

P → NewCo → A

Analysis

NewCo represents a **continuation** of Entity A.

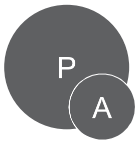
Alternative A
NewCo will provide pre-combination information for Entity A (from Entity A's FS).

Alternative B
NewCo will provide pre-combination information for Entity A (from Entity A's FS).

Pre-combination information Scenario 1b

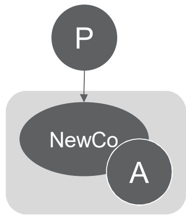
Before BCUCC

- Entity P controls and owns Business A.
- **Business A is NOT a reporting entity**.



After BCUCC

- NewCo is formed to issue shares to Entity P to acquire all assets and liabilities of Business A from Entity P.
- NewCo is a reporting entity.



Analysis

A **new set** of assets, liabilities and results of operations are reported together for the **first time** (because Business A is not a reporting entity).

Alternative A
NewCo will provide carveout pre-combination information about Business A.

Alternative B
NewCo will not provide pre-combination information about Business A.

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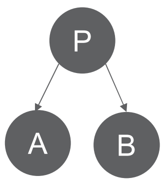
Pre-combination information Scenario 2a

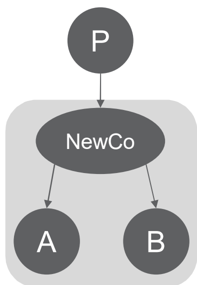
Before BCUCC

- Parent P is a holding company. It controls and wholly owns Entities A and B. **Investments in Entities A and B are Parent P's only assets**.
- Parent P is a reporting entity and presents consolidated financial statements.



After BCUCC

- NewCo is formed to issue shares to Parent P in exchange for all shares of Entities A and B.
- NewCo is a reporting entity.



Analysis

NewCo represents a **continuation** of Parent P as investments in Entities A and B are Parent P's only assets and Parent P is a reporting entity that presents consolidated FS.

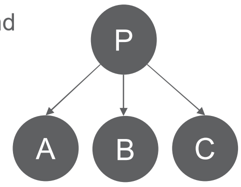
Alternative A
NewCo will provide pre-combination information for both Entities A and B (from Parent P's consolidated FS).

Alternative B
NewCo will provide pre-combination information for both Entities A and B (from Parent P's consolidated FS).

Pre-combination information Scenario 2b

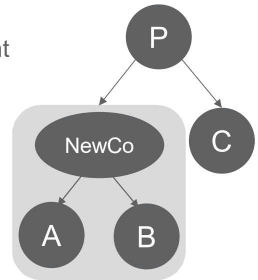
Before BCUCC

- Parent P controls and wholly owns Entities A, B and C.



After BCUCC

- Newco is formed to issue shares to Parent P in exchange for all shares of Entities A and B.
- NewCo is a reporting entity.



Analysis

A **new set** of assets, liabilities and results of operations are reported together for the **first time** (as Entities A and B are not Parent P's only assets).

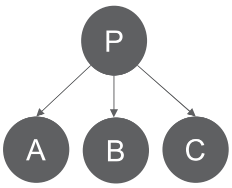
Alternative A
NewCo will provide combined pre-combination information for both Entities A and B.

Alternative B
No pre-combination information for Entities A and B is provided on the face of NewCo financial statements.

Pre-combination information Scenario 2c

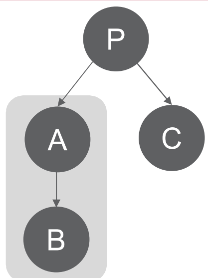
Before BCUCC

- Parent P controls and wholly owns Entities A, B and C.



After BCUCC

- Entity A issues shares to Parent P in exchange for all shares of Entity B.
- Entity A is a reporting entity.



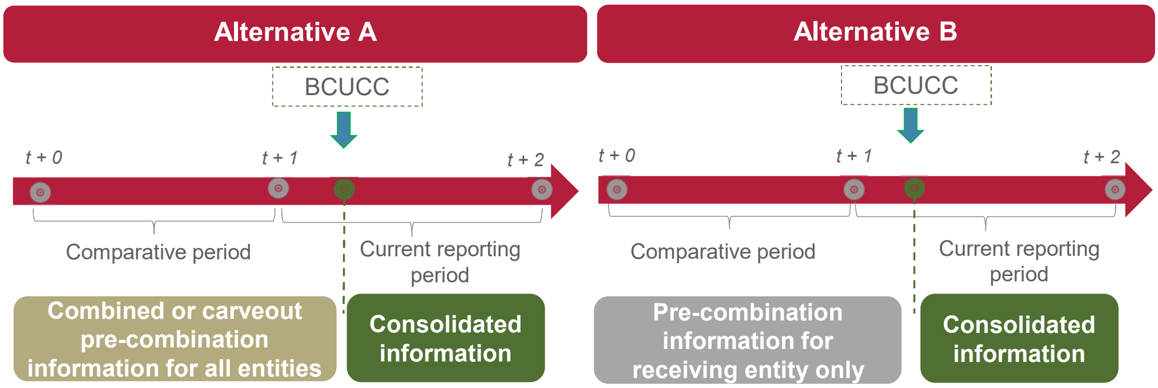
Analysis

Similar to Scenario 2b, a **new set** of assets, liabilities and results of operations are reported together for the **first time**.

Alternative A
Entity A will provide combined pre-combination information for both Entities A and B.

Alternative B
Entity A will not provide pre-combination information for Entity B.

Bringing it all together



Polling question 4

In your view on applying a predecessor approach, what would result in more useful information on the face of financial statements about a transaction that does not affect NCS of the receiving entity?

A. Providing pre-combination information for all combining entities from the beginning of the comparative period
B. Reporting the combination from the date of the transaction and providing pre-combination information for the receiving entity only
C. Neither A or B—pre-combination information should not be provided for any of the combining entities applying a predecessor approach
D. Neither A or B—such transactions should be reported applying a current value approach

Project timeline

December 2017	June 2018	April 2019	H2 2019	H1 2020
Scope of the project is finalised	Start with a current value approach for transactions that affect NCS	Need not necessarily pursue a single approach to all BCUCC transactions	*When* and *how* to apply a current value approach and a predecessor approach to BCUCC transactions	Discussion paper

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IFRS 17 and its impact on Takaful

Faiz Azmi Chair IFRS Islamic Finance Consultative Group
Peter Casey Consultant to the Islamic Financial Services Board
Mohammad Khan Head of General Insurance, PwC UK and Appointed Actuary in Saudi Arabia

World Standard-setters Conference 2019

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Introduction

Faiz Azmi
Chair IFRS Islamic Finance Consultative Group & Executive Chairman of PwC Malaysia

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Takaful and IFRS 17

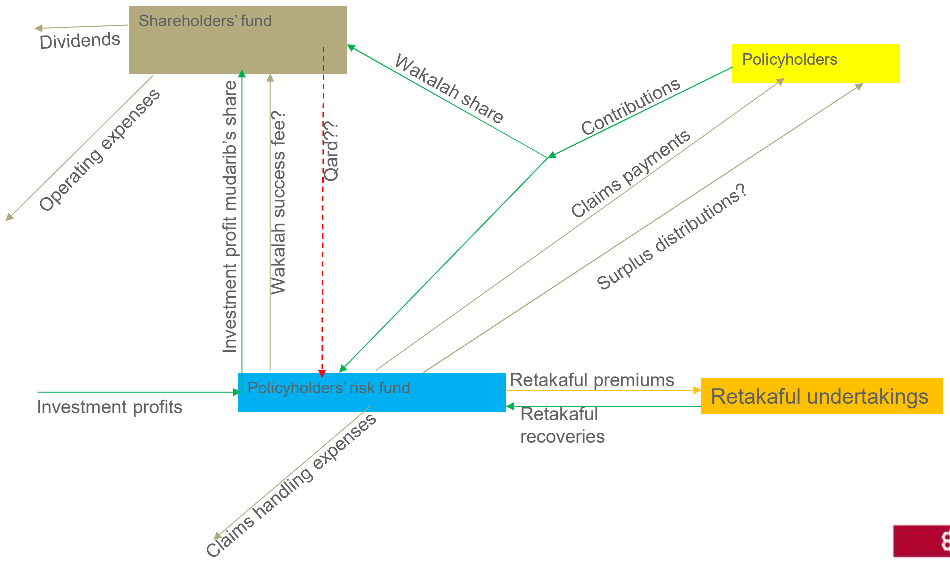
Peter Casey

Structures of modern takaful

Why takaful?

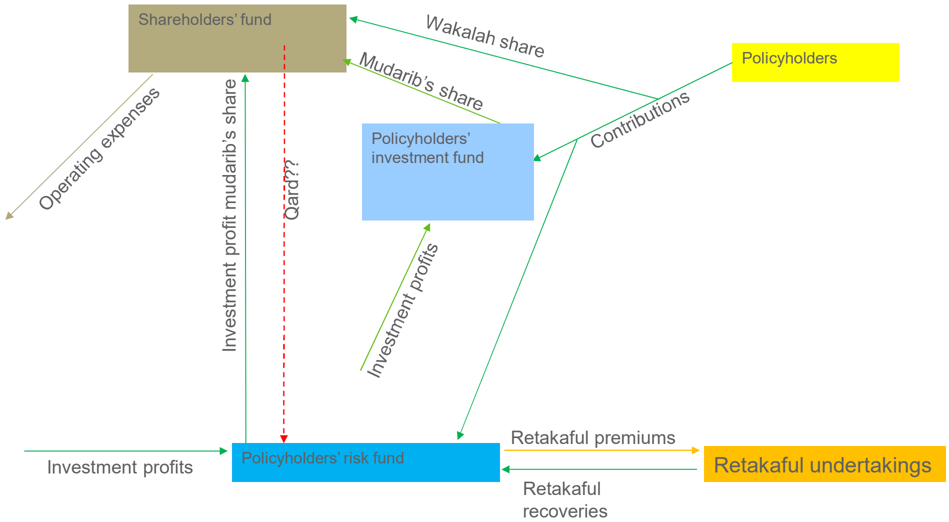
- Shari'ah issues around trading in risk
- Good Shari'ah basis for mutual guarantee and mutual assistance
- Most straightforward version of takaful would be pure mutual (as in Sudan) – but very difficult to found a new mutual
- So most modern takaful companies have one or more policyholder funds embedded in a shareholder company
- No standard model - and different approaches in Saudi Arabia and Iran

A general takaful model (hybrid)



A life (family) takaful model (hybrid, simplified)

7



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Policyholders' Investment Fund

8

- Generally functions rather like unit-linked policies
- No bonuses or similar discretionary elements
- But may "drip feed" Policyholders' Risk Fund

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Takaful and IFRS 17 – some issues

Is takaful insurance?

- Argument against is “risk sharing versus risk transfer”

But …

- AAOIFI Shari’ah standards and OIC Fiqh Academy both refer to “Islamic insurance”
- A takaful contract does transfer risk between two legal persons
- Purest form of takaful would be a mutual, and no doubt that conventional mutual is undertaking insurance
- If not insurance, then would not be eligible for compulsory covers

Takaful and IFRS 17: the good news

- Relatively simple products
- Very limited use of derivatives/hedging features
- Discretionary features largely confined to surplus distribution from PRF
- Relatively simple investment programmes (so IFRS 9 less problematic than for banks)

Structure of funds

- IFRS 17 based on legal entity
- But funds have different “ownership” and therefore fund-level disclosures are appropriate
- Fund level solvency regulation – and alignment of accounting bases
- Where is insurance risk being taken?
- Some cashflows (e.g. claims) fall against PRF. Others (e.g. acquisition costs) against SHF.
- Correct attribution of other flows (e.g. retakaful)

Transfers between funds

- How to account for (e.g.) wakalah fees, wakalah success fees, mudarib's share – bearing in mind that structures may differ
- The problem of qard (or other support):
  - –When it must be paid
  - –How to account for possibility before payment
  - –How to account thereafter
- Surplus distributions a regulatory but also an accounting problem

The lessons from IFRS 9 in Islamic banks

- Many have limited capacity and rely on their regulators to tell them what to do
- But insurance regulators generally have less capacity than banking regulators
- Some banks used AAOIFI standards for guidance, even in IFRS jurisdictions
- But AAOIFI standards came well after IFRS 9
- And Insurance Capital Standard is on its way

Thank you

Peter Casey

consult@picasey.me.uk

IFRS

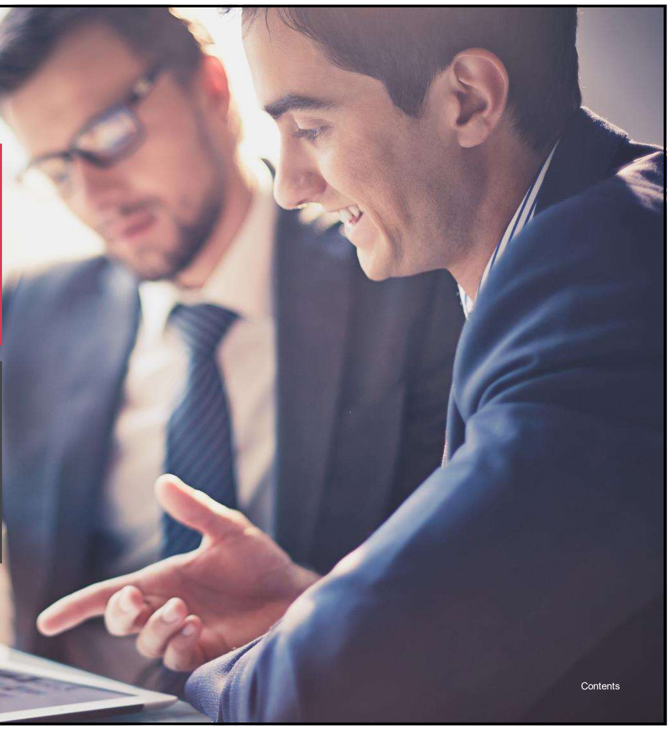
Applying IFRS 17 on Takaful

Mohammad Khan
(Partner - Head of General Insurance, PwC UK and
Appointed Actuary in Saudi Arabia)

30 September 2019

pwc

Contents



1 Overview of IFRS 17

Objectives of the standard

- Single measurement approach for similar insurance contract liabilities and revenue, allowing **greater comparability** amongst insurance companies
- Insurance contracts m**easured at current value** and estimated future payments will be reported on a **discounted basis**
- Information about different **components of current and future profitability** will be provided
- **Revenue** will reflect provided **insurance coverage**

Overview of IFRS 17

Key highlights

- A more complex measurement model under IFRS 17 introduces **greater levels of system complexity and cost**
- Changes to **financial statement presentation** will drive new key performance indicators and MI requirements
- Enhanced disclosures requirements will **increase transparency of reserve adequacy and quality of earnings**

Why is IFRS 17 a big deal? It's harder than it looks…

Company's can't move forward because the Standard is not final…

No! - the issues are understood and many decisions can be made now

No one is the same…

Products, systems, data, processes, markets, stakeholders all differ

It's an accounting standard so it's a finance problem…

No! – it will impact all, including future strategies!

We only write short term business so it does not impact me!

No! – we are finding data challenges, process changes etc that require systems and process changes

Dependencies – organisations do not stand still and changes are a fact of life.

How do you integrate IFRS 17 into ongoing changes? ERP systems, new products, markets etc...

Debunking myths!

It's not due until 2022. There's plenty of time…

2022 is closer than you think

We can utilise our current systems and data storage

IFRS is very different to current standard

We can just employ some contractors to get the work done

What is your IT strategy?

We have all of the data we need for IFRS 17

Data quality is key

I'm a General Insurer. We can just use the PAA approach. It will be simple

PAA is only the beginning!

Will it impact Takaful business?

Yes – IFRS 17 is an accounting standard

2

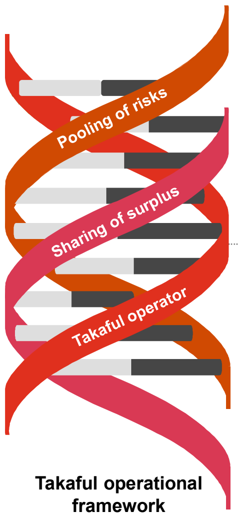
Approaches to apply IFRS 17 to Takaful

Is applying IFRS 17 to Takaful contracts Shariah compliant?

- IFRS 17 standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued.
- IFRS 17 does not change the nature of insurance business as it does not drive the product structure or terms & conditions of insurance contracts.
- Takaful players in various countries are already applying IFRS 4 or equivalent to prepare the financial statement.

Transfer of insurance risk from the Participant to the Takaful Operator?

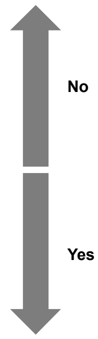
Mutual structure within a shareholder wrapper



Takaful operational framework

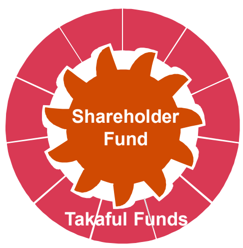
- Obligation of Takaful operator (TO) to provide interest free loan (Qard) to the Takaful funds?
- Does Qard resemble equity more than debt?
- Linkage of Qard to the insolvency of the Takaful operator?

Mutual entity structure

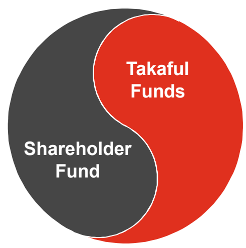


Shareholder entity structure

Two possible structures for applying IFRS 17 to Takaful



Takaful operator is a manager of risks and Takaful funds



Strong economic relationship between a Takaful operator and the participants' funds

Application of IFRS 17	Takaful entity as a mutual insurance entity	Takaful entity as a conventional with-profits insurer
Additional disclosures	Shareholders' income, assets and liabilities	Surplus/deficit & assets attributable to the Takaful funds
Challenges	Difficult to explain financials to the shareholders	Might be perceived as Takaful operator taking over the Takaful funds

3

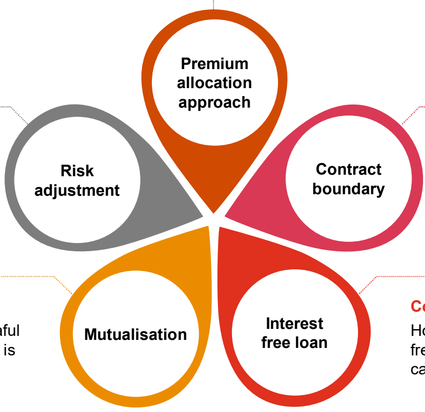
IFRS 17 technical issues specific to Takaful

IFRS 17 technical issues specific to Takaful contracts

Use of premium allocation approach
Can the surplus/loss sharing feature in the Takaful be handled using PAA?

Allowance of risks
What is the extent of transfer of the non-financial risks to Takaful operator?

Contract boundary determination
For family Takaful, does it depend on the repricing of risk charges or contributions?



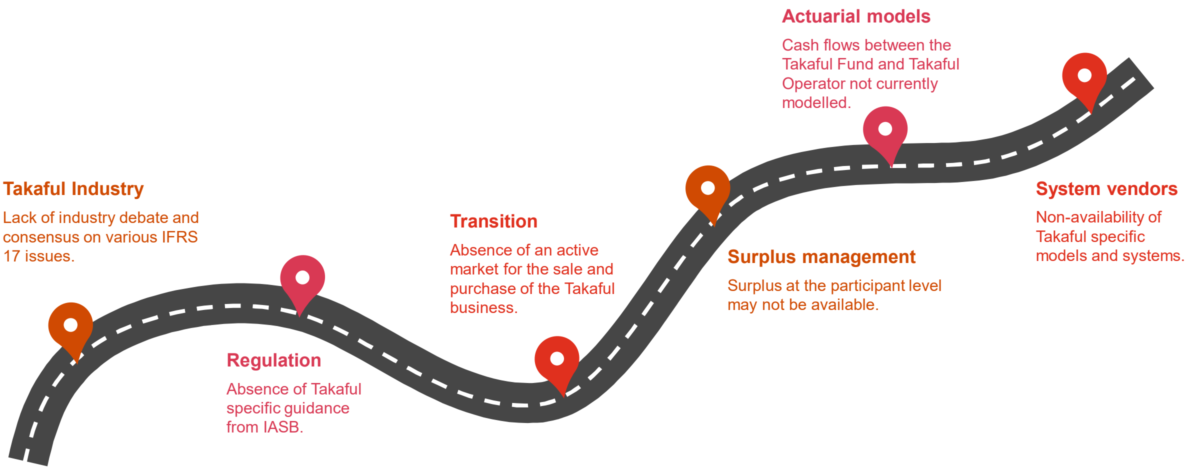
Applicability of mutualisation (B67)
Is mutualisation applicable for the general Takaful business given that the main source of surplus is not the investment returns on the risk fund?

Cost of interest free loan (Qard)
How to allow for the cost of providing interest free loan to fund the deficit at fund level in the calculation of FCF?

4

Significant practical implementation challenges

Key issues in IFRS 17 implementation on Takaful



Thank you

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Working together

Michelle Sansom, IASB Technical Staff

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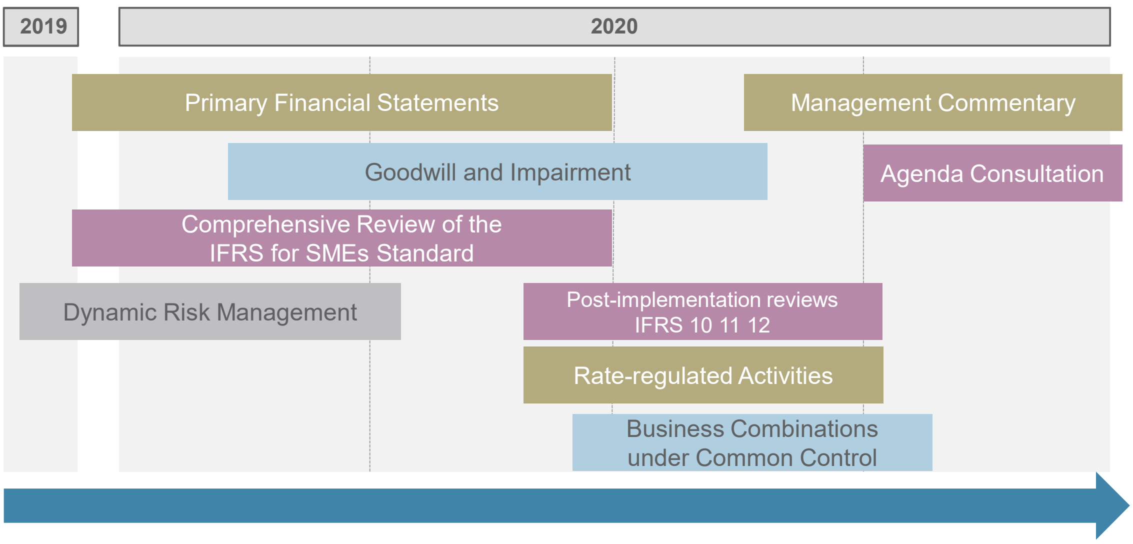
2020 major consultations



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What are our objectives?

Developing… a single set of high quality… enforceable and globally accepted financial reporting standards

National Standard Setters help the IFRS Foundation engage with stakeholders in 140+ jurisdictions

- **Direct stakeholders** → Expert input to standard-setting activities
- **"Eyes and ears"** → Engagement with regulators, audit firms and other stakeholder groups

Breaking down the objective

A single set → **Globally accepted** → **High quality** → **Enforceable (and consistently applied)**

- Adoption of new and amended IFRS Standards (implementation)
- Consistent application of IFRS Standards

High quality **input** (broad-based) to obtain **high quality output**

- IFRS Standards set with awareness of local matters, i.e. regulation
- Timely identification of local application issues

Effective engagement with NSS

Working with NSS

A single set → Globally accepted → High quality → Enforceable (and consistently applied)

- We need NSS to:
  - ✓ be knowledgeable insiders
  - ✓ be educated in advance of consultation
  - ✓ work at national level to raise awareness, initiate and support local discussions
  - ✓ consider if additional outreach is necessary (e.g. liaise with tax authorities)

- NSS can:
  - ✓ provide timely feedback on proposals
  - ✓ explain local structures, issues and views
  - ✓ provide input for effects analysis

- NSS:
  - ✓ support the development of high quality IFRS Standards
  - ✓ support implementation and consistent application of IFRS Standards
  - ✓ lever regional networks

How can we work better together?

Considering differing ….

types of NSS	constraints
Individual NSS	Capacity
Regional groups	Market structure
Focused groups	Remit

to ….

- achieve increased participation in the standard-setting process
- support implementation and consistent application
- support new adopters

One size will NOT fit all; however, we can share best practice

Panel discussion

Andreas Barckow
Accounting Standards Committee of Germany

Linda Mezon
Canadian Accounting Standards Board

Felipe Cervantes
Group of Latin American Accounting Standard Setters

Huaxin Xu
China Accounting Standards Committee

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- Select the correct session from the dropdown menu and wait for further instructions

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Question 1

Have you participated in or written a comment letter to the IASB in the last three years?

A. Yes
B. No

Question 2

Which of the following materials to support understanding and implementation of IFRS Standards do you find useful?

A. IASB Updates
B. Webcasts and webinars
C. Articles
D. Meeting summaries
E. None of the above

Question 3

Do you organise training and education workshops on IFRS Standards?

A. Yes, regularly
B. Yes, infrequently
C. No, but will do so after the WSS conference
D. No, and we have no plans to organise any

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Rate-regulated Activities

Preview of forthcoming exposure draft

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Agenda

- Objective of the session
- Useful information for the planning of outreach activities
- Overview of the model
  - Problem and purpose
  - Scope: defined rate regulation
  - Total allowed compensation and regulatory assets and regulatory liabilities
  - Measurement
- Panel discussion
- Appendix—Solutions for numerical examples

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- Select the correct session from the dropdown menu and wait for further instructions.

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Objective

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Objective of the session

Provide you with information about the following matters to help you plan outreach activities on the next consultation document:

- the timeline for publication of the forthcoming exposure draft; and
- the key aspects of the proposed accounting model for regulatory assets and regulatory liabilities (model)

Discuss and share information about plans and past experience for outreach activities

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Useful information for the planning of outreach activities

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Useful information for outreach activities

WSS Conference

Webcasts / podcasts

Communication materials: snapshot, slides

Stakeholder meetings

Conferences

Roundtables

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Overview of the model

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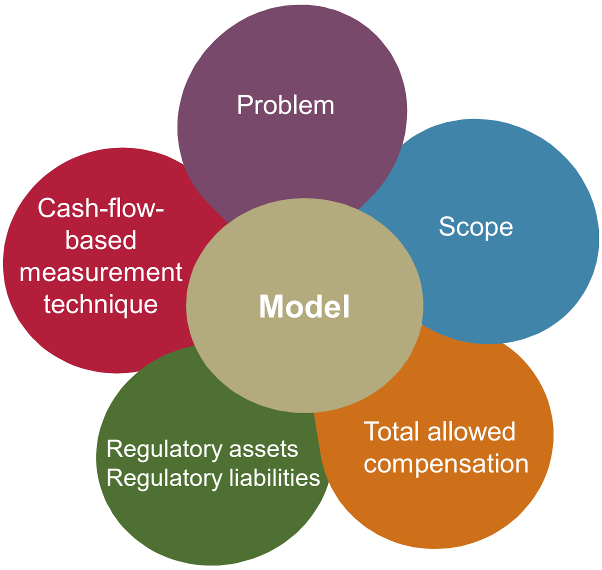
Top five takeaways



Overview of the model

Problem and
purpose of the model

Problem

11

A binding regulatory agreement establishes:

The **AMOUNT** an entity is entitled to charge customers for the supply of goods or services

WHEN those amounts are included in the rate(s) charged to customers

Recognition in statement(s) of financial performance

Timing—expenses (or other income) **recognised** when goods or services are supplied

may be ≠ (ie before or after)

Timing—revenue recognised when amounts for those goods or services are included in the rate(s) charged to customers

If timing differs

Reported financial position is INCOMPLETE — unrecognised rights and obligations

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Problem and purpose of the model—regulatory asset

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Without model

Period X0

Expenses recognised for goods or services supplied

Revenue (IFRS 15)

Present right NOT recognised

Timing difference

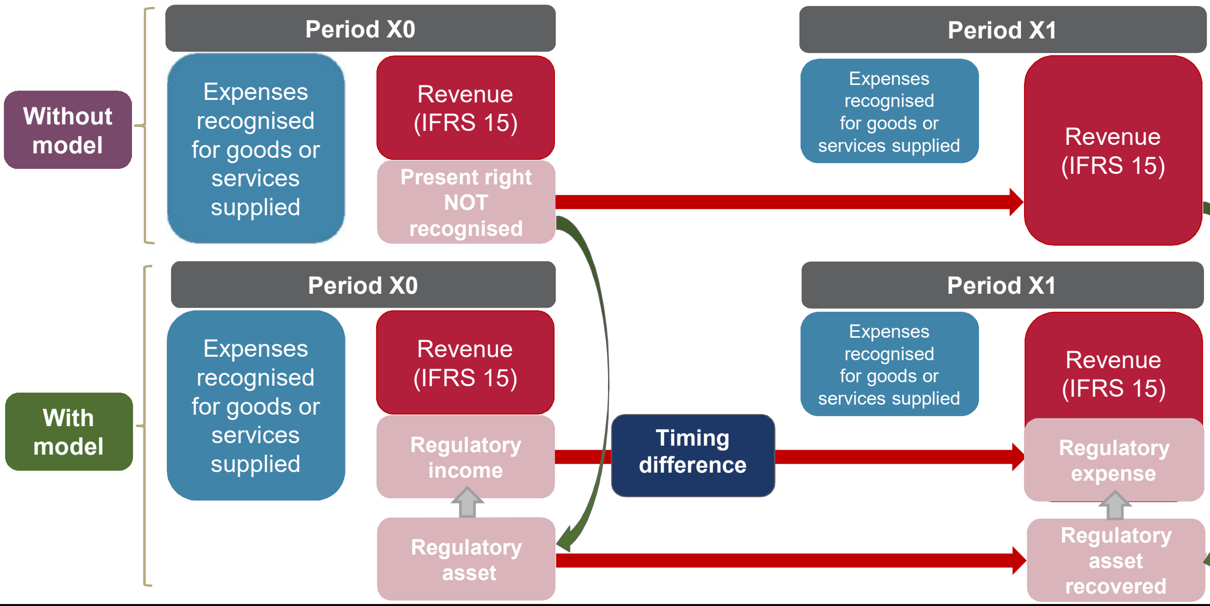
Period X1

Expenses recognised for goods or services supplied

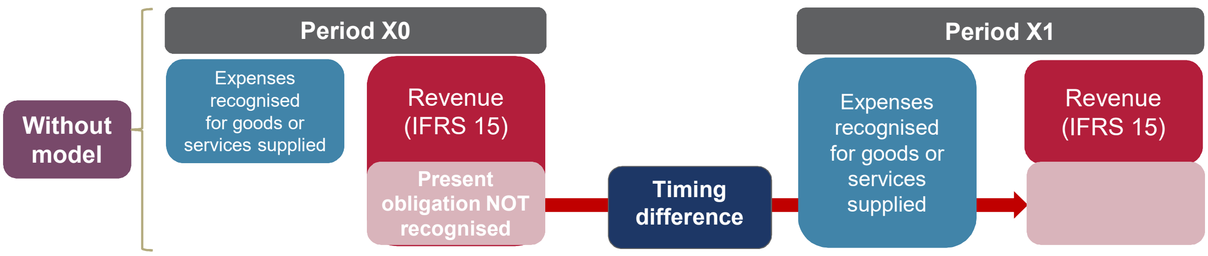
Revenue (IFRS 15)

IFRS

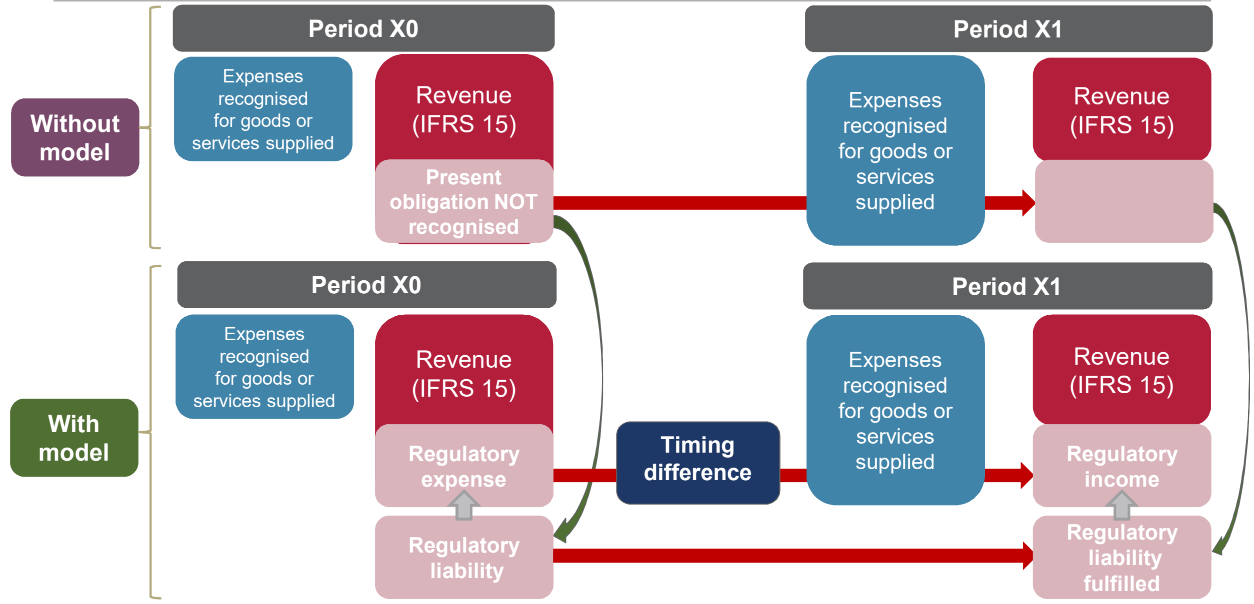
Problem and purpose of the model—regulatory asset



Problem and purpose of the model—regulatory liability



Problem and purpose of the model—regulatory liability



Overview of the model

Scope: defined rate regulation

IFRS

Defined rate regulation

Formal regulatory framework

+

Binding on both entity and rate regulator

+

Basis for setting the rate that gives:

- **rights to add amounts to future rate(s) because of goods or services already supplied**
- **obligations to deduct amounts from future rate(s) because of consideration already charged**

Defined rate regulation vs other types of rate regulation

General rate regulation

Defined rate regulation

Examples - Regulation that **caps prices** which:

- banks can charge for processing credit card transactions; or
- telecommunications providers can charge for mobile telephone 'roaming' services.

→

No rights to add amounts to future rate(s) because of goods or services already supplied

No obligations to deduct amounts from future rate(s) because of consideration already charged

Binding regulatory framework that empowers a rate regulator to establish:

- the **amount** for specified goods or services; and
- **when** that amount will be charged to customers.

→

Rights to add amounts to future rate(s) because of goods or services already supplied

Obligations to deduct amounts from future rate(s) because of consideration already charged

Question 1

Is the statement below accurate?
'The proposals may primarily affect the utilities industry. Therefore, they are industry-specific.'

A. Yes, the proposals may primarily affect the utilities industry and hence could be labelled as 'industry-specific'.

B. No, a wide range of industries are subject to rate regulation which may qualify as defined rate regulation (eg energy, water, public transport, toll roads, air traffic control, port and airport services, telecommunications, postal services, fertilisers, health services, cemeteries).

C. No, the proposals are 'contract-specific'. The proposals will affect those regulated activities established through regulatory agreements that result in present rights and present obligations to adjust the future rate(s).

D. B and C are correct.

Question 2

Would entities subject to regulation that takes the form of a 'price cap' be within the scope of the proposals?

A. Yes, 'price cap' regulation would always be within the scope of the proposals.

B. No, 'price cap' regulation will always be outside the scope of the proposals.

C. It depends. An entity may be within the scope of the proposals if, for example, the entity has a present right or a present obligation to adjust the future rate(s) for variances between:
   - (i) estimated revenues based on a price cap and an estimated quantity of goods or services to be supplied and
   - (ii) actual amounts charged to customers (i.e. actual revenues).

Question 3

Entity A is subject to a regulatory agreement that includes a basis for setting the rate that allows any variances between:

(a) estimated revenues (based on an estimated quantity of goods to be supplied); and

(b) actual revenues

to be recovered from / refunded to the **regulator directly**.

Is the regulatory agreement within the scope of the proposals?

A. Yes, Entity A has a present right for additional compensation or a present obligation to reimburse an amount depending on whether actual revenue is lower or higher than the estimated revenue.

B. No, because any present rights or present obligations do not represent addition/deduction of amounts to/from the future rate(s) charged to customers but a receivable/payable from/to the regulator.

C. Not sure.

Question 4

Entity B is subject to a regulatory agreement that includes a basis for setting a rate in which:

(a) the rate is set to recover the estimated costs of constructing and operating a power plant; and

(b) any variances between actual and estimated costs are at the risk of Entity B unless they are 'outside its control' as stipulated in the regulatory agreement.

Would the regulatory agreement be within the scope of the proposals?

A. Yes, Entity B has a present right for additional compensation when the rate(s) charged to customers do not provide for full recovery of estimated construction and operation costs of the power plant.

B. No, because the basis for setting the rate(s) does not create rights/obligations to add/deduct amounts to/from the future rate(s) to be charged to customers based on variances in costs incurred.

C. It depends on the individual facts and circumstances including whether and how any variances 'outside the entity's control' are recovered by Entity B (ie through future rate(s) to be charged to customers or directly from the regulator).

D. Not sure.

Overview of the model

Total allowed compensation and regulatory assets and regulatory liabilities

IFRS

Total allowed compensation—timing

Total allowed compensation—the amount an entity is entitled to charge customers for the goods or services supplied during the period

Typically, this compensation is included in the same period the goods or services are supplied but some **timing differences** may arise

Estimation variances

- At the entity's risk—no resulting adjustment to future rate(s)
- At the customers' risk—true-up through future rate(s)

Other timing differences

- Allowable expenses incurred and 'spread' through future rate(s)
- Pre-funding in current rate for future allowable expenses
- Different principles for defining 'incurred'

IFRS

Total allowed compensation—amount

Total allowed compensation—the amount an entity is entitled to charge customers for the goods or services supplied during the period

Allowable expenses

- Directly attributable to goods or services supplied
- Indirectly attributable to goods or services supplied

Target profit

- Margins on costs
- Incentive rewards (bonuses) and penalties
- Interest or return (*time related*)

Regulatory assets and regulatory liabilities

Total allowed compensation

Amounts already charged

Regulatory asset

the present right **to add an amount to the rate(s)** to be charged to customers in future periods because the total allowed compensation for ***the goods or services already supplied*** **exceeds** the amount already charged to customers

Amounts already charged

Total allowed compensation

Regulatory liability

the present obligation **to deduct an amount from the rate(s)** to be charged to customers in future periods because the total allowed compensation for the goods or services already supplied **is lower than** ***the amount already charged to customers***

Regulatory assets and regulatory liabilities—Question 5

Entity C is subject to a regulatory agreement that includes a basis for setting the rate that allows it to include any variances between estimated and actual input costs incurred in the rate(s) charged to customers in the following year.

Entity C incurred actual input costs of CU1,100 during year X0, but was only compensated for estimated input costs of CU1,000 through the rate(s) charged to customers in X0. Entity C has the present right to increase rate(s) in X1 to recover the variance of CU100.

Applying the model, what is the total allowed compensation for Entity C relating to the input costs incurred during year X0?

A. CU1,000
B. CU1,100
C. CU900
D. Not sure

Regulatory assets and regulatory liabilities—Question 5A

Under the model, would Entity C recognise a regulatory asset for the variance in input costs at the end of year X0?

A. Yes, Entity C has a present right to add the amount of the variance (CU100) to the rate(s) to be charged to customers in year X1, because the total allowed compensation of CU1,100 for goods or services supplied in X0 exceeds the amount already charged to customers (CU1,000).

B. No, Entity C does not have a present right to add the amount of the variance (CU100) to the future rate(s) to be charged to customers. A right to increase prices in the future does not give rise to an asset.

C. Not sure.

Regulatory assets and regulatory liabilities—Question 6

Entity D is bound by a regulatory agreement for the provision of water services to customers. The regulator requires Entity D to upgrade a network of water pipelines during years X1–X2 that will require an investment of CU1,000. The upgraded network will be used for the supply of services from the start of year X3 and will have a useful life of 10 years.

To support the cash flow requirements for the upgrade, the regulator allows Entity D to charge a higher rate to customers in year X1 which provides incremental cash flows of CU500. As a result, Entity D has an obligation to deduct CU500 from the future rate(s).

Applying the model, what is the total allowed compensation for Entity D relating to the services supplied using the upgraded network during X1?

A. CU500
B. CU1,000
C. CU0
D. Not sure

Regulatory assets and regulatory liabilities—Question 6A

Under the model, would Entity D recognise a regulatory liability at the end of year X1 relating to the CU500 already charged to customers for the upgrade works?

A. No, Entity D does not have a present obligation to deduct the amount charged to customers during X1 (CU500) from the future rate(s). A reduction in prices in the future does not give rise to a liability.

B. Yes, Entity D has a present obligation to deduct the amount charged during X1 (CU500) from the rate(s) to be charged to customers once the upgraded network is placed in use, because the amount already charged to customers (CU500) exceeds the total allowed compensation for the services supplied during X1 (CU0).

C. Not sure.

Regulatory assets and regulatory liabilities—Question 7

Entity E operates in Country M and is bound by a regulatory agreement that includes a basis for setting the rate(s) which incorporates adjustments to the future rate(s) to be charged to customers.

Country M's economy is experiencing an inflationary period. In year X0, the regulator approves an inflationary adjustment of 5% for the estimated operating costs to be incurred when supplying services in year X1. This adjustment will be included in the rate(s) charged to customers during X1. Based on an estimated quantity of services to be supplied, this inflationary adjustment would result in an amount of CU100 to be added to the rate(s) in year X1.

Under the model, would Entity E recognise a regulatory asset for the inflation adjustment at the end of year X0?

A. Yes, Entity E has a present right to add the amount of inflation adjustment to the rate(s) to be charged to customers in year X1.

B. No. Even though Entity E has a present right to add an amount of CU100 in the rate(s) to be charged in X1, the inflation adjustment is not part of the total allowed compensation for services supplied in X0 but is part of the ongoing compensation that Entity E is entitled to when supplying services in X1.

C. Not sure.

IFRS

Overview of the model

Measurement

IFRS

Measurement—a modified historical cost cash-flow-based measurement technique

Cash-flow-based measurement technique

Estimate future cash flows:
- estimate using ‘most likely amount’ or ‘expected value’ (depending on facts and circumstances)
- update estimates if changes occur

Allowable expenses

Margins on costs

Incentive rewards (bonuses) and penalties

Interest or return (*time related*)

Discount the estimated cash flows:
- use the regulatory interest or return rate as the discount rate **unless** this rate is not adequate; and
- keep the discount rate established at initial recognition, **unless** the regulatory agreement changes the interest or return rate

Adequacy of the regulatory interest or return rate

Is there any **indication** that the **regulatory interest or return rate is not adequate** to compensate/charge the entity for the time value of money and risks inherent in the cash flows?

No

Is there any indication that the regulatory interest or return rate is set at a level that provides **excess compensation[1]/excess charge due to an identifiable transaction or event**?

No

Use regulatory interest or return rate and recognise interest or return **over time**

Yes

*Recognise a regulatory asset/ regulatory liability for the excess compensation[1]/excess charge arising from the identifiable transaction or event **in applicable period***

Regulatory assets and regulatory liabilities

Yes

Regulatory liability

Regulatory asset

*Establish the ‘**minimum rate**’[2]*

If the regulatory interest or return rate is less than the minimum rate, discount the estimated future cash flows at the ‘minimum rate’ and recognise loss immediately.

Regulatory assets

[1] Excess compensation can arise when the regulatory interest or return rate on:
(a) regulatory asset **compensates an entity more** than the rate that reflects time value of money and risks inherent in the cash flows.
(b) regulatory liability **charges an entity less** than the rate that reflects time value of money and risks inherent in the cash flows.

[2] Minimum rate—the rate that the entity would expect to receive for a stream of cash flows with the same timing and uncertainty as those of the regulatory asset.

Measurement—Question 8

35

Entity F is bound by a regulatory agreement for the supply of electricity services to customers.

Assume at the end of X0, a regulatory asset of CU100 arises. Entity F is entitled to include in the rate(s) charged to customers:
– CU100 over X1-X5 on a straight-line basis; and
– an annual return of 10% on the outstanding opening balance of the regulatory asset.

The total cash flows, including returns, will be CU130 (assuming no uncertainty and risks).

Assume that an interest rate of 3% would reflect the time value of money and risks inherent in the cash flows arising from the regulatory asset. The excess return from the 10% regulatory return rate does not relate to an identifiable transaction or event.

Applying the model, the regulatory asset will be measured at which of the following amounts at the end of year X0?

A. CU100 (estimated cash flows of CU130 discounted at 10%)
B. CU120 (estimated cash flows of CU130 discounted at 3%)
C. CU130 (estimated cash flows of CU130 discounted at 0%)
D. Not sure.

IFRS

Measurement—Question 9

36

This example uses the same fact pattern as of the previous example, except in this example the regulatory agreement does not provide an annual return on the outstanding opening balance of the regulatory asset.

Entity F determines an interest rate of 3% as the ‘minimum rate’ that would reflect the time value of money and risks inherent in the cash flows arising from the regulatory asset.

Applying the model, the regulatory asset will be measured at which of the following amounts?

A. CU100 (estimated cash flows of CU100 discounted at 0%)
B. CU92 (estimated cash flows of CU100 discounted at 3%)
C. Not sure.

IFRS

Overview of the model

Presentation and disclosure

IFRS

Presentation and disclosure

Present as **separate line items**:

- in the statement of financial position, **regulatory assets and regulatory liabilities**;
- in the statement(s) of financial performance, the net movement between the opening and closing carrying amounts of regulatory assets and regulatory liabilities—**immediately below the revenue line item**. This line item will be labelled **regulatory income or regulatory expense**.

Overall disclosure objective focused on the effects that the transactions or other events that give rise to timing differences have on an entity's financial performance and financial position.

The information to be disclosed is information that will help users to understand the entity's financial performance, financial performance trends and assess the amounts, timing and uncertainty of (prospects for) its future cash flows.

In limited cases, the model requires presentation of regulatory income or regulatory expense in other comprehensive income (OCI) if the underlying item is also presented in OCI.

IFRS

Presentation—statement of profit or loss

Revenue	10,000
Regulatory income (note X, **next slide**)	700
	10,700
Expenses	(8,500)
Profit before tax	**2,200**

Charged to customers this year (IFRS 15 *Revenue*):
- Includes amounts for goods or services supplied in other years—past or future;
- Does not include amounts for goods or services supplied this year—charged in past or future

- Amounts charged to customers in other years—past or future—for goods or services supplied this year; **less**
- Amounts charged to customers this year for goods or services supplied in other years—past or future

Optional sub-total: all amounts chargeable to customers in this or other years for goods or services supplied this year

Includes all expenses incurred this period for goods or services supplied this year

The numbers in this slide are for illustrative purposes only and are not related to any other examples in this presentation.

IFRS

Disclosures—Note X Regulatory income

Amounts for goods or services supplied in current year:		
- to be charged to customers in future years	800	Addition to regulatory assets
- already charged to customers in prior years	250	Fulfilment of regulatory liabilities
Amounts charged to customers in current year:		
- for future services	(300)	Addition to regulatory liabilities
- for services in prior years	(150)	Recovery of regulatory assets
Net regulatory interest on regulatory assets and regulatory liabilities	90	
Changes in estimates	10	
Regulatory income (previous slide)	**700**	

- Amounts charged to customers in other years—past or future—for goods or services supplied this year; **less**
- Amounts charged to customers this year for goods or services supplied in other years—past or future

The numbers in this slide are for illustrative purposes only and are not related to any other examples in this presentation.

IFRS

Disclosures—Note X Maturity analysis

Maturity of regulatory assets and regulatory liabilities	Total	Within one year	Between one and five years	More than five years
Regulatory assets as at 31 December X1	800	100	400	300
Regulatory liabilities as at 31 December X1	500	50	200	250

Amounts to be added to future rate(s)

Amounts to be deducted from future rate(s)

The model also requires disclosure of information on risks and uncertainties associated with the regulatory assets and regulatory liabilities outstanding as of the reporting date.

The numbers in this slide are for illustrative purposes only and are not related to any other examples in this presentation.

Comparison with US GAAP

Difference in approach

Many entities that currently recognise regulatory balances in their financial statements do so applying US GAAP or GAAP based on US GAAP.

Model

Focuses on accounting for present rights and present obligations **incremental** to those reported using IFRS Standards, including IFRS 15

Supplementary approach with other IFRS Standards applied without modification

Differences

US GAAP

Primarily a **cost deferral approach**

Overrides some standards, primarily for property, plant and equipment, to align financial accounting with regulatory accounting

Scope | **Measurement** | **Presentation and disclosure**

Scope

Model

Defined rate regulation established through a formal regulatory framework that:

- is **binding** on both the entity and the rate regulator; and
- establishes a **basis for setting the rate that gives rights and obligations** to add amounts to/deduct amounts from future rate(s) charged to customers.

US GAAP

Requires **binding** regulatory framework.

- Rate(s) are designed to recover costs of service.
- Focus on an entity's **ability to recover costs** in order to apply the requirements.

The scope of US GAAP appears to be narrower than the model. The model focuses on **total allowed compensation** which includes both allowable expenses and a target profit.

However, the differences with the model are not likely to result in materially different outcomes because:

(a) the model considers an entity's ability to recover costs in applying the recognition and measurement requirements rather than in the scope requirements.

(b) development of rate regulation had led regulators to authorise some revenue programs, resulting in US GAAP permitting recognition of additional revenues if specified conditions are met.

Measurement

Model

The model uses a **cash-flow-based measurement technique** to measure regulatory assets and regulatory liabilities by:

- estimating future cash flows (including the regulatory interest or return); and
- **discounting** those estimates of future cash flows using the **regulatory interest or return rate** as the discount rate unless that rate is not adequate.

US GAAP

Generally **prohibits** measurement of regulatory balances at **discounted present value**. The measurement is based on deferral or capitalisation of incurred costs as long as recovery is probable.

Discounting applies in some circumstances such as in case of abandonments or indirect disallowances.

In most cases, the regulatory interest or return rate would be adequate. As a result, the requirement for discounting in the model is not likely to result in materially different outcomes in most cases.

Presentation and disclosure

Model

The model requires regulatory items to be presented in **separate line items** in the primary financial statements.

The supplementary nature of the model means that the revenue or expense line items in the statement(s) of financial performance are **not** adjusted.

The model requires **disclosures** that help users to understand and assess the entity's financial performance, financial performance trends and assess the amounts, timing and uncertainty of (prospects for) its future cash flows.

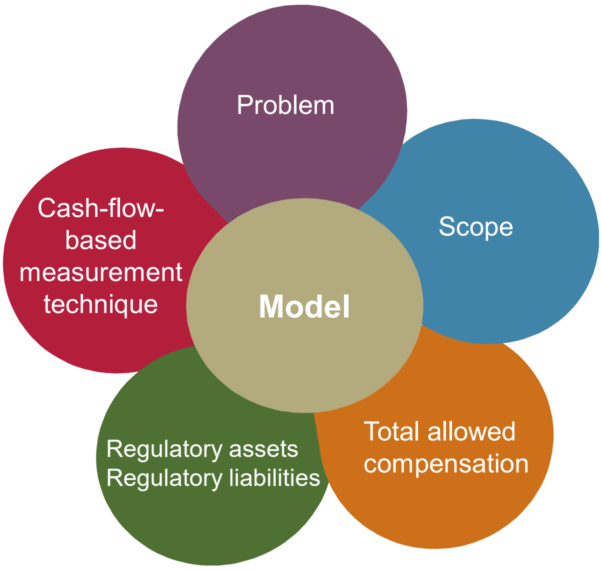
US GAAP

Generally results in a **'net'** presentation in the statement(s) of financial performance (ie recoverable amounts of expenses are netted off against the respective expense line items; similarly, revenue line items are adjusted for advance billings).

Limited disclosure requirements.

Differences with the model are likely to result in different presentation and disclosure outcomes.

Top five takeaways



IFRS

Appendix

Solutions for numerical examples

IFRS

Solutions for numerical examples

The following slides include the solutions to the numerical examples listed below.

Polling question	Topic of example
5	Regulatory asset—allowable input cost variance
6	Regulatory liability—pre-funding construction cost
8	Measurement—adequate regulatory interest/return rate
9	Measurement—inadequate regulatory interest/return rate

All solutions, except for Questions 8 and 9, assume that the effect of the time value of money is immaterial.

IFRS

Question 5

Regulatory asset

- For the year X0, the total allowed compensation for services already supplied (CU1,100) *exceeds* the amount already charged to customers (CU1,000).
- As a result, Entity C recognises a regulatory asset reflecting its present right to add the amount of the variance (CU100) in the rate(s) to be charged to customers in year X1.

In CU	X0	X1	Total
Statement of financial performance			
Revenue	1,000	100	1,100
Regulatory income (expense)	100	(100)	-
Operating expenses	(1,100)	-	(1,100)
Profit / (loss)	-	-	-
Statement of financial position			
Regulatory asset	**100**	-	-

IFRS

Question 6

Regulatory liability

- In year X0, the total allowed compensation for the water services supplied in the period using the upgraded network (ie nil because the upgraded network has not yet been placed into service) *is lower than* the amounts already charged to customers (CU500).
- As a result, Entity D recognises a regulatory liability reflecting its present obligation to deduct the pre-funded CU500 in the rate(s) to be charged to customers in years X3–X12.

In CU	X1	X2	X3	X4-X11	X12	Total
Statement of financial performance						
Revenue	500	-	50	…	50	1,000
Regulatory income / (expense)	(500)	-	50	…	50	-
Operating expenses (depreciation)	-	-	(100)	…	(100)	(1,000)
Profit / (loss)	**-**	**-**	**-**	**…**	**-**	**-**
Statement of financial position						
Regulatory liability	**500**	**500**	**450**	**…**	**-**	**-**
PPE (upgraded network)	**-**	**1,000**	**900**	**…**	**-**	**-**

IFRS

Question 8

Measurement

- There is no indication that the regulatory interest or return rate is inadequate to compensate Entity F for the time value of money and risks inherent in the cash flows resulting from the regulatory asset.
- Accordingly, the regulatory asset is measured on the basis of estimated future cash flows, including the cash flows from the regulatory interest or return, discounted using the regulatory interest or return rate.

Calculation of the present value at X0—in CU						
Regulatory return rate = 10%	**X0**	**X1**	**X2**	**X3**	**X4**	**X5**
Future cash flows (CFs) - nominal	-	20	20	20	20	20
Future CFs - return	-	10	8	6	4	2
Total estimated future CFs	**-**	**30**	**28**	**26**	**24**	**22**
Discount factors (using rate of 10%)	-	0.91	0.83	0.75	0.68	0.62
Discounted CFs	**100**	**27.3**	**23.1**	**19.5**	**16.4**	**13.7**

IFRS

Question 8

- Entity F recognises a regulatory asset reflecting its present right to add the amount of CU100 in the rate(s) to be charged to customers over five years X1–X5.

In CU	X0	X1	X2	X3	X4	X5	Total
Statement of financial performance							
Revenue	-	30	28	26	24	22	130
Regulatory income (expense)	100	(20)	(20)	(20)	(20)	(20)	-
Operating expenses	(100)	-	-	-	-	-	(100)
Profit / (loss)	**-**	**10**	**8**	**6**	**4**	**2**	**30**
Statement of financial position							
Regulatory asset	**100**	**80**	**60**	**40**	**20**	**-**	**-**

Breakdown of regulatory income (expense)	X0	X1	X2	X3	X4	X5	Total
Accretion of regulatory interest/return	-	10	8	6	4	2	30
Origination (recovery) of regulatory asset	100	(30)	(28)	(26)	(24)	(22)	(30)
Regulatory income (expense)	**100**	**(20)**	**(20)**	**(20)**	**(20)**	**(20)**	**-**

Question 9

Measurement

- The regulatory interest or return rate of 0% is inadequate to compensate Entity F for the time value of money and risks inherent in the cash flows resulting from the regulatory asset (3%).
- Accordingly, the regulatory asset is measured on the basis of estimated future cash flows, discounted using the **minimum rate of 3%**.

Calculation of the present value at X0—in CU						
Regulatory return rate = 0%	**X0**	**X1**	**X2**	**X3**	**X4**	**X5**
Future cash flows (CFs) - nominal	-	20	20	20	20	20
Total estimated future CFs	**-**	**20**	**20**	**20**	**20**	**20**
Discount factors (using rate of 3%)	-	0.97	0.94	0.92	0.89	0.86
Discounted CFs	**91.6**	**19.4**	**18.9**	**18.3**	**17.8**	**17.2**

Question 9

- Entity F recognises a regulatory asset reflecting its present right to add the amount of CU100 in the rate(s) to be charged to customers over five years X1–X5, measured at its present value of CU91.6 at the end of year X0.

In CU	X0	X1	X2	X3	X4	X5	Total
Statement of financial performance							
Revenue	-	20	20	20	20	20	100
Regulatory income (expense)	91.6	(17.2)	(17.8)	(18.3)	(18.9)	(19.4)	-
Operating expenses	(100)	-	-	-	-	-	(100)
Profit / (loss)	**(8.4)**	**2.8**	**2.2**	**1.7**	**1.1**	**0.6**	**-**
Statement of financial position							
Regulatory asset	**91.6**	**74.4**	**56.6**	**38.3**	**19.4**	**-**	**-**
Breakdown of regulatory income (expense)	**X0**	**X1**	**X2**	**X3**	**X4**	**X5**	**Total**
Accretion of regulatory interest/return	-	2.8	2.2	1.7	1.1	0.6	8.4
Origination (recovery) of regulatory asset	91.6	(20)	(20)	(20)	(20)	(20)	(8.4)
Regulatory income (expense)	**91.6**	**(17.2)**	**(17.8)**	**(18.3)**	**(18.9)**	**(19.4)**	**-**

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