September 2017

IFRS® Foundation

World Standard-setters Conference

IFRS®

The Annotated IFRS® Standards

July 2017 (Green Book)

10% discount for WSS conference attendees

This edition contains the consolidated text of IFRS® Standards, IAS® Standards, IFRIC® Interpretations and SIC® Interpretations.

It has extensive cross-references and other annotations, together with accompanying documents, such as Illustrative Examples, Implementation Guidance, Bases for Conclusions and Dissenting Opinions. It also includes the Conceptual Framework for Financial Reporting and the IFRS Practice Statement Management Commentary.

What's Inside?

This edition, also available as a PDF, contains the IFRS Standards as issued by the International Accounting Standards Board as at 1 July 2017. It does not include Standards being replaced and is therefore not suitable for reporting entities choosing not to adopt newer versions early. However, it may be helpful to such entities as they plan to adopt the new Standards and in disclosing the possible impact such Standards will have on their financial statements.

In addition, IFRS Interpretations Committee agenda decisions issued up to 30 June 2017 have been included as annotations.

Changes since the 1 July 2016 edition:

The following cross-referenced amendments to Standards and IFRIC Interpretations have been incorporated:

- IFRS 17 *Insurance Contracts*;
- *Transfers of Investment Property* (Amendments to IAS 40);
- *Annual Improvements to IFRS® Standards 2014-2016 Cycle*;
- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration; and*
- IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*.

Publication Date: September 2017
Product Code: 1962
Price: £102 *plus shipping*
Format: Print and PDF
ISBN: 978-1-911040-59-0 SET

To order visit the IFRS Shop at shop.ifrs.org and to receive a 10% discount* enter code **2017WSS** at the checkout. For more information please contact the team: publications@ifrs.org or telephone +44(0)207 332 2730

*Discount valid until 3rd October 2017

Also available:

- *eIFRS Comprehensive Subscription* A combined online and printed copy service.
- *eIFRS Professional Subscription* Access to the most up-to-date electronic versions of all IFRS® Standards, IAS® Standards, IFRIC® Interpretations, SIC® Interpretations and any revisions as soon as they are available.
- *IFRS Education Materials* Including: the *IFRS Briefing for Chief Executives, Audit Committees and Boards of Directors* and Training Materials on, for example, the *IFRS for SMEs® Standard.*
- *Translations* Get official IFRS books and subscriptions in many languages.

IFRS®

eIFRS® Comprehensive

The authoritative source for IFRS® Standards in print and online.

The eIFRS Comprehensive Subscription allows you to keep completely up-to-date with IFRS® Standards including IAS® Standards, IFRIC® Interpretations, SIC® Interpretations and any revisions just as soon as they are available.

Order now and you will receive or access online:

- A combined online eIFRS Professional and printed copy service.
- *IFRS® Standards 2017* (Red and Blue Books)
- *The Annotated IFRS® Standards July 2017* (Green Book)
- *2015 IFRS for SMEs®*
- *2015 IFRS® A Briefing for Chief Executives, Audit Committees and Boards of Directors*
- The full eIFRS Web App—access IFRS Standards on the move using your iPhone® or iPad® or Android™.
- Online access through eIFRS to all English and translated IFRS Standards, IAS Standards and Interpretations.
- Access to new or amended IFRS Standards, Exposure Drafts and Discussion Papers issued during the year.
- *Personalised online and email alerts* will automatically let you know when new information is available.
- Online access to the Terminology Lookup Tool—available in 39 languages. Search approximately 1,500 key terms used in the official translations of IFRS Standards.
- Printed copies of new or amended IFRS Standards, Exposure Drafts and Discussion Papers issued during the year (English only).

eIFRS features include:

- A unique Standards Comparison tool that shows the differences between the Standards as effective for the current year, last year and next year.
- A simplified and streamlined user interface developed after customer consultation makes it easier than ever to find the information you need.
- Any document from the vast eIFRS archive is now made accessible in seconds with simple, new searching combined with sophisticated filtering options.

These features combine to provide the market leading resource for those working with IFRS® Standards.

The annual eIFRS Comprehensive Subscription is £571* per year for each individual user.
*Before discounts. Price is inclusive of all postage & shipping.

2017 WSS Conference attendees can receive a 10% discount quoting "2017WSS" at the checkout.*
**valid until 3rd October 2017*

To subscribe, find out about discounts and further information contact the team at publications@ifrs.org or +44(0)207 332 2730

IFRS®

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017
The Grange City Hotel, Tower Hill (London)

Monday 25 September 2017

Programme day 1

Conference chair—**Mary Tokar**, *Member, IASB*

08:15 **Registration**
Tea/Coffee

09:00 **Opening remarks**

09:05 **Welcome address** **Auditorium**
Hans Hoogervorst, Chairman, IASB

09.15 **IASB technical programme update** **Auditorium**
Chair: **Mary Tokar,** Member, IASB

Hans Hoogervorst, Chairman, IASB
Sue Lloyd, Vice-Chair, IASB
Peter Clark, Technical Director, IASB
Henry Rees, Director of Implementation and Adoption Activities, IASB

10.45 **Tea/coffee**

11.00 **Working with National Standard-setters (NSS), including supporting implementation of IFRS 17 *Insurance Contracts*** **Auditorium**
Chair: **Sue Lloyd,** Vice-Chair, IASB
Michelle Sansom, Associate Director National Standard-setters relations, IASB
Joanna Yeoh, Senior Technical Manager, IASB
Ahmed bin Abdullah Al-Meghames, Secretary General, SOCPA

12:30 **WSS Group photo** **(outside in the courtyard)**

12:45 **Lunch** **Forum Restaurant**

13.45 **Rate-regulated activities—case study** **Auditorium**
Facilitated by: **Darrel Scott,** Member, IASB
Jane Pike, Technical Principal, IASB

14.15 **Small-group discussions: Rate-regulated activities—case study**
NSS Group Chairs (to be confirmed)
Group A: *staff support* **Jane Pike** **Crown Suite**
Group B: *staff support* **Patrina Buchanan** **Flint room**
Group C: *staff support* **Peter Clark** **Auditorium**
Group D: *staff support* **Michelle Sansom** **Wakefield Suite**
Group E: *staff support* **Mariela Isern** **Bowyer room**

15.15 **Tea/coffee**

15:35 **Education sessions**

1. **Overview of the likely effects of IFRS 17 *Insurance Contracts*** **Auditorium**
   (This session is different from the other session on IFRS 17. There is no need to attend both sessions.)
   Chair: **Darrel Scott,** Member, IASB
   Joanna Yeoh, Senior Technical Manager, IASB
   Roberta Ravelli, Senior Technical Manager, IASB

2. **Better Communication in Financial Reporting** **Crown Suite**
   Gary Kabureck, Board Member, IASB
   Mariela Isern, Senior Technical Manager, IASB
   Michelle Fisher, Senior Technical Manager, IASB
   Annamaria Frosi, Visiting Fellow, IASB

3. **Maintenance activities/supporting implementation** **Bowyer room**
   Chair: **Sue Lloyd,** Vice-Chair, IASB
   Patrina Buchanan, Associate Director, IASB
   Jawaid Dossani, Senior Technical Manager, IASB

4. ***Conceptual Framework*** **Wakefield Suite**
   Françoise Flores, Board Member, IASB
   Yulia Fegina, Senior Technical Manager, IASB

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017
The Grange City Hotel, Tower Hill (London)

17:05-18:35 **Education sessions**

The core requirements of IFRS 17 *Insurance Contracts* Auditorium

(This session is different from the other session on IFRS 17. There is no need to attend both sessions.)

Chair: **Darrel Scott,** Member, IASB
Joanna Yeoh, Senior Technical Manager, IASB
Roberta Ravelli, Senior Technical Manager, IASB

1. **Better Communication in Financial Reporting Crown Suite**
   Mariela Isern, Senior Technical Manager, IASB
   Michelle Fisher, Senior Technical Manager, IASB
   Annamaria Frosi, Visiting Fellow, IASB

2. **Maintenance activities/supporting implementation Bowyer room**
   Chair: **Sue Lloyd,** Vice-Chair, IASB
   Patrina Buchanan, Associate Director, IASB
   Jawaid Dossani, Senior Technical Manager, IASB

3. ***Conceptual Framework* Wakefield Suite**
   Françoise Flores, Member, IASB
   Yulia Fegina, Senior Technical Manager, IASB

18:35 **Drinks reception followed by dinner Forum Restaurant**
With address by Jim Quigley, Chair of the IFRS Foundation Trustees' Due Process Oversight Committee and former Chief Executive Officer, Deloitte

Programme day 2

*Conference chair—***Mary Tokar**, *Member, IASB*

09:00 **Welcome back Auditorium**

09.05 **Financial Instruments with Characteristics of Equity—case study**
Facilitated by: **Amaro Gomes,** Member, IASB
Manuel Kapsis, Senior Technical Manager, IASB

09.45 **Small-group discussions: Financial Instruments with Characteristics of Equity—case study**
NSS Group Chairs (to be confirmed)

Group A: *staff support*	**Manuel Kapsis**	**Auditorium**
Group B: *staff support*	**Kumar Dasgupta**	**Crown Suite**
Group C: *staff support*	**Peter Clark**	**Wakefield Suite**
Group D: *staff support*	**Uni Choi**	**Flint room**
Group E: *staff support*	**Ross Turner**	**Bowyer room**

10.45 **Tea/coffee**

11.00 **Feedback on the Rate-regulated activities case study Auditorium**
Facilitated by: **Darrel Scott** Member, IASB
Jane Pike, Technical Principal, IASB

12.00 **Feedback on the Financial Instruments with Characteristics of Equity case study Auditorium**
Facilitated by: **Amaro Gomes,** Member, IASB
Manuel Kapsis, Senior Technical Manager, IASB

13.00 **Lunch—end of World Standard-setters Conference Forum Restaurant**

14.00 **International Forum of Accounting Standard Setters meeting commences Auditorium**

The revised education materials that support the *IFRS for SMEs* Standard will be presented at the IFASS meeting:

16:15 **The *IFRS for SMEs* Standard**
Matt Tilling, IASB Director of Education

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

Welcome address

Hans Hoogervorst
Chairman
IASB

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

NOTES

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

IASB technical programme update

Chair: **Mary Tokar,** *Member,* **IASB**

Hans Hoogervorst
Chairman
IASB

Sue Lloyd
Vice-Chair
IASB

Peter Clark
Technical Director
IASB

Henry Rees
Director of Implementation and Adoption Activities
IASB

IASB Update

Mary Tokar, Member, IASB

25 September 2017

Hans Hoogervorst, Chairman, IASB
Sue Lloyd, Vice-Chair, IASB
Peter Clark, Technical Director, IASB
Henry Rees, Director of Implementation and Adoption Activities, IASB

World Standard-setters Conference 2017

IFRS

Overview

2

- 2016 – 2017 Activities & achievements
  - IFRS 17 *Insurance Contracts*
  - Amendments and Interpretations
- Implementing the IASB Work Plan 2017–2021
  - Better Communication
  - Active projects
    - Conceptual Framework
    - Rate-regulated activities
  - Research programme
    - Active research projects
    - Research pipeline
    - Post-implementation reviews
    - Wider corporate reporting
  - Upcoming consultations
  - Supporting implementation
- Appendix
  - Recent IFRS Standards
  - The IFRS for SMEs Standard

IFRS

World Standard-setters Conference 2017

IASB Update

2016–2017 Activities and achievements

World Standard-setters Conference 2017

IASB Update

IFRS 17 *Insurance Contracts*

The first truly international IFRS Standard for insurance contracts

Insurance accounting today

5

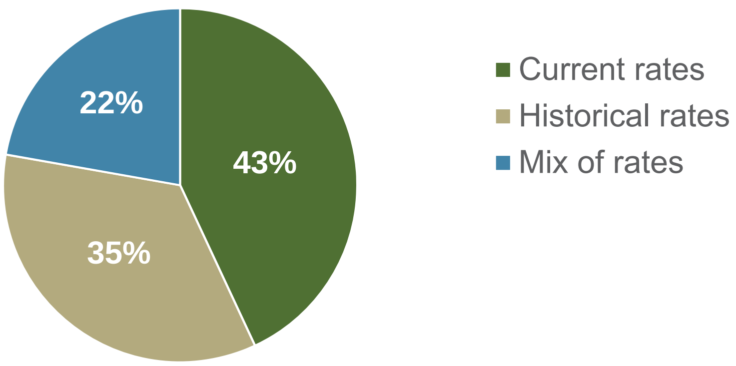
- Same insurer – two different GAAP

($ millions)	GAAP 1	GAAP 2	Difference	
Revenue	9,010	11,244	(2,234)	*-25%*
Operating income	1,606	748	858	*53%*
Total equity	10,375	4,567	5,808	*56%*

IFRS

Insurance accounting using IFRS today

6



Discount rates used for a sample of life insurers (2015)

IFRS

IFRS 17 *Insurance Contracts*

One
accounting model for all insurance contracts
in all IFRS jurisdictions

Who is affected?

450
listed insurers using IFRS Standards

$13 trillion
total assets of those listed insurers

When?

2021
mandatory effective date of the new Standard

3.5
years for companies to implement the new requirements

IFRS 17 *Insurance Contracts*

What changes?

More
useful and transparent information

Better
information about profitability

How did we get feedback?

600
comment letters

900
meetings, round-tables and discussion forums

IFRS 17 measurement model

9

Cash flows Discount rate	➡ Present value of future cash flows	➡ **Fulfilment cash flows**	**Current value** that incorporates all available information, in a way consistent with observable market information. Updated each period using updated assumptions about cash flows, discount rate and risk.
Risk adjustment	➡ Risk adjustment	➡	
		✚	
		Contractual service margin	**Unearned profit** of a group of contracts. It is adjusted by changes in estimates and is recognised in profit or loss as insurance coverage is provided.
		=	
		IFRS 17 asset or liability	

All insurance contracts are measured as the sum of:
- **fulfilment cash flows**; and
- **contractual service margin**

IFRS

Changes to financial performance presentation

10

IFRS 4*	IFRS 17	Key changes
Premiums	Insurance revenue	- Two drivers of profit presented separately
Investment income	Incurred claims and expenses	
Incurred claims and expenses	**Insurance service result**	- Insurance revenue excludes deposits [written premiums disclosed in the notes]
Change in insurance contract liabilities	Investment income	
Profit or loss	Insurance finance expenses	- Revenue is recognised as earned and expenses are recognised as incurred
	Net financial result	
	Profit or loss	- Insurance finance expenses are excluded from insurance service result and are presented (i) fully in P&L or (ii) in P&L and OCI, depending on accounting policy
	Insurance finance expenses *(optional)*	
	Comprehensive income	

(*) Common presentation in the statement of comprehensive income in applying IFRS 4

IFRS

2016-2017 Amendments & Interpretations

Topic	Effective date
Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* (Amendments to IFRS 4)	1 January 2018
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018
Transfer of Investment Property (Amendments to IAS 40)	1 January 2018
Annual Improvements 2014-2016 Amendments to IFRS 12 Amendments to IFRS 1, IAS 28	 1 January 2017 1 January 2018
IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019

IFRS

IASB Update

Implementing the IASB Work Plan 2017–2021

World Standard-setters Conference 2017

IFRS

World Standard-setters Conference 2017

IASB Update

Better Communication

Better Communication in Financial Reporting

14

Central theme of Board's work

Primary Financial Statements	Disclosure Initiative	IFRS Taxonomy™
Content and its organisation		Content delivery

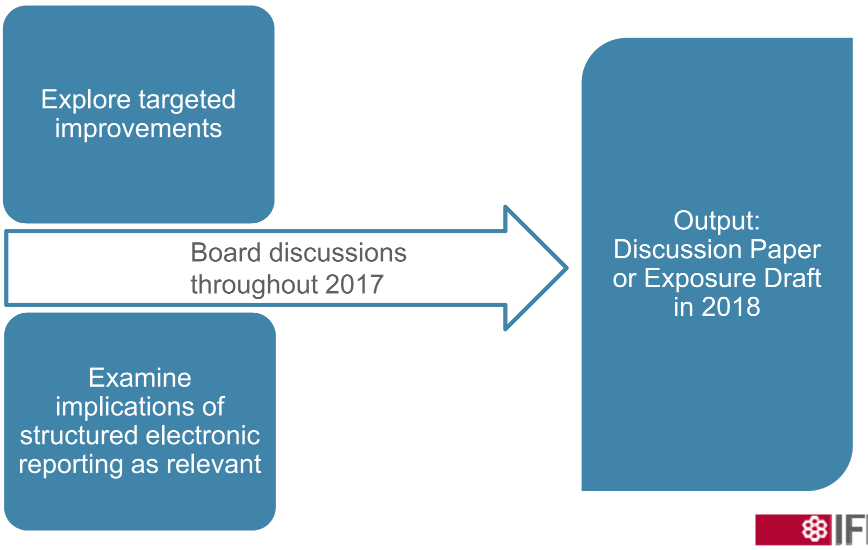
Primary Financial Statements – scope

15

Statement(s) of financial performance	Statement of cash flows	Statement of financial position	Statement of changes in equity
Requiring additional EBIT subtotal	Eliminating options (interest/dividends)	No planned change – except possible development of template for primary financial statements and greater disaggregation	
Providing guidance on presentation of management operating performance and alternative EPS	Aligning the operating section between the statements of cash flows and financial performance		
Better ways to communicate OCI	Requiring a consistent starting point for the reconciliation		

Primary Financial Statements: Activities in the next 12 months

16



Disclosure Initiative: the disclosure problem

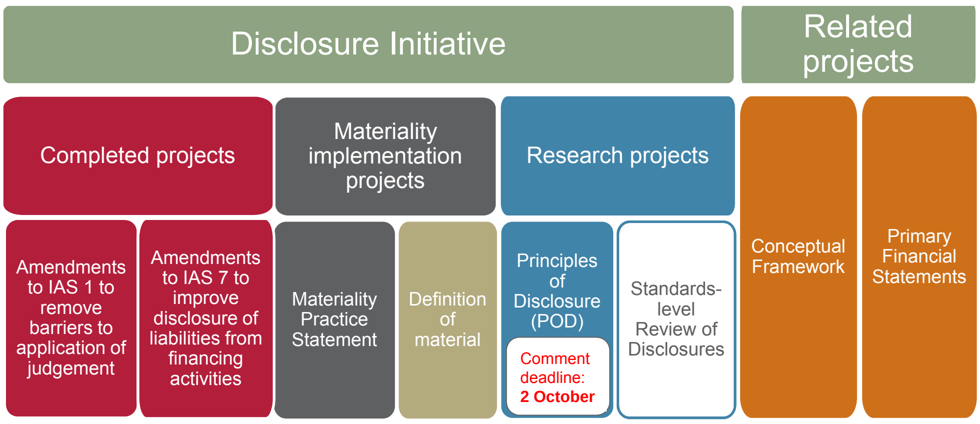
17

- The Board has identified three main concerns about disclosures in financial statements:
  - Not enough relevant information
  - Too much irrelevant information
  - Ineffective communication

IFRS

Disclosure Initiative and related projects

18



IFRS

Principles of Disclosure Discussion Paper

19

Principles of effective communication

↓

Principles on where to disclose information

Roles of primary financial statements and of notes	Location of information

↓

Principles to address specific concerns expressed by users of financial statements

Use of performance measures	Disclosure of accounting policies

↓

Improving disclosure objectives and requirements

Centralised disclosure objectives	Drafting disclosure requirements

IFRS

Materiality Practice Statement - Fact sheet

20

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

IFRS

The IFRS Taxonomy™

21

- A classification system for IFRS reporting
- Consists of 'elements' that are used to tag the information in IFRS financial statements
- Enables structuring of the information to make it more understandable and accessible
- Makes the tagged information readable for computers

Covers IFRS® Standards and the *IFRS for SMEs®* Standard

IFRS

Regulators' use of the IFRS Taxonomy

22

- Regulators are increasingly requiring the use of structured electronic filings:
  - the US Securities and Exchange Commission is requiring the use of the IFRS Taxonomy starting for fiscal periods ending on or after 15 December 2017
  - the European Securities and Markets Authority is proposing to mandate the use of the IFRS Taxonomy for annual consolidated financial statements from 1 January 2020

IFRS

World Standard-setters Conference 2017

IASB Update

Active projects

IFRS

World Standard-setters Conference 2017

IASB Update

Conceptual Framework

IFRS

We need a *Conceptual Framework*

25

It supports principle-based Standards

- Provides a consistent starting point
- Focuses on principles rather than rules

It addresses fundamental issues

- What is the objective of financial reporting?
- What are assets, liabilities, equity, income and expenses, when should they be recognised and how should they be measured, presented and disclosed?
- What makes financial information useful?

It underpins decisions made by the Board when setting Standards

IFRS

What is the *Conceptual Framework*?

26

A practical tool that assists:

Board
- to develop Standards

Preparers
- to develop consistent accounting policies when no specific Standard applies

All
- to understand and interpret Standards

Not a Standard and does not override Standards

Standards should be consistent with the *Conceptual Framework*

IFRS

Why are we revising the *Conceptual Framework*?

27

Existing *Conceptual Framework* useful but some improvements needed

Fill in the gaps	Update	Clarify
• For example, provides concepts on presentation and disclosure and measurement	• For example, updates the definitions of assets and liabilities	• For example, clarifies the roles in financial reporting of: ▪ stewardship ▪ prudence ▪ substance over form ▪ measurement uncertainty

IFRS

What are the improvements?

28

- Recognition & Derecognition
- Uncertain liabilities
- Role of prudence and stewardship
- Measurement
- Use of OCI

IFRS

References to the Conceptual Framework– Fact sheet

29

References to the Conceptual Framework	
Objective	Updates references in IFRS Standards to the revised *Conceptual Framework*
Form	Enables transition to the revised *Conceptual Framework* for preparers
	Amendments to IFRS Standards

IFRS

Project timeline

30

- July 2013 Discussion Paper
- May 2015 Exposure Draft
- February 2017 End of redeliberations
- Currently Drafting and balloting
- 2018 Issue revised *Conceptual Framework*

IFRS

IASB Update

Rate-regulated activities

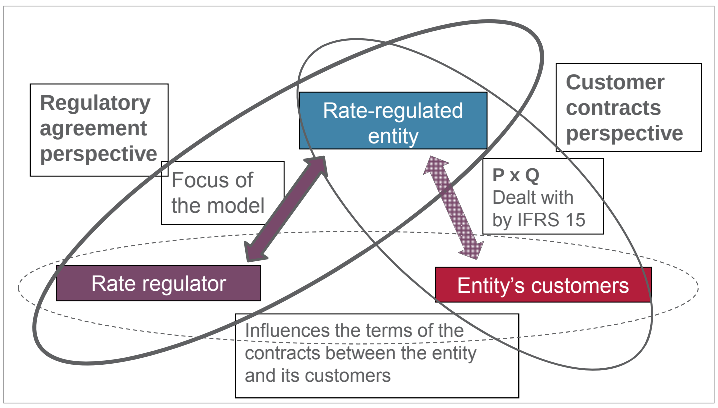
World Standard-setters Conference 2017

IFRS

The regulatory agreement

32

- In **defined rate regulation**, the rate regulator intervenes to affect both the **amount** and the **timing** of the price (P) billed to customers.



IFRS

Developing an accounting model for consultation

33

Focus on 'rate-adjustment mechanism'	
Creates **temporary differences** when the regulated rate in **one period** includes amounts relating to required activities carried out by the entity in a **different period**	
Right to increase a future regulated rate	**Obligation** to reduce a future regulated rate
Analysing whether the right or obligation meets the revised *Conceptual Framework* definitions of an asset or liability	
Supplementary model—would not amend existing IFRS Standards	

Board discussions throughout 2017 → Output: Discussion Paper or Exposure Draft in 2018

IFRS

IASB Update

Research programme

World Standard-setters Conference 2017

IFRS

Research programme

35

Active research
- Gather evidence: is there a problem?
  - Is it a significant financial reporting problem?
  - Can it be solved?
- 6 active research projects

Standard setting?
- Use evidence:
  - Start standard-setting?
  - If yes, set scope

Research pipeline
- Future research projects
- 2017-2021: 8 projects in pipeline

IFRS

Active research projects*

36

Project	Target
Financial instruments with characteristics of equity	DP Q4 2017
Business combinations under common control	DP H1 2018
Dynamic risk management	DP H2 2018
Goodwill and impairment	DP H1 2018

* Also see slides on Better Communication. Primary Financial Statements and Principles of Disclosure are research projects.

IFRS

Financial instruments with characteristics of equity

37

Classification
- Still a single distinction (liability or equity)
- Underpin principles in IAS 32
- Consistency with the Conceptual Framework may need to be addressed

Presentation
- Separate presentation for those liabilities based on value of residual interest
- Expanded statement of changes in equity (including attribution of performance to classes of equity)

Disclosure
- Consider investor information needs re: dilution, liquidity, solvency
- Interaction with EPS?

IFRS

Business combinations under common control (BCUCC)

38

BCUCC excluded from the scope of IFRS 3 *Business Combinations*

Project to address concerns about diversity in practice for BCUCC and group restructurings

• Predecessor method commonly used • Acquisition method prescribed by IFRS 3 used in some cases	Diversity in applying the predecessor method

Particular focus on transactions that affect equity investors outside group

IFRS

Business combinations under common control (BCUCC)

39

Board discussions to resume Q4 2017

Exploring two approaches:	
• Apply IFRS 3 for transactions with particular characteristics • Predecessor method used in other cases	Apply predecessor method in all cases

Discussion paper expected in 2018

IFRS

Dynamic risk management

40

2014	1 Jan 2018	
Discussion Paper: Portfolio Revaluation Approach to Macro Hedging	IFRS 9 Financial Instruments becomes effective*	Dynamic Risk Management: Discussion Paper

* Entities can use IFRS 9 hedging requirements or continue to use existing hedge accounting requirements in IAS 39 *Financial Instruments: Recognition and Measurement*

IFRS

Dynamic risk management

41

Key question

What should the information content of financial statements be regarding dynamic risk management activities?

Guiding principles

1. Is information content **improved** considering the objective of financial statements?
2. Can **users understand** the risk management objective? Are they able to **evaluate management** on its ability to **deliver against the stated goal**?
3. Does it allow risk managers to **faithfully** and **transparently** represent their activities in the financial statements?
4. Is the solution consistent with the *Conceptual Framework*?

Focused on solutions involving both measurement and disclosure

Goodwill and impairment

42

Feedback from PIR of IFRS 3 *Business Combinations*	Board's research project
• Complex and costly impairment test • Delays in recognition of impairment • Inadequate disclosures • Question whether separation of particular intangibles is always useful	• Possible: ▪ improvements to impairment test ▪ amortisation of goodwill ▪ subsuming particular intangibles into goodwill ▪ additional disclosures

Board discussions throughout 2017 → Discussion Paper H1 2018

Completed research

Discount rates
[research completed March 2017]

- Some issues being considered in other current or planned projects
- List of matters for staff to consider in future projects
- Future education session on negative interest rates
- No other work planned

Share-based payments
[research completed May 2016]

- No further work planned

Next step:

publish summary of research, H1 2018.

IFRS

Research pipeline

Topic	Comments
Equity method	A number of queries over time. Topic to be investigated as part of PIR of IFRS 11 *Joint Arrangements*
Extractive activities	Important globally and particularly in some jurisdictions. A permanent solution is needed to fill a gap. Larger topic of intangibles has been removed from this project to enable a more effective and efficient approach.
Pollutant pricing mechanisms	An analysis of the common economic characteristics of the various schemes will be needed
Provisions	Initial research on IAS 37 is largely complete, awaiting finalisation of revised *Conceptual Framework*
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

IFRS

Research pipeline

45

Topic	Comments
High inflation	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.
Pension benefits	Assess whether it is feasible to develop an approach for benefits that depend on asset returns: cash flows included in the measurement of the benefit would not exceed the discount rate. No other work is planned on IAS 19
SMEs that are subsidiaries	Assess whether it is feasible to permit subsidiaries that are SMEs to use: • the recognition and measurement of IFRS Standards with • the disclosure requirements for SMEs

IFRS

IASB Update

Research programme: Post-implementation reviews

World Standard-setters Conference 2017

IFRS

Post-implementation reviews (PIRs)

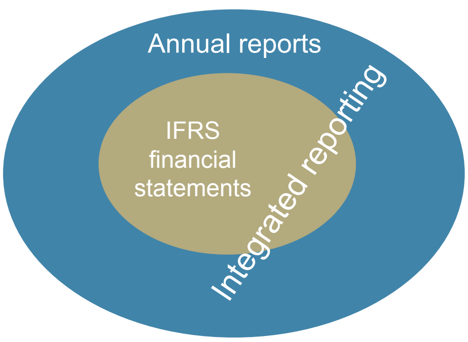
47

Completed PIRs	In progress	Future PIRs
IFRS 8 *Operating Segments* • Improvements to IFRS 8 ED—**comment period closed 31 July 2017** IFRS 3 *Business Combination* • Definition of a business ED, finalise H1 2018 • Research project: Goodwill and Impairment	IFRS 13 *Fair Value Measurement* • Request for Information—**comments due 22 September 2017**	IFRSs 10-12 • consolidation • joint arrangements • disclosures IFRS 5 • discontinued operations

Wider corporate reporting

48

- IASB participates in:
  – Corporate Reporting Dialogue
  – International Integrated Reporting Council



IASB Update

Upcoming consultations

World Standard-setters Conference 2017

IFRS

Upcoming consultations

50

Rate-regulated activities

Principles of disclosure

Financial instruments with characteristics of equity

Business combinations under common control

Dynamic risk management

PIR IFRS 13 Fair value measurement

Goodwill and impairment

Primary financial statements

2017

2018

Upcoming consultation

IFRS

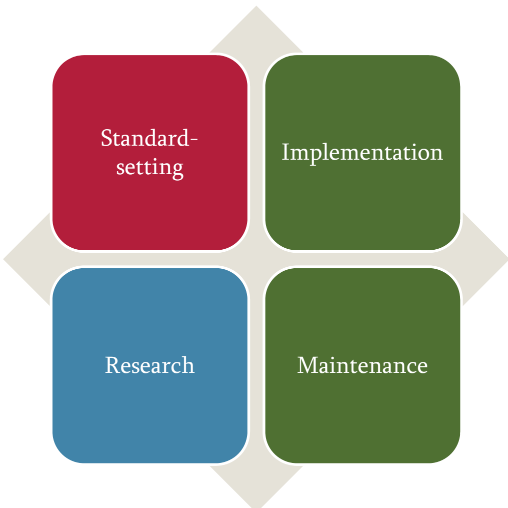
IASB Update

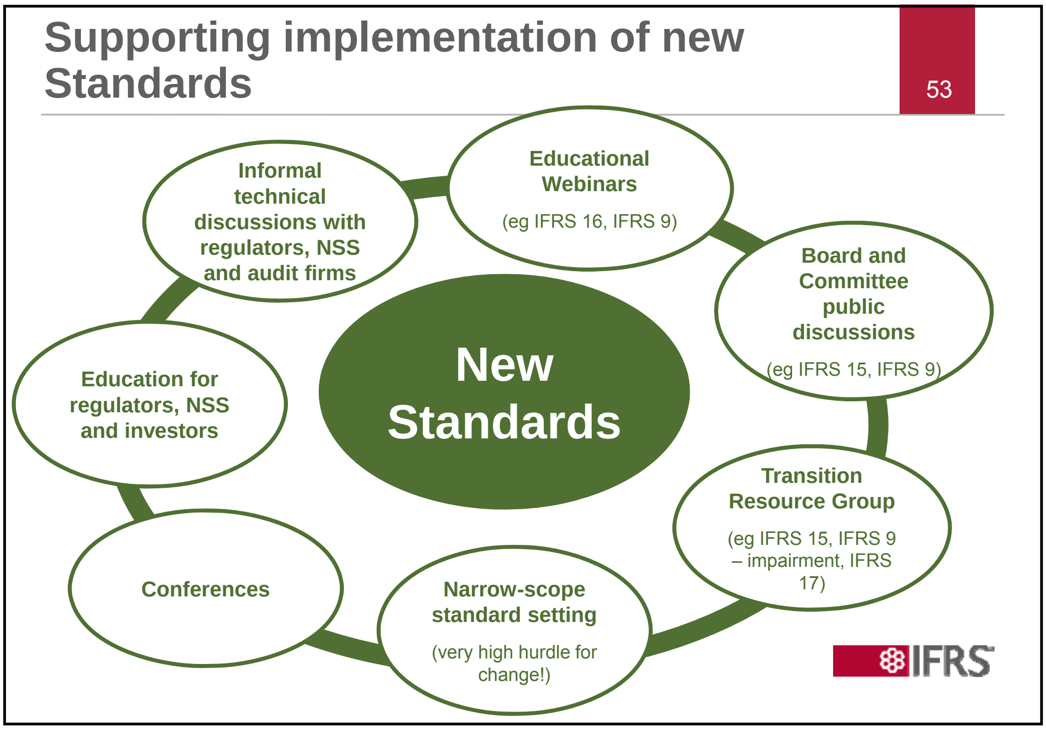
Supporting implementation

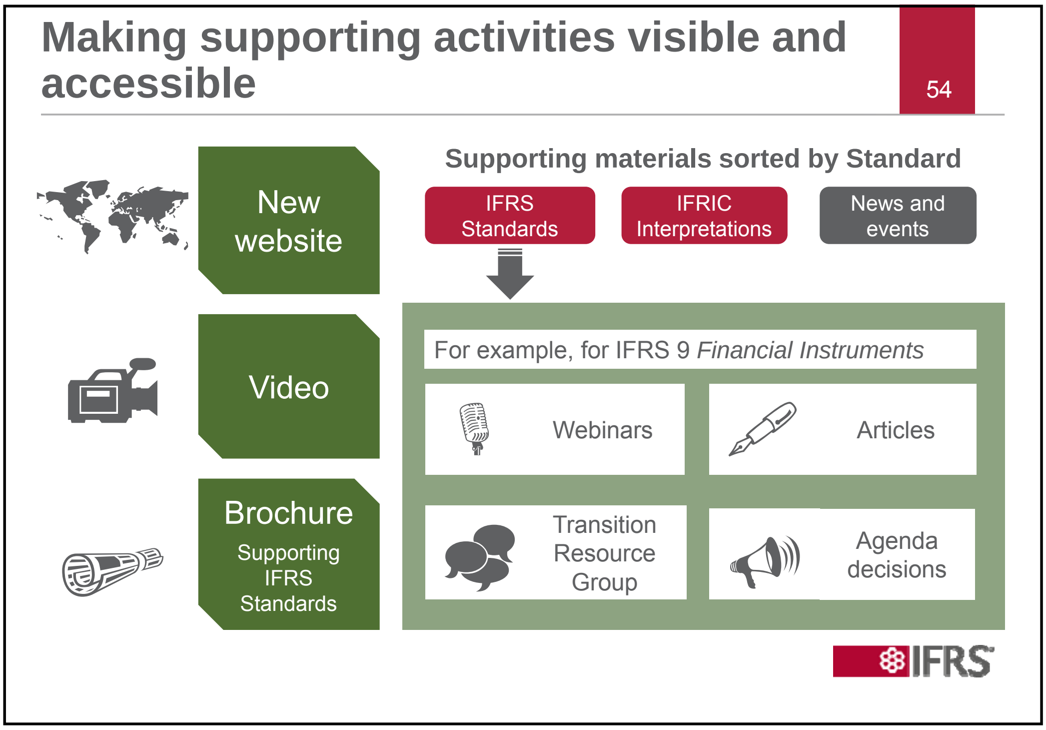
World Standard-setters Conference 2017

The Board’s work

52

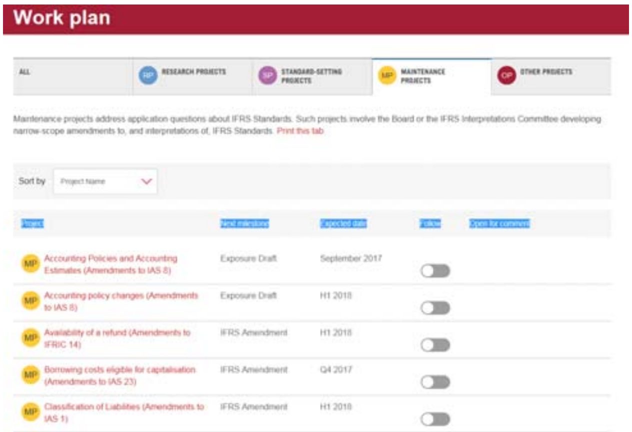



Supporting implementation of new Standards
53
New Standards
Informal technical discussions with regulators, NSS and audit firms
Educational Webinars
(eg IFRS 16, IFRS 9)
Board and Committee public discussions
(eg IFRS 15, IFRS 9)
Transition Resource Group
(eg IFRS 15, IFRS 9 – impairment, IFRS 17)
Narrow-scope standard setting
(very high hurdle for change!)
Conferences
Education for regulators, NSS and investors
IFRS


Making supporting activities visible and accessible
54
New website
Video
Brochure
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
IFRS

Ongoing maintenance projects

- Including topics referred to the Board by the Interpretations Committee
- Currently 14 maintenance projects on the Board's work plan



Work plan

ALL | RP RESEARCH PROJECTS | SP STANDARD-SETTING PROJECTS | MP MAINTENANCE PROJECTS | OP OTHER PROJECTS

Maintenance projects address application questions about IFRS Standards. Such projects involve the Board or the IFRS Interpretations Committee developing narrow-scope amendments to, and interpretations of, IFRS Standards. Print this tab

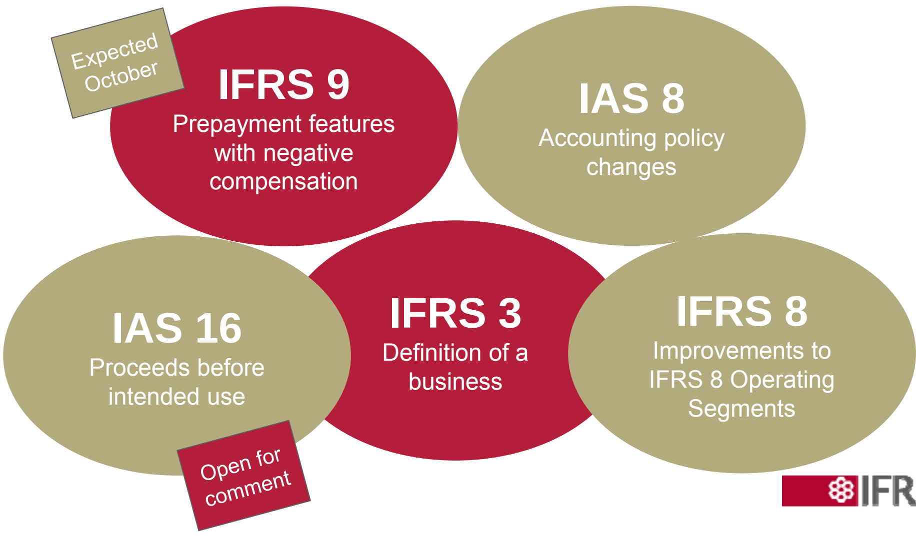
Sort by Project Name

Project	Next milestone	Expected date	Follow	Open for comment
MP Accounting Policies and Accounting Estimates (Amendments to IAS 8)	Exposure Draft	September 2017		
MP Accounting policy changes (Amendments to IAS 8)	Exposure Draft	H1 2018		
MP Availability of a refund (Amendments to IFRIC 14)	IFRS Amendment	H1 2018		
MP Borrowing costs eligible for capitalisation (Amendments to IAS 23)	IFRS Amendment	Q4 2017		
MP Classification of Liabilities (Amendments to IAS 1)	IFRS Amendment	H1 2018		

Extract from: http://www.ifrs.org/projects/work-plan/

IFRS

Some specific maintenance projects



IFRS

IASB Update

Appendix:
Recent
IFRS Standards

World Standard-setters Conference 2017

Recent IFRS Standards

58

Major Standards	Effective date
IFRS 9 *Financial Instruments*	1 January 2018
IFRS 15 *Revenue from Contracts with Customers**	1 January 2018
IFRS 16 *Leases*	1 January 2019
IFRS 17 *Insurance Contracts*	1 January 2021
2015 Amendments to the *IFRS for SMEs Standard*	1 January 2017

*includes Clarifications to IFRS 15, issued April 2016

Recent IFRS Standards (continued)

59

Narrow-scope amendments—Effective 1 January 2017
Recognition of Deferred Tax Assets for Unrealised Losses (amended IAS 12)
Disclosure Initiative (amended IAS 7)
Annual Improvements 2014-2016 (amended IFRS 12)

IFRS

Recent IFRS Standards (continued)

60

Narrow-scope amendments—Effective 1 January 2018
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* (amended IFRS 4)
Classification and Measurement of Share-based Payments (amended IFRS 2)
Transfers of Investment Property (amended IAS 40)
Annual Improvements 2014-2016 (amended IFRS 1, IAS 28)

Narrow-scope amendments—Effective 1 January 2019
IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRS

Recent IFRS Taxonomy releases

61

Topic	Taxonomy due process stage	Publication date
Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* (Amendments to IFRS 4)	Final Update	Q4 2016
Common Practice (agriculture, leisure, franchises, retail and financial institutions)	Final Update	Q1 2017
Annual 2017 IFRS Taxonomy	Not applicable	Q1 2017
IFRS 17 *Insurance Contracts*	Proposed Update **Comment deadline 18 September 2017**	Q2 2017

IFRS

The IFRS for SMEs Standard

62

- *IFRS for SMEs* published July 2009
- Amendments issued in May 2015 from initial comprehensive review
    - limited changes made after considering feedback and importance of stability during the early years of implementation
    - few significant new issues identified
    - limited areas where targeted improvements made
- Next steps:
    - the next comprehensive review begins in 2019

IFRS

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

NOTES

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

Working with National Standard-setters (NSS), including supporting implementation of IFRS 17 *Insurance Contracts*

Chair: **Sue Lloyd,** *Vice-Chair,* **IASB**

Michelle Sansom
Associate Director National Standard-setters relations
IASB

Joanna Yeoh
Senior Technical Manager
IASB

Ahmed bin Abdullah Al-Meghames
Secretary General
SOCPA

Working with National Standard-setters

25 September 2017

World Standard-setters Conference 2017

IFRS

Content

2

- Working with National Standard-setters (NSS)
- Translation, Adoption & Copyright (TAC) team update
- Supporting implementation of new Standards
  - Implementation of IFRS 17 *Insurance Contracts*
- Supporting adoption of IFRS Standards
  - Saudi Arabia and IFRS adoption

IFRS

Working with National Standard-setters

World Standard-setters Conference 2017

IFRS

Goal 1: Maintaining effective relationships

4

Structuring resources to work with NSS

Michelle Sansom
Associate Director NSS Relations

Translation, Adoption & Copyright Team

Sam Prestidge
Policy Executive, Jurisdiction Profiles

Gloria Lindfield
WSS Administration
Katherine Maybin
NSS Administration

IFRS

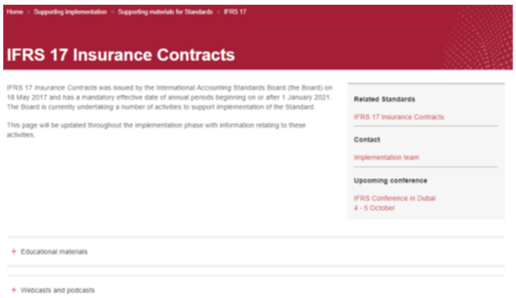
Goal 1: Maintaining effective relationships

5

The new IFRS Website

- Resources for NSS
  - A hub to access new information

- Implementation pages
  - Home to supporting materials by Standard, including Interpretations Committee Agenda decisions and TRG materials



Goal 1: Maintaining effective relationships

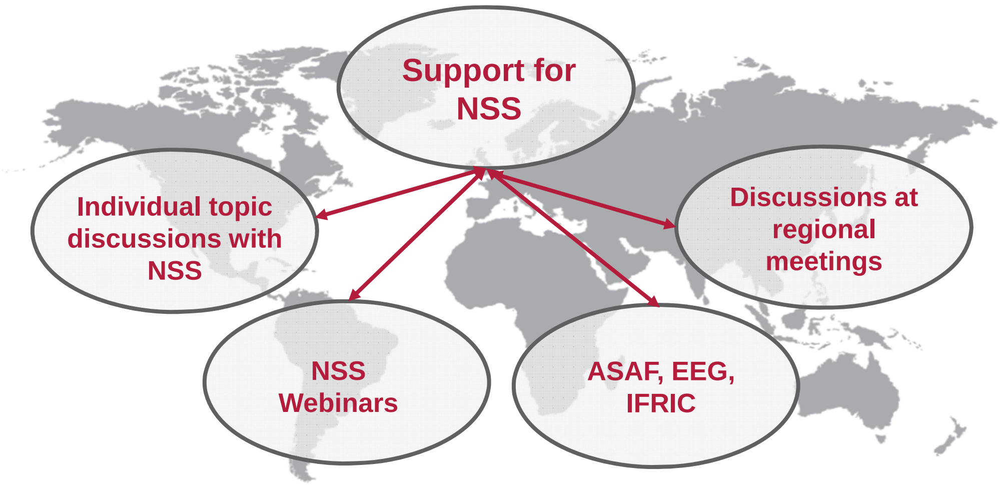
6

- Communication dedicated to NSS
  - Webinars updating NSS on new Standards
- Continued liaison with our regional partners
  - Input in meetings with AOSSG, EFRAG, GLASS, PAFA and IFASS
- Increased participation of the Emerging Economies Group and the Islamic Finance Consultative Group
  - EEG Update

IFRS

Goal 2: NSS supporting implementation

7



IFRS

Goal 2: NSS supporting implementation

8

Working with IFASS

Improvements to existing process

8

Working with NSS

- Communicate regularly about the Board and Committee's activities to support implementation and application of the Standards
- Discuss where NSS can provide education materials to support application of the Standards to jurisdiction-specific issues
- Encourage discussion of practice issues among NSS
- Provide education to NSS on new Standards
- Continue to discuss technical issues with NSS informally to support NSS in their role as jurisdictional/regional thought leaders

IFRS

IFRS

Goal 2: NSS supporting implementation

9

Examples of Implementation of new Standards:

- IFRS 9 *Financial Instruments*
  - The Islamic Finance Consultative Group (July 2017)
- IFRS 15 *Revenue from Contracts with Customers*
  - The EEG (March 2017)
- IFRS 16 *Leases*
  - Regular updates given on implementation progress to ASAF
- IFRS 17 *Insurance Contracts*
  - ASAF received a presentation (March 2017)
  - Dedicated webinar for NSS held (May 2017)

IFRS

Goal 2: NSS supporting implementation

10

- Korean Accounting Standards Board (KASB) research into the impact of IFRS adoption in Korea
- This has followed on from previous research on the impact of IFRS adoption undertaken in the European Union and Australia

IFRS

Goal 3: Collaboration on Technical Work

11

How NSS and regional bodies can support the Technical Work Programme:

- Responding to due process documents
  - Supporting outreach
  - Effective comment letters
  - Fatal flaw reviews
- Working in collaboration with the Board
  - Research
  - Outreach

IFRS

Goal 3: Collaboration on Technical Work

12

Examples of collaboration:

- Principles of Disclosure
  - The German Standard-setter (DRSC) contributed research resource on several sections of the Discussion paper
  - New Zealand Accounting Standards Board (NZASB) staff produced a section on drafting disclosure requirements in IFRS Standards
- Post Implementation Review of IFRS 13
  - Canadian Accounting Standards Board (AcSB) facilitated research contributing to the Request for Information published in May 2017

IFRS

Goal 3: Collaboration on Technical Work

13

Examples of collaboration:

- Primary Financial Statements project:
  - UK Financial Reporting Council Discussion Paper on *Improving the Statement of Cash Flows* provided input to the PFS project
- IAS 29 *Financial Reporting in Hyperinflationary Economies*
  - GLASS research project on inflationary economies
- ASAF research and presentations:
  - AcSB on Rate-regulated Activities (September 2016)
  - AASB on country-by-country reporting and cryptocurrencies (December 2016)
  - EFRAG on Dynamic Risk Management (March 2017)
  - ASBJ on Goodwill and Impairment (July 2017)

IFRS

2017-2018 Actions

14

Goal 1	Maintain effective relationships and communication with National Standard-Setters (NSS) and regional bodies

- ASAF Review & Call for Nominations
- Expand participation at EEG meetings
- Further develop the new website to ensure resources are made available
- Issue revised Adoption Guide

IFRS

2017-2018 Actions

15

Goal 2 **Encourage NSS and regional bodies to support implementation of IFRS Standards.**

- Supporting first year application matters
- Supporting early-stages of IFRS 17 implementation and adoption
- Provide information on the implementation/application of new Standards

Recent IFRS Standards

54

Major Standards	Effective date
IFRS 9 *Financial Instruments*	1 January 2018
IFRS 15 *Revenue from Contracts with Customers**	1 January 2018
IFRS 16 *Leases*	1 January 2019
IFRS 17 *Insurance Contracts*	1 January 2021
2015 Amendments to the *IFRS for SMEs Standard*	1 January 2017

*includes clarifications to IFRS 15, issued April 2016

IFRS

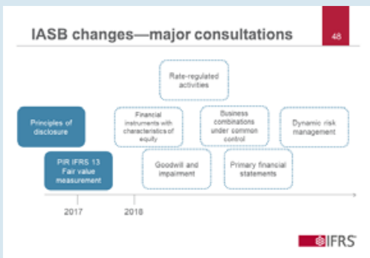
IFRS

2017-2018 Actions

16

Goal 3 **Work in collaboration with NSS and regional bodies in the Technical Work Programme.**

- Supporting major consultations with outreach and effective comment letters
- Post-implementation reviews of IFRS 10-12



IFRS

Translation, Adoption and Copyright (TAC) team update

World Standard-setters Conference 2017

IFRS

Translation, Adoption and Copyright (TAC) team update

18

- Who we are
- Adoption support
  - How we work with NSS before and after adoption
  - Our work in 2017
- Translation support
  - Official translation process
  - Licensing
  - TAC resources
  - Update

IFRS

Translation, Adoption & Copyright (TAC) team

19

- Mirjam Buyteweg, Team Manager
- Anna Hemmant, Project Manager
- Mari Carmen Civera, Project Manager
- Clare McGuinness, Consultant
- Leilani Macdonald, Advisor

- Email us at tac@ifrs.org

IFRS

Adoption support

20

How do we work with NSS?

Support for NSS wishing to adopt IFRS Standards:

- Find the appropriate contact and entity responsible
- Discussions roadmap to adoption with jurisdictions
- Explain procedures and policies
- Work consistently with countries early in the process

IFRS

Adoption support

What do we do?

- Negotiate and sign appropriate contracts and oversee the contractual obligations

The IFRS Foundation owns copyright of IFRS material → **Agreement needed if Standards are reproduced**

- Work with national standard-setters (providing guidance + encouraging participation)
- Our adoption work focuses on all countries, including English-speaking countries

Our work with NSS after adoption

- Technical questions
- Linguistic queries
- Translation process management
- Help find support in the NSS community
- Review of agreements in place (plan for 2018)
- Update on progress towards adoption in 2017

Translation support

23

- Provide guidance and assistance on translation best practice
- Key principles of Translation Policy:
  - One translation per language
  - Official translation procedure including review by a committee of technical experts to produce an authoritative, high-quality translation of the IFRS Standards
  - Sustainable process

IFRS

Official translation process

24

IFRS

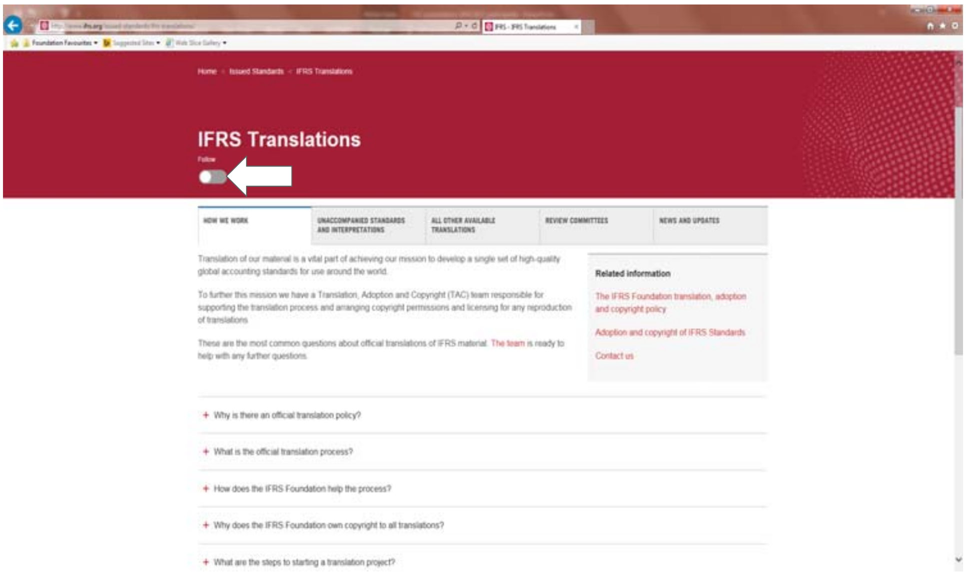
Translation and licensing of additional materials

25

- Accompanying material (Basis for Conclusions, Illustrative Examples, Implementation Guidance)
- Educational material (eg IFRS for SMEs training modules)
- Exposure Drafts (EDs), Discussion Papers (DPs)
- Implementation support materials (eg IFRS 17)
- Red, Green and Blue Books

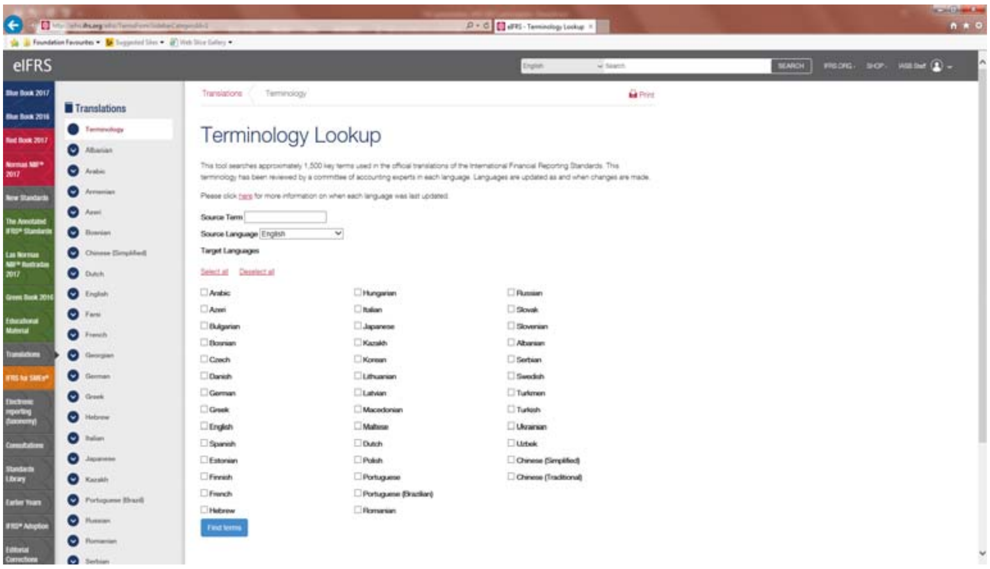
TAC resources

26



TAC resources

27



2017 Translations update

28

- IFRS Standards: IFRS 15, IFRS 16, IFRS 17
- Green Book in Spanish
- New languages (eg Farsi)
- Other projects:

  Exposure Drafts (eg amendments to IFRS 9)
  Discussion Papers (available in more languages
  2015 *IFRS for SMEs* Standard)

IFRS 17 implementation activities

World Standard-setters Conference 2017

IFRS

Supporting IFRS 17 implementation

30

1. Accompanying materials to IFRS 17
   - Basis for Conclusions
   - Illustrative Examples
2. Supporting implementation materials available on the website
   - 6 webinars as at 31 August
   - Publications
     - Effects analysis
     - Project summary
3. Transition resource group IFRS 17 (TRG)
   - Publically available TRG papers and discussion

IFRS

Supporting IFRS 17 implementation

31

4. Dedicated implementation questions mechanism available via the website

- Criteria for questions
  - relate to, or arise from, IFRS 17
  - indicate that IFRS 17 can be applied in different ways that are expected to result in diversity in practice
  - are expected to be relevant to a wide range of stakeholders
- Submitted questions will be evaluated to assess whether further support might be needed. For example
  - Webinar
  - Discussing the question at a future transition resource group meeting

IFRS

Supporting IFRS 17 implementation

32

5. Educational activities with NSS. Examples:
   - NSS pre-launch live webinar *Understanding IFRS 17*
   - Co-hosted educational webinar with Canadian Accounting Standards Board on IFRS 17 *Insurance Contracts* tailored to investors
   - IFRS 17 presentation via video-conference to the Malaysian Accounting Standards Board
   - Two different breakout sessions on IFRS 17 at WSS
     1. Overview of the likely effects of IFRS 17
     2. The core requirements of IFRS 17

Further information about implementation support is available at go.ifrs.org/IFRS-17-implementation.

IFRS

IASB implementation support—overview

33

May 2017	3.5 years			2021
	Support implementation			
	2017 - Early 2019	Late 2019	2020	
Issue of IFRS 17	Some entities begin implementation process General questions Contentious / specific implementation questions	Entities are finalising implementation		Mandatory effective date of IFRS 17

Objective: **monitor and proactively support implementation**	Objective: **provide period of calm for implementation**
Supporting materials: **- articles** **- webinars** **TRG, IFRS IC and/or Board discussions**	Mostly monitor Light touch on implementation / educational activities

IFRS

Supporting adoption of IFRS Standards

Saudi Arabia and IFRS adoption

World Standard-setters Conference 2017

IFRS

35

The experience of Kingdom of Saudi Arabia in transition to IFRS/IAS

Presented by:

Dr. Ahmad Almeghames

Secretary General

Saudi Organization for Certified Public Accountants

World Standard-Setters (WSS) Conference, London, 25–26 September 2017.

VISION رؤية 2030 المملكة العربية السعودية KINGDOM OF SAUDI ARABIA

SOCPA الهيئة السعودية للمحاسبين القانونيين

Presentation Outline

36

- Saudi Arabia and SOCPA
- Saudi Vision 2030 thriving economy goals
  http://vision2030.gov.sa/en/goals#
- Transition Journey
- Role of IASB in helping SOCPA
- Way forward

VISION رؤية 2030 المملكة العربية السعودية KINGDOM OF SAUDI ARABIA

SOCPA الهيئة السعودية للمحاسبين القانونيين

Saudi Arabia

37

Dashboard

Vision 2030 Thriving Economy

SOCPA

الهيئة السعودية للمحاسبين القانونيين

Thriving economy goals

38

Open for Business:

- To increase the private sector's contribution from 40% to 65% of GDP.
- To rise from our current position of 25 to the top 10 countries on the Global Competitiveness Index
- To increase foreign direct investment from 3.8% to the international level of 5.7% of GDP

Leveraging its unique position:

- To raise the share of non-oil exports in non-oil GDP from 16% to 50%
- To raise our global ranking in the Logistics Performance Index from 49 to 25 and ensure the Kingdom is a regional leader

Rewarding Opportunities:

- To increase women's participation in the workforce from 22% to 30%
- To lower the rate of unemployment from 11.6% to 7%
- To increase SME contribution to GDP from 20% to 35%

Investing for the long-term:

- To increase the Public Investment Fund's assets, from SAR 600 billion to over 7 trillion
- To move from our current position as the 19th largest economy in the world into the top 15
- To rise from our current position of 25 to the top 10 countries on the Global Competitiveness Index

About SOCPA

39

The Saudi Organization for Certified Public Accountants (SOCPA) is the Saudi Authority for regulating and supervising accounting and auditing profession.

It was established in 1992 by a Royal Decree to promote the accounting and auditing profession and all matters that would lead to the development of the profession and improve its status in the Kingdom of Saudi Arabia.

SOCPA
الهيئة السعودية للمحاسبين القانونيين

Objectives of SOCPA

40

- Review, develop and approve accounting and auditing standards
- Conduct fellowship certificate examination (CPA exam)
- Organize continuous education programs
- Establish the quality review program in order to ensure that CPAs implement professional standards and comply with relevant regulations
- Publish studies, periodicals, books and bulletins covering accounting and auditing subjects
- Participate in local and international committees relating to the profession.

SOCPA
الهيئة السعودية للمحاسبين القانونيين

SOCPA Management

41

SOCPA is managed by a Board of Directors. The Secretary General is the full time CEO who is assisted Technical Committees and full fledged fulltime Secretariat.

Its Board of Directors comes from various stakeholders groups, including government, academia, business and professional accountants.

It is chaired by the Minister of Commerce and Investment.

Members of SOCPAs

42

- Full Practicing members – 300
- Non-practicing members – 280
- Associate members – 15,000
- There are 178 CPA firms working in Saudi Arabia

SOCPA – International Recognition

43

- IFAC
- IASB
- Institute of Internal Auditors
- Institute of Management Accountants.
- Committee of Sponsoring Organization of the Treadway Commission, IASB and IFAC has granted SOCPA the exclusive translation.

44

Transition Journey

SOCPA Local Standards prior to transition

45

- Before transition to IFRS, SOCPA issued 22 accounting standards, 15 auditing standards and various accounting and auditing interpretations and professional opinions
- In case there is an issue that no standard have been issued by SOCPA, the international standards shall be followed
- SOCPA standards issued recently were in compliance to a great extent with corresponding international standards

Process and timelines

46

- SOCPA board formed a steering committee that comprises representatives of the ministry of finance, SAMA and Saudi stock exchange, in addition to the representatives of SOCPA accounting and auditing standards committees in order to further deliberate the matter and reach a recommendation
- The steering committee decided on the plan to transit to the international standards
- It emphasized that transition should be applied in a manner to allow sufficient time to all stakeholders to get themselves professionally and technically ready for smoother transition, and in order to achieve best results and consequently high quality financial reports
- The project for transition to both IFRS and ISA from 1 January 2017 was endorsed by the SOCPA board in its meeting held on February, 2012

Due process

47

- Technical, Legal and Sharia Study by external consultants
- Lengthy discussion between the consultants and the Executive Committee of the Accounting Standards Committee (ASC)
- Discussions at the ASC
- Round Table discussion with selected professionals
- A second discussion of the Round Table results by the ASC
- Publishing the proposed endorsement decision on the website of SOCPA
- Endorsement of Standards by the ASC and the Board

Entities to which IFRS standards would be applied

48

- SOCPA will follow the international trend in developing two sets of accounting standards
  - IFRS Standards for publically accountable entities (from 1 Jan 2017)
  - *IFRS for SMEs* Standards for other entities (from 1 Jan 2018 allowing option to early adopt full IFRS from 2017)
- SOCPA did not make any amendments to IFRS except for some additional disclosures. Further, the CMA restricted fair value option under IAS 16, 38 and 40 for 3 years

Other important decisions by SOCPA / CMA

49

- SOCPA Board issued a clarification encouraging early adoption of new standards before mandatory effective date. However, existing standards may be used
- SOCPA has issued a separate standard on Zakat besides IAS 12
- CMA issued a circular for listed companies that the revaluation option available under IAS 16, 38 and 40 will not be available for the first three years post transition from 2017

Amendments by SOCPA

50

- Additional disclosures to require more details about nature of investments, borrowings etc
- Requiring the use of an independent valuer when choosing the revaluation/fair value model in IAS 16 and 40
- Additional disclosures about credentials of independent valuer used for PPE and Investment Property
- Expanding the definition of close family member in IAS 24

Standard on Zakat

51

- Zakat will be charged on Income Statement in all cases
- For cases where there are personal arrangements for sharing of Zakat / Tax amongst shareholders, the effect of such an arrangement will be presented in SOCE
- Liability will be classified as current only

Clarification on Deemed Cost under IFRS 1

52

- Use this option only when information about the cost of an item of PPE at the time of transition to IFRS is not available or difficult to be obtained
- Not allowed to use this option on a selective basis within a class of PPE (without undue cost and efforts)
- Use of independent valuer necessary in all cases, to apply fair value as deemed cost for property, plant and equipment (as per IAS 16 requirements), or to apply fair value model to measure investment property (as per IAS 40 requirements)

Endorsement status

53

	Approved without modification	Approved with modification	Not Considered	Under study	Total
IFRS for SMEs	0	1	0	0	**1**
IFRS	11	5	0	1	**17**
IAS	12	13	3	0	**28**
IFRIC	13	1	4	0	**18**
SIC	6	0	2	0	**8**
Total	**42**	**19**	**9**	**1**	**72**

SOCPA did not consider the superseded standards like IAS 11, 18, 39 and directly endorsed the new standards. However, the old standards were allowed to be used but encouraged early adoption of new standards .

Readiness of listed companies for the adoption

54

CMA required listed companies to regularly report on the following:

- Target date to achieve the IFRS compliant policies
- Appointment of external consultant or in-house resources
- Transition related issues
- Target date and difficulties in preparing first IFRS financials
- Status of first IFRS financials and impact of transition by 31 January 2017

The successful adoption

55

- On 14th of May 2017 the Saudi Capital Market Authority (CMA) stated that all companies listed in the main financial market, which are required to publish their financial statements in accordance with the International Accounting Standards for the first quarter of 2017, were able to announce their financial results for the first time in Saudi Arabia on time
- Transition experience went largely successful in listed entities except for some technical issues where SOCPA was asked to issue guidance like componentization, deemed cost etc

IFRS

SOCPA participation in international standard setting / translation

56

- Dr. Abdulrahman Alhumaid serving as **Trustee of IFRS Foundation** since 2013 and reappointed for a second three year term
- Mr. Ahmad Shenaiber as member of **SME Implementation Group**
- Official Arabic translator of IASB and IAASB pronouncements
- Organized EEG meeting in Riyadh in December 2015
- SOCPA actively participating in Emerging Economies Group (Dec 2015 meeting held in Riyadh), Asia Oceania Standard Setters Group and Consultative Group on **"Shariah-Compliant Instruments and Transactions"** of IASB
- Amendment in IAS 16 has accepted an issue from SOCPA regarding clarification on "Revenue from Testing" and an ED is issued

SOCPA
الهيئة السعودية للمحاسبين القانونيين

Role of IASB in helping SOCPA

57

- Conducting studies on IFRS transition in KSA
- Technical discussions
- Regular visits to KSA to conduct conferences and workshops
- Train the trainers project

Way forward

58

Follow – up of new standards and updates in the current standards and making necessary amendments

- Transition to IFRS and IAASB standards, requires SOCPA to follow – up any new standards and updates issued by IASB & IAASB in order to be aware of modifications that may arise on the converged standards . SOCPA should follow the same due process as being applied at the time of issuing converged standards

Accounting and auditing for Shariah compliance transactions

- Considering Saudi Arabia as a leading Islamic country it is pertinent for SOCPA to have an influential role in providing accounting and auditing standards and application guidance needed for Shariah compliant transactions, as such issues may not be covered by the international standards

Way forward

SOCPA's future role

- Post IFRS era requires SOCPA to play an active role in influencing international standards before being issued. This role shall be played by sending comments on various discussions papers, exposure draft of international standards, suggesting subjected for new standards and otherwise participations in IASB and IAASB activities
- SOCPA shall continue in serving interested parties with respect to issuance of application guidance when needed and in issuing professional standards and opinions for any topics not covered by the international standards

Thank you

ahmad@socpa.org.sa

Notice

Attention!

An important administrative matter

- GDPR (General Data Protection Regulation) starts May 2018
- To comply with the GDPR regulation the IFRS Foundation is updating the information it holds about NSS.
- Please complete the conference form on your desk and return to Gloria and Carol.

Contact us

Keep up to date

@IFRSFoundation

IFRS Foundation

www.ifrs.org

IFRS Foundation

Comment on our work

go.ifrs.org/comment

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

NOTES

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

Rate-regulated activities:
case study

Facilitated by: **Darrel Scott,** *Member,* **IASB**

Jane Pike
Technical Principal
IASB

Peter Clark
Technical Director
IASB

Patrina Buchanan
Associate Director
IASB

Michelle Sansom
Associate Director National Standard-setters relations
IASB

Mariela Isern
Senior Technical Manager
IASB

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

NOTES

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

Small group discussions

Rate-regulated activities: case study

Facilitated by: **Darrel Scott,** *Member,* **IASB**

Jane Pike
Technical Principal
IASB

Peter Clark
Technical Director
IASB

Patrina Buchanan
Associate Director
IASB

Michelle Sansom
Associate Director National Standard-setters relations
IASB

Mariela Isern
Senior Technical Manager
IASB

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

NOTES

Case study: Rate-regulated Activities

25 September 2017

World Standard-setters Conference 2017

IFRS

Agenda

2

- Purpose of the project
  - Background about ‘defined rate regulation’
- Deliberations by the International Accounting Standards Board
  - Scope, definition of rate regulation
  - An accounting model for defined rate regulation
- Purpose and format of the session
- Case study

IFRS

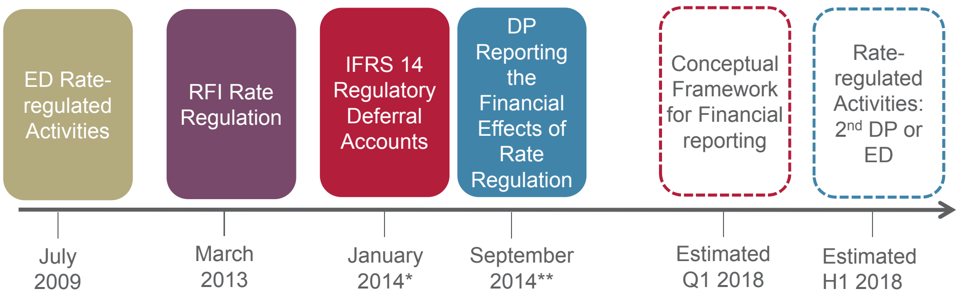
Purpose of project

3

- Some companies are subject to regulations that define how much and when they can charge their customers.
- Different financial reporting requirements applied in different jurisdictions result in companies using different accounting models to report the effects of this rate regulation.
- Some of the different accounting models reflect incomplete information about how rate regulation affects a company's underlying financial position, performance and cash flows. This incomplete information hinders investors from understanding and comparing the effects of rate regulation across different countries and companies.
- The Board aims to develop an IFRS Standard to replace IFRS 14 *Regulatory Deferral Accounts* so that investors can more easily compare the effects of rate regulation on the financial position, performance and cash flows of companies with significant rate-regulated revenue.

Rate-regulated accounting—background

4



*Effective January 2016, only applicable for first-time adopters of IFRS Standards.

**The Board is focusing on developing a model for activities subject to 'defined rate regulation', described in the 2014 DP.

Scope—Defined rate regulation

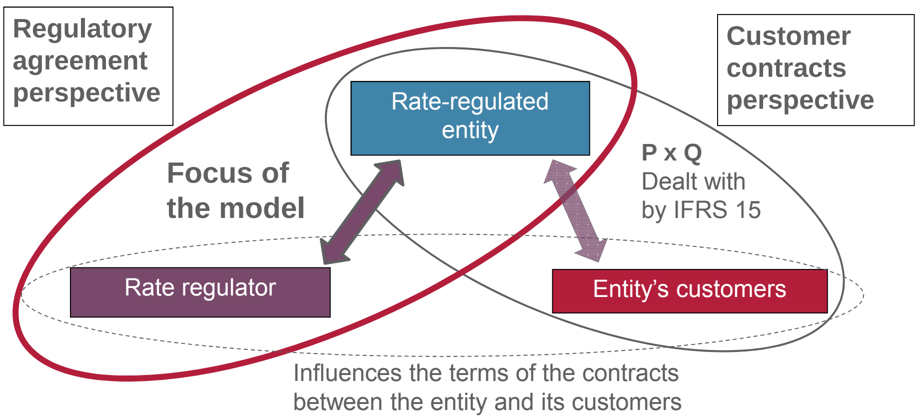
5

- Established through formal regulatory framework, and:
  - is binding on both entity and rate regulator;
  - imposes limitations on entry into an industry;
  - establishes service requirements; and
  - establishes basis for setting regulated rate (price).
- Price setting basis includes a **rate-adjustment mechanism** that:
  - enables regulator to improve predictability and stability of prices, and
  - creates **temporary differences** between the event that gives rise to a rate adjustment and the period in which the adjustment to customer billing is made.

The regulatory agreement perspective

6

In **defined rate regulation**, the rate regulator intervenes to affect both the amount and the **timing** of the price 'P' billed to customers.



The regulatory agreement

7

Regulation

Rights/Obligations	Goodwill or brand value
• No barrier to entry • Determine product prices • Determine quantity of sales	• Determined by internal and external factors
• Some barriers to entry • Some limits placed on prices, quantity, quality	• Increased by barriers • Decreased by limits • More externally driven

• Strong barriers to entry
• Regulation determines:
  • Prices/volume/quality
  • **Timing of billing**
	• Increased by barriers
	• Decreased by limits
	• Mostly external (regulatory) factors

See slide 32 for more details.

An accounting model for consultation

8

Focus on ‘rate-adjustment mechanism’	
Creates **temporary differences** when the regulated rate in **one period** includes amounts relating to required activities carried out by the entity in a **different period**	
Right to increase a future regulated rate: • allowable estimation variance • entity fully or partially fulfils a regulatory requirement in the current period that has yet to be reflected in the regulatory rate	**Obligation** to reduce a future regulated rate: • chargeable estimation variance • regulated rate for the current period includes an amount relating to a regulatory requirement that has yet to be fulfilled
Analysing whether the right or obligation meets the revised *Conceptual Framework* definitions of an asset or a liability	
Supplementary model—separate IFRS Standard that would operate in conjunction with existing IFRS Standards	

Case study:
Summary information

World Standard-setters Conference 2017

IFRS

Case Study

10

- Case study
  - Questions
  - Background facts and assumptions
  - Summary financial information
  - Example reconciling items
    1. input cost variance
    2. maintenance timing difference
    3. regulatory cost capitalisation
    4. accelerated cost recovery
    5. performance penalty
    6. performance bonus

IFRS

Case study: questions

11

Purpose: **obtain your input and reasoning** on the following:

1. Do you agree that recognising the temporary difference in profit or loss arising from the rate adjustment examples in this case study gives a more faithful representation of the entity's performance in the year? Why or why not?
2. Do you agree that the resulting balance sheet item recognised at the end of each year is conceptually an asset or a liability? Why or why not?

You will be divided into **five break-out groups**. Each group is asked to discuss **one of five example reconciling items**.
If you have enough time, you are welcome to discuss the other examples.

IFRS

Case study: background

12

- Entity W is a water utility company.
- W is sole supplier of water in Country X under a regulatory agreement (licence).
- W is within the scope of 'defined rate-regulation'.
- The fact patterns described in the case study are based on real-life examples seen in our research to date. The fact patterns are selected to help test different aspects of the principles underlying the model and how those principles are described.

Please use the fact patterns provided in the examples as the basis for your discussion.

IFRS

Case study: fact pattern

13

- Covers the 3 years 20X1-20X3.
- The price (rate) W charges customers is fixed for 3 years, except for defined price adjustments to reflect input cost variances, bonuses and penalties.* Adjustments to price are made the year after the item arises.
- Any balances remaining at the end of 20X3 will be included in the calculation of the rate for the next three-year period.
- You are provided with the following information:
  - Six items included in the rate-adjustment mechanism.
  - Each item results in a reconciling item between the profit or loss amount included in the rate calculation and the profit or loss reported using existing predominant IFRS practice.

* The defined price adjustments reflect the temporary differences presented in each case study example.

Simplifying assumptions

14

1. The regulatory agreement states that W:
   - has right to charge price to recover 'allowable costs'; and
   - makes no profit or loss unless it gets a bonus, or incurs a penalty or 'disallowed' costs.
2. Other than the temporary differences being illustrated:
   - 'allowable costs' are recognised at the same time for both regulatory purposes and IFRS reporting purposes;
   - carrying amount of tangible and intangible assets are the same for regulatory purposes and for IFRS reporting purposes; and
   - there are no variances in the quantity of services sold.
3. No rate adjustment balances are brought forward at 1/1/20X1;
4. There is no uncertainty about the amount and timing of amounts billed to customers; and
5. Time value of money is immaterial.

Case study:
Example reconciling items

World Standard-setters Conference 2017

IFRS

Item 1—input cost variances

16

- Allowable costs include actual input costs for chemicals to treat water.
- Any variances between estimated and actual costs decrease (chargeable variance) or increase (allowable variance) the rate charged to future customers. Adjustment is applied in the year following the variance.
- The estimated input cost of CU30k per year is included in price charged.
- In 20X1, actual input cost is CU32k creating an allowable variance of CU2k in 20X1, which is included in rate charged to customers in 20X2.
- No further input cost variances arise during the three-year period.

Model proposes to recognise the rate-adjustment variance:

a) Would including the originating adjustment in profit or loss in 20X1, with a reversing adjustment in 20X2, give a more faithful representation of the entity's performance in each year? Why or why not?

b) Would you describe the resulting balance at the end of 20X1 as an asset? Why or why not?

Item 1—input price variance

17

Year to 31 December	20X1 CU000	20X2 CU000	20X3 CU000	Total CU000
Existing IFRS Standards				
Revenue—amounts billed	30	32	30	92
Operating expenses—chemical costs	(32)	(30)	(30)	(92)
Profit / (Loss)	(2)	2	0	0
Proposed model—profit or loss				
Revenue—amounts billed	30	32	30	92
Regulated rate adjustment: income / (expense)	**2**	**(2)**	**0**	**0**
Operating expenses—chemical costs	(32)	(30)	(30)	(92)
Profit / (Loss)	0	0	0	0
Resulting rate-adjustment mechanism balance				
Regulatory asset / (liability)	**2**	**0**	**0**	**0**

IFRS

Question 1 to WSS: input price variance—suggested solution (a)

18

Would including the originating adjustment in profit or loss in 20X1, with a reversing adjustment in 20X2, give a more faithful representation of the entity's performance in each period? Why or why not?

The model proposes to apply accrual accounting to include a CU2,000 adjustment in profit or loss during 20X1 to reflect Entity W's right to adjust the price to the extent needed to recover the actual input cost of CU32,000 incurred for the chemicals used to treat water collected from and delivered to customers during 20X1.

- Entity W is entitled to set a price intended to recover actual input costs incurred for chemicals
- In 20X1, Entity W incurs CU32k actual input cost against an estimate of CU30k
- This regulated rate mechanism constrains **when** Entity W bill customers for the extra costs incurred but does not constrain Entity W's entitlement to bill the full amount.
- Incurring the CU32k costs during 20X1 is an event that creates Entity W's right to bill customers CU32k.
- The model proposes to recognise that right in full during 20X1:
  - CU30,000 is recognised in revenue (and cash / receivables) through amounts billed to customers; and
  - CU2,000 is recognised as a regulatory rate adjustment (and regulatory asset).

Paragraph 1.17 of the Conceptual Framework ED states: 'Accrual accounting depicts the effects of transactions and other events and circumstances on a reporting entity's economic resources and claims in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period.'

IFRS

Question 1 to WSS: input price variance—suggested solution (b)

19

Would you describe the resulting balance on the rate-adjustment mechanism at the end of 20X1 as an asset? Why or why not?

- An **asset** is a present economic resource controlled by the entity as a result of past events.
- An **economic resource** is a right that has the potential to produce economic benefits.

At the end of 20X1, the model proposes to recognise, in addition to the CU30,000 receivable / cash recognised through amounts billed to customers during 20X1, a CU2,000 regulatory asset to reflect Entity W's right to adjust the price to the extent needed to recover the actual input cost of CU32,000 incurred for the chemicals used to treat water collected from and delivered to customers during 20X1.

- During 20X1, Entity W incurred costs of CU32k on chemicals.
- As a result of these **past events**, Entity W has a **right** to bill customers for those costs. That right has the **potential to produce economic benefits** when the amounts to be recovered are included in amounts billed to customers.
- Entity W **controls** that right because it has the **present ability**, through the regulatory agreement, to bill customers at the price calculated to enable Entity W to recover its costs incurred. As a result, only Entity W has the present ability to **obtain the economic benefits** that flow from the right that is created as the chemicals were used to treat water during 20X1.
- The right to charge the higher price is consumed during 20X2 when the additional CU2k is billed to customers.

IFRS

Break-out groups

20

Reconciling item	Discussion Group
1. input cost variance	Plenary / all
2. maintenance timing difference	Group 1
3. regulatory cost capitalisation	Group 2
4. accelerated cost recovery	Group 3
5. performance penalty	Group 4
6. performance bonus	Group 5

Each group is asked to discuss the example reconciling item allocated in the list above. If you have enough time, you are welcome to discuss the other examples.

IFRS

Item 2—maintenance timing difference

21

- Entity W is required to carry out a programme of enhanced maintenance on its network of water pipes, estimated to cost CU150k. The cost will be spread evenly for customers through the regulated rate in each of the three years 20X1-20X3 (CU50k each year).
- W must complete the work at any time before the end of 20X3. Any 'unspent' amount remaining at the end of 20X3 will be adjusted through a decrease in the rate chargeable during 20X4-20X6.
- W completes all of the agreed work in 20X2, at the forecast cost of CU150k. This creates a temporary difference of CU50k in 20X1 (income), which is reversed in 20X2 when a further timing difference of CU50k (expense) is created.

Model proposes to recognise a rate-adjustment temporary difference as shown on the next slide.

a) Would including the originating and reversing adjustments in profit or loss to reflect the maintenance expense and related revenue in the same period give a more faithful representation of the entity's performance in each year? Why or why not?

b) Would you describe the resulting balance on the rate-adjustment mechanism at the end of 20X1 as a liability and the balance at the end of 20X2 as an asset? Why or why not?

Item 2—maintenance timing difference

22

Year to 31 December	**20X1 CU000**	**20X2 CU000**	**20X3 CU000**	**Total CU000**
Existing IFRS Standards				
Revenue—amounts billed	50	50	50	150
Operating expenses—enhanced maintenance costs	0	(150)	0	(150)
Profit / (Loss)	50	(100)	50	0
Proposed model				
Revenue—amounts billed	50	50	50	150
Regulated rate adjustment: income / (expense)	**(50)**	**100**	**(50)**	**(0)**
Operating expenses—enhanced maintenance costs	0	(150)	0	(150)
Profit / (Loss)	0	0	0	0
Resulting rate-adjustment mechanism balance				
Regulatory asset / (liability)	**(50)**	**50**	**0**	**0**

IFRS

Item 3—regulatory cost capitalisation

23

- Entity W built an extension to one of its water treatment plants during 20X1.
- In accordance with IAS 16, W recognises CU150k as the cost of a tangible asset that is then depreciated straight-line over its useful economic life of 10 years, beginning in 20X2.
- W recognises CU20k as an expense in its IFRS financial statements in 20X1 because that part of the cost relates to general overheads that do not qualify for inclusion in the cost of the tangible asset using IAS 16.
- W will recover the full cost of CU170k by including that amount in the regulated rate on a straight-line basis over the 10-year useful economic life of the plant, beginning in 20X2. This creates a temporary difference (loss) of CU20k in 20X1, which will be reversed on a straight-line basis over 10 years, beginning in 20X2.

Model proposes to recognise the rate-adjustment temporary difference as shown on the next slide.

a) Would including the originating and reversing adjustments in profit or loss to reflect the entity's right to include the cost of the general overheads through the rate over the plant's useful economic life give a more faithful representation of the entity's performance in each year? Why or why not?

b) Would you describe the resulting balance on the rate-adjustment mechanism as an asset? Why or why not?

Item 3—regulatory cost capitalisation

24

Year to 31 December	20X1 CU000	20X2 CU000	20X3 CU000	Total CU000
Existing IFRS Standards				
Revenue—amounts billed	0	17	17	34
Operating expenses—overheads and depreciation	(20)	(15)	(15)	(50)
Profit / (Loss)	(20)	2	2	(16)
Proposed model				
Revenue—amounts billed	0	17	17	34
Regulated rate adjustment: income / (expense)	**20**	**(2)**	**(2)**	**16**
Operating expenses—overheads and depreciation	(20)	(15)	(15)	(50)
Profit / (Loss)	0	0	0	0
Resulting rate-adjustment mechanism balance				
Regulatory asset / (liability)	**20**	**18**	**16**	**16**

IFRS

Item 4—accelerated cost recovery

25

- Entity W purchased new software in January 20X1 at a cost of CU24k.
- W uses the software over its three-year economic life and recognises an amortisation expense on a straight-line basis over the three years 20X1-20X3.
- The rate regulator approved the cost of CU24k but decided that it would be recovered straight-line through the regulated rate over two years (20X1 and 20X2).
- This creates a temporary difference between the periods that W recovers the cost of the software through its bills to customers and the period that W uses the software to deliver services to its customers.

Model proposes to recognise the rate-adjustment temporary difference as shown on the next slide.

a) Would including the originating and reversing adjustments in profit or loss each year to reflect the timing difference between the expense recognised for consuming the software and the amounts billed to customers to recover that cost give a more faithful representation of the entity's performance in each year? Why or why not?

b) Would you describe the resulting balance on the rate-adjustment mechanism as a liability? Why or why not?

Item 4—accelerated cost recovery

26

Year to 31 December	20X1 CU000	20X2 CU000	20X3 CU000	Total CU000
Existing IFRS Standards				
Revenue—amounts billed	12	12	0	24
Operating expenses—amortisation	(8)	(8)	(8)	(24)
Profit/ (Loss)	4	4	(8)	(0)
Proposed model				
Revenue—amounts billed	12	12	0	24
Regulated rate adjustment: income/ (expense)	**(4)**	**(4)**	**8**	**0**
Operating expenses—amortisation	(8)	(8)	(8)	(24)
Profit/ (Loss)	0	0	0	0
Resulting rate-adjustment mechanism balance				
Regulatory asset / (liability)	**(4)**	**(8)**	**0**	**0**

IFRS

Item 5—performance penalty

27

- During 20X1, Entity W caused contamination in a local river. As a result, W incurred:
  - clean-up costs during 20X1 of CU9k; and
  - a penalty of CU6k, which was included in the rate-adjustment mechanism in 20X1 and deducted from the rate charged to customers in 20X2.
- Neither the clean-up costs nor the penalty are 'allowable costs' as specified in the terms of the regulatory licence.
- W recognised the clean-up costs in profit or loss when incurred during 20X1 but made no accounting entry in its IFRS financial statements for the penalty. The penalty was reflected in revenue through the reduced amounts billed to customers in 20X2.

Model proposes to recognise the rate-adjustment temporary difference as shown on the next slide.

a) Would including the penalty in profit or loss in 20X1 give a more faithful representation of the entity's performance in the year? Why or why not?

b) Would you describe the resulting balance on the rate-adjustment mechanism at the end of 20X1 as a liability? Why or why not?

Item 5—performance penalty

28

Year to 31 December	20X1 CU000	20X2 CU000	20X3 CU000	Total CU000
Existing IFRS Standards				
Revenue—amounts billed	0	(6)	0	(6)
Operating expenses—clean-up cost	(9)	(0)	(0)	(9)
Profit / (Loss)	(9)	(6)	0	(15)
Proposed model				
Revenue—(reduction in) amounts billed	0	(6)	0	(6)
Regulated rate adjustment: income / (expense)	**(6)**	**6**	**0**	**0**
Operating expenses—clean-up cost	(9)	(0)	(0)	(9)
Profit / (Loss)	(15)	0	0	(15)
Resulting rate-adjustment mechanism balance				
Regulatory asset / (liability)	**(6)**	**0**	**0**	**0**

IFRS

Item 6—performance bonus

29

- During the three-year period 20X1-20X3, Entity W was incentivised to meet a performance target, measured in terms of the number of minutes customers are left without water. W's performance against the target in each year was as follows:
  - 20X1—target met: no penalty or bonus;
  - 20X2—target exceeded: bonus of CU5k awarded, included in the rate-adjustment mechanism and added to the rate charged to customers in 20X3; and
  - 20X3—target met: no penalty or bonus.
- W made no accounting entry in its IFRS financial statements for the bonus. The bonus was reflected in revenue through the increased amounts billed to customers in 20X3.

Model proposes to recognise the rate-adjustment temporary difference as shown on the next slide.

a) Would including the bonus in profit or loss in 20X2 give a more faithful representation of the entity's performance in each year? Why or why not?

b) Would you describe the resulting balance on the rate-adjustment mechanism as an asset or a liability? Why or why not?

Item 6—performance bonus

30

Year to 31 December	20X1 CU000	20X2 CU000	20X3 CU000	Total CU000
Existing IFRS Standards				
Revenue—amounts billed	0	0	5	5
Operating expenses	(0)	(0)	(0)	(0)
Profit / (Loss)	0	0	5	5
Proposed model				
Revenue—amounts billed	0	0	5	5
Regulated rate adjustment: income / (expense)	**0**	**5**	**(5)**	**0**
Operating expenses	(0)	(0)	(0)	(0)
Profit / (Loss)	0	5	0	0
Resulting rate-adjustment mechanism balance				
Regulatory asset / (liability)	**0**	**5**	**0**	**0**

IFRS

Some background information to support the case study

World Standard-setters Conference 2017

IFRS

The regulatory agreement—a package of rights and obligations

32

Regulation

Rights include rights to:	Obligations include obligations to:	Goodwill or brand value
• charge a 'fair price' to customers; • increase prices for any reason; • make a profit; and • use marketing and customer-relationships to gain competitive advantage and to encourage demand for goods or services.	• comply with regulations such as environmental protection, employment law, tax laws, consumer protection laws, etc.	Generally considered to be within 'goodwill' or the value of the business so **not usually recognised** as assets or liabilities using existing IFRS Standards, **unless** acquired or assumed in a **business combination**.
• receive economic benefits from inventories and from tangible and intangible assets used in the business; • receive cash from customers in exchange for delivering specified goods or services to those customers; and • receive cash or other financial assets.	• clean-up environmental damage; pay fines, pay taxation, etc. • deliver goods or services to specified quality standards to specified customers in exchange for a right to receive cash from those customers; and • refund specified customers or carry out warranty repairs.	**Recognised** as assets or liabilities using **existing IFRS Standards** covering inventories, PPE, intangible assets, provisions, financial instruments, taxation, revenue, etc.
• increase the regulated rate for a future period as a result of the rate-adjustment mechanism.	• decrease the regulated rate for a future period as a result of the rate-adjustment mechanism.	**Focus of the model being developed.**

Case study: fact patterns

33

- In addition to the fact patterns and assumptions given in slides 12-30, you are provided with the following information:
  - how W's regulatory licence meets the features of defined rate regulation (slides 34-35);
  - forecast allowable costs for the three-year period 20X1-20X3, which supports the calculation of the rate through that period (slide 36);
  - actual costs incurred and amounts billed to customers, as included in the rate calculation each year (slide 37); and
  - a summary of the overall effects of the six items that are included in the rate-adjustment mechanism. Each item results in a reconciling item between the profit or loss amount included in the rate calculation and the profit or loss reported in the IFRS statement(s) of financial performance using the existing predominant IFRS practice (slides 38-39).

IFRS

How Entity W's licence meets the features of defined rate regulation (1)

34

Features of defined rate regulation	Features of Entity W's regulatory licence
Economic regulation established through a formal framework	Regulation is established by the government of Country X.
Binding on both the entity and the rate regulator	• Rate regulator can only terminate the regulatory licence if Entity W persistently fails to satisfy the terms of the licence. • Entity W can only terminate the regulatory licence if rate regulator persistently fails to approve a regulated rate intended to recover Entity W's 'allowable cost'.
Imposes limitations on entry into an industry (and on exit from it)	Regulatory licence grants Entity W the right to be the sole supplier of clean and waste water services in Country X. If the licence is terminated, the licence, together with the assets needed to operate the network will be transferred to a new licensee entity to avoid disruption to services.
Establishes minimum service levels or other service requirements	The regulatory licence specifies the services that Entity W must provide and to whom it must provide them.

IFRS

How Entity W's licence meets the features of defined rate regulation (2)

35

Features of defined rate regulation	Features of Entity W's regulatory licence
Establishes a basis for setting the regulated rate (price) an entity can charge its customers for specified goods or services	Regulatory licence sets out a formula for setting the rate, which is sufficiently precise that Entity W is able to identify and measure amounts that relate to different components of the regulated rate for the period.

Basis for setting the regulated rate includes a rate-adjustment mechanism that:
– improves predictability and stability of prices,
– creates temporary timing differences between the rate-adjustment event and the period in which the adjustment to customer billing is made.
	The basis for setting the rate includes a rate-adjustment mechanism that:
	– corrects past estimation variances; and
	– creates, and subsequently reverses, temporary differences that originate before the end of the current period when:
	  – the entity fully or partially fulfils a regulatory requirement but the related compensation amount has not yet been included in the regulatory rate; or
	  – the regulated rate for the current period includes a compensation amount relating to a regulatory requirement that has yet to be fulfilled.

IFRS

Setting the rate based on forecast amounts

36

- Water utility company, Entity W, reports its profit or loss to the rate regulator and prepares IFRS financial statements for each annual period ending 31 December.
- Estimated amounts used to calculate the regulated rate for each year ending 31 December during the current three-year rate review period are:

	Year to 31 December	20X1	20X2	20X3	Total
Item	*	CU000	CU000	CU000	CU000
	Regulatory report—forecast				
	Allowable revenue—allowable costs plus zero allowable return	**500**	**500**	**500**	**1,500**
	Allowable costs				
1	Chemical costs	30	30	30	90
2	Enhanced maintenance	50	50	50	150
	PPE recovery in line with IAS 16 depreciation (excluding item 3)	270	250	250	770
3	PPE addition—overhead included in cost with recovery over 10 years	-	17	17	34
4	Software addition recovery over two years	12	12	-	24
	Other allowable costs	138	141	153	432
	Total allowable costs	**(500)**	**(500)**	**(500)**	**(1,500)**
	Allowable profit / (loss)	**0**	**0**	**0**	**0**

* In this presentation, currency amounts are denominated in 'currency units' (CU).

Calculating the regulated rate based on actual amounts

37

	Year to 31 December	20X1	20X2	20X3	Total
		CU000	CU000	CU000	CU000
	Revenue—amount billed	**500**	**496[1]**	**505[2]**	**1,501**
Item	**Allowable costs**				
1	Chemical costs—actual	32	30	30	92
1	Chemical costs—variance (adjusted in the rate during 20X2)	(2)	2	-	-
2	Enhanced maintenance—actual	-	150	-	150
2	Enhanced maintenance—variance	50	(100)	50	-
	PPE recovery in line with IAS 16 depreciation (excluding item 3)	270	250	250	770
3	PPE addition—overhead included in cost with recovery over 10 years	-	17	17	34
4	Software addition recovery over two years	12	12	-	24
	Other allowable costs	138	141	153	432
	Total allowable costs	**(500)**	**(500)**	**(500)**	**(1,500)**
5	Disallowed costs—refunds to customers	(9)	-	-	(9)
5	Penalty (adjusted in the rate during 20X2)	(6)	-	-	(6)
6	Bonus (adjusted in the rate during 20X3)	-	5	-	5
	Profit / (loss) per regulated rate calculation	**(15)**	**5**	**-**	**(10)**

1. Amount billed = estimated CU500 + 20X1 cost variance CU2 (Item 1) – 20X1 penalty CU6 (item 5) = CU496
2. Amount billed = estimated CU500 + 20X2 bonus CU5 (item 6) = CU505

IFRS financial results

38

	Year to 31 December	20X1	20X2	20X3	Total
Item	Profit or loss per IFRS financial statements—existing IFRS predominant practice	CU000	CU000	CU000	CU000
	Revenue—amount billed	**500**	**496**	**505**	**1,501**
	Costs incurred				
1	Chemical costs	32	30	30	92
2	Enhanced maintenance	-	150	-	150
	PPE depreciation (excluding item 3)	270	250	250	770
3	PPE addition—overhead treated as expense per IAS 16	20	-	-	20
3	PPE addition—depreciation per IAS 16	-	15	15	30
4	Software addition amortisation per IAS 38	8	8	8	24
5	Clean-up costs	9	-	-	9
	Other costs	138	141	153	432
	Total costs	**(477)**	**(594)**	**(456)**	**(1,527)**
	Profit / (loss) per IFRS financial statements	**23**	**(98)**	**49**	**(26)**

Reconciliation of the regulated rate calculation and IFRS financial report

39

	Year to 31 December	20X1	20X2	20X3	Total
Item		CU000	CU000	CU000	CU000
	Profit or (loss) per IFRS financial statements—existing IFRS predominant practice	**23**	**(98)**	**49**	**(26)**
	Reconciliation to regulated rate calculation				
1	Chemical costs variances	2	(2)	-	-
2	Enhanced maintenance variance	(50)	100	(50)	-
3	PPE addition overhead recovery timing difference	20	(2)	(2)	16
4	Software addition recovery timing difference	(4)	(4)	8	-
5	Penalties	(6)	6	-	-
6	Bonuses	-	5	(5)	-
	Total reconciling adjustment	**(38)**	**103**	**(49)**	**16**
	Profit / (loss) per regulated rate calculation	**(15)**	**5**	**-**	**(10)**

IFRS

Before you start—a note about recognition of assets and liabilities

40

Even if an item meets the definition of an asset or a liability, an entity would not necessarily be permitted or required to recognise that asset or liability in its statement of financial position. The applicable IFRS Standard could specify that the asset or liability should be recognised only if particular criteria are met.

Furthermore, there would be no automatic requirement for an entity to disclose information about an unrecognised asset or liability. However, IFRS Standards may specify disclosure requirements for some unrecognised assets and liabilities.

In making decisions about the circumstances in which a particular asset or liability would be recognised, the Board would consider the concepts for recognition in the revised *Conceptual Framework*.

Key aspects of the concepts for recognition proposed for the revised *Conceptual Framework* *

The Board would apply these concepts in developing IFRS Standards. Preparers of financial statements would apply these concepts in developing or selecting accounting policies for assets and liabilities when no IFRS Standard specifically applies.

An asset or a liability (and any related income, expenses or changes in equity) should be recognised if recognition provides users of financial statements with useful information, ie relevant information about, and a faithful representation of, the asset or liability and any resulting income, expenses or changes in equity.

Recognition of a particular asset or liability may not necessarily provide *relevant information*:

(a) if it is uncertain whether the asset exists, or is separable from goodwill, or whether the liability exists; or

(b) if the asset or liability exists but there is only a low probability that an inflow or an outflow of economic benefits will result.

Recognition of a particular asset or liability may not necessarily provide a *faithful representation*:

(a) if the level of measurement uncertainty is exceptionally high; or

(b) if related assets and liabilities are not recognised.

It will often be a combination of factors, instead of any single factor, that would mean that recognition does not provide useful information.

As with all other areas of financial reporting, cost constrains recognition decisions. Recognition of an asset or a liability (and any related income, expenses or changes in equity) is appropriate only if the benefits of the information provided to the users of financial statements are sufficient to justify the cost.

*Exposure Draft proposals, updated for refinements that the Board has tentatively decided upon in light of feedback on the Exposure Draft.

Proposed asset definition

41

Proposed definition and key supporting concepts
An **asset** is a present economic resource controlled by the entity as a result of past events.
An **economic resource** is a right that has the potential to produce economic benefits.
In principle, each of an entity's rights is a separate asset. However, for accounting purposes, related rights are often treated as a single asset, namely the '**unit of account**'.
For an economic resource to have the **potential to produce economic benefits**, it need not be certain or even likely that the economic resource will produce economic benefits. It is only necessary that the economic resource already exists and that there is at least one circumstance in which it would produce economic benefits beyond those available to other parties . (However, if the probability of future economic benefits is low, the Board might decide in some cases that the applicable IFRS Standard should not require recognition of the asset—see slide 40.)
An entity **controls** an economic resource if it has present ability to direct the use of the economic resource and obtain any economic benefits that flow from it.

IFRS

Proposed liability definition

42

Proposed definition and key supporting concepts
A **liability** is a present obligation of the entity to transfer an economic resource as a result of past events.
An entity's obligation to transfer an economic resource must have the **potential** to require the entity to **transfer an economic resource to another party**. It need not be certain, or even probable, that the entity will be required to transfer an economic resource, but the obligation must already exist and there must be at least one circumstance in which it will require the entity to transfer an economic resource. (However, if the probability of a transfer being required is low, the Board might decide in some cases that the applicable IFRS Standard should not require recognition of the liability—see slide 40.)
An entity has an **obligation** if it has no practical ability to avoid the transfer. An entity has no practical ability to avoid a transfer if, for example, the transfer is legally enforceable, or if any action necessary to avoid the transfer would cause significant business disruption or would have economic consequences significantly more adverse than the transfer itself.
An obligation is **a result of past events** (and hence a **present** obligation) if the entity has received the economic benefits or taken an action that may or will require it to transfer an economic resource that it would not otherwise have had to transfer.
An **executory contract** establishes a right and an obligation to exchange resources. The combined right and obligation give rise to a single asset or liability. The entity has a liability (an obligation to *transfer* an economic resource) only if the terms of the exchange are unfavourable.

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

NOTES

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

Education session

Overview of the likely effects of IFRS 17 *Insurance Contracts*

Chair: **Darrel Scott,** *Member,* **IASB**

Joanna Yeoh
Senior Technical Manager
IASB

Roberta Ravelli
Senior Technical Manager
IASB

World Standard-setters Conference 2017

Overview of the likely effects of IFRS 17 *Insurance Contracts*

25 September 2017

IFRS

Introduction: what is IFRS 17?

2

One

accounting model for all insurance contracts in all IFRS jurisdictions—replaces IFRS 4

Who is affected?		When?	What changes?	
450 listed insurers using IFRS Standards	$13 trillion total assets of those listed insurers	2021 mandatory effective date of IFRS 17	More useful and transparent information	Better information about profitability

IFRS

Today's topics

3

- Companies affected
- Benefits
- Costs
- Interactions with IFRS 9
- Interactions with regulatory frameworks
- Effects on the insurance market
- Effects on a company's financial statements

IFRS

Companies affected

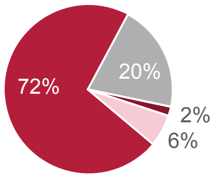
World Standard-setters Conference 2017

IFRS

Listed insurers

5

Geographical region	Listed insurers		Of which using IFRS Standards	
	Number of companies	Total assets (US$ trillions)	Number of companies	Total assets (US$ trillions)
Europe	95	8.6	87	8.24
Asia Pacific	191	7.2	156	3.05
North America	110	5.8	10	1.69
Africa and Middle East	184	0.3	176	0.30
Latin America	46	0.2	20	0.05
Total	**626**	**22.1**	**449**	**13.3**



Data based on information in 2015 annual reports for the majority of companies
Source: Effects Analysis on IFRS 17

IFRS

Accounting policies applied under IFRS 4

6

Top-20 listed insurers using IFRS Standards		
Accounting policies applied to insurance contracts issued	Number of companies	Total assets (US$ trillions)
Based on guidance in:		
• a mix of national GAAP	8	4.1
• US GAAP	3	1.6
• Canadian GAAP	4	1.4
• other national GAAP	5	2.0
Total	**20**	**9.1**

Source: Effects Analysis on IFRS 17

IFRS

Listed insurers by type of business

7

Primary business*	Likely effects of IFRS 17
Property and casualty 150 companies	• No significant change in revenue • Liabilities for claims discounted • Explicit risk
Life and health 96 companies	• Changes in insurance contract liabilities for companies that did not use current assumptions or did not fully consider options and guarantees • Reduction in revenue and expenses for companies that report repayments of deposits as expenses and corresponding premiums as revenue
Multi-line 181 companies	• Depend on the mix of insurance contracts they issue
Reinsurance 22 companies	• Depend on the mix of reinsurance contracts they issue

* Sample of 449 listed insurers using IFRS Standards in 2015

IFRS

Unlisted insurers

8

- Representative and reliable financial information about unlisted insurers is difficult to obtain
- Use of IFRS Standards for unlisted insurers in 46 jurisdictions*

12 jurisdictions **require** IFRS Standards for **all** unlisted insurers	**7** jurisdictions **require** IFRS Standards for **some** unlisted insurers	**18** jurisdictions **permit** IFRS Standards for **some** unlisted insurers	**9** jurisdictions neither require nor permit IFRS Standards for unlisted insurers

* Analysis based on the requirements at the time of publication of IFRS 17 for jurisdictions representing 98% of premiums written in 2015

IFRS

Other companies potentially affected

9

Banks	• Banks are expected to apply IFRS 9 to their financial guarantee contracts • Most common banking agreements do not typically transfer significant insurance risk
Investment companies	• Issue contracts that are similar to some insurance contracts • Indirectly affected by IFRS 17 because of the increased comparability between industries
Non-financial companies	• IFRS 17 will affect only those non-financial companies providing insurance coverage by issuing insurance contracts • IFRS 17 does not apply to product warranties issued by a manufacturer, dealer or retailer • Option to apply IFRS 15 to some fixed-fee service contracts

IFRS

Benefits

World Standard-setters Conference 2017

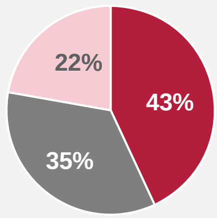
IFRS

Improved information about the value of insurance obligations

11

Today	IFRS 17
Use of old or outdated assumptions	Current assumptions regularly updated
Options and guarantees not fully reflected	Options and guarantees fully reflected
Inappropriate use of ‘expected return on assets held’ as discount rate	Discount rates reflect the characteristics of the insurance cash flows

Discount rates used today by IFRS insurers



Discount rates used for a sample of life insurers using IFRS Standards in 2015
Source: Effects Analysis on IFRS 17

IFRS

Improved information about profitability

12

Today	IFRS 17
Timing of profit recognition is inconsistent	Consistent recognition of profit for insurance services
Premiums received presented as revenue—revenue reported on a cash basis	Insurance revenue reflects the services provided
Use of many non-GAAP measures	Additional consistent metrics to evaluate performance

Recognition of profit today by IFRS insurers

immediately when an insurance contract is written

or

only when the contract ends

or

over the duration of the contract

IFRS

Improved performance reporting

13

IFRS 4*
Premiums
Investment income
Incurred claims and expenses
Change in insurance contract liabilities
Profit or loss

(*) Common presentation in the statement of comprehensive income in applying IFRS 4

Cash based; includes collection of deposits; inconsistent with other industries

Confusing adjustment that incorporates multiple factors

IFRS 17
Insurance revenue
Incurred claims and expenses
Insurance service result
Investment income
Insurance finance expenses
Net financial result
Profit or loss
Insurance finance expenses *(optional)*
Total comprehensive income

Recognised when earned; excludes deposits

Two drivers of profits presented separately

IFRS

Improved comparability of financial information

14

Issues today	Improvements introduced by IFRS 17
Lack of comparability among insurers • IFRS companies report insurance contracts using different practices **Non-uniform reporting within groups** • Insurance contracts of subsidiaries are consolidated using different practices	• New framework will replace huge variety of accounting treatments

Examples of differences IFRS 4 permits			
	The same insurance company		
	GAAP A (current value)	GAAP B (non-current value)	Differences
Revenue	17,248	13,156	**(24%)**
Net income	949	1,303	**37%**
Total equity	12,851	13,277	**3%**

Source: Project Summary of IFRS 17

IFRS

Improved comparability of financial information—revenue

15

Issues today	Improvements introduced by IFRS 17
Inconsistency with other industries • Revenue include deposits • Revenue reported on a cash basis	• Revenue will reflect the services provided, and exclude deposits, like any other industry

Example	Bank savings account	Insurance contract	
		IFRS 4*	IFRS 17
At the inception of the contract			
Revenue	-	10,000	-
Expense	-	(10,000)	-
Asset	10,000	10,000	10,000
Liability	(10,000)	(10,000)	(10,000)

* This example assumes that, applying IFRS 4, the deposit component is not accounted for separately. The expense line represents the change in insurance contract liability.
Source: Effects Analysis on IFRS 17

IFRS

Costs

World Standard-setters Conference 2017

IFRS

IFRS 17 implementation costs

17

How much will IFRS 17 cost insurers?

Implementation costs

Systems set-up
- Groups of contracts
- Track and store information
- Contractual service margin

Process changes
- Accounting policies

Education and communication
- Internal stakeholders
- Investor community

Costs for other stakeholders

Investors and analysts	Education costs
Regulators and tax authorities	Costs vary by local requirements

BUT consistent accounting policies reduce costs of analysis for stakeholders

IFRS

IFRS 17 ongoing costs

18

Costs for insurers

Ongoing costs

Updating estimates
- Maintain data
- Gather actuarial information in a timely way

Contractual service margin
- Granular information
- Adjustments

Disclosures
- Explanations of changes in recognised amounts

Mitigation of costs

One accounting framework
- For multinational companies, a common measure to assess the performance of subsidiaries

Reduce need to produce non-GAAP information

Liability adequacy test no longer needed

IFRS

Key costs reliefs

Scope exclusions	Grouping contracts	Options	Transition reliefs
• Product warranties • Financial guarantee contracts • Fixed-fee service contracts	• Grouping insurance contracts for measurement purposes is permitted	• Optional simplified approach for contracts with short-coverage periods • Presentation option for changes in discount rates	• Alternative approaches where full retrospective application of IFRS 17 is impracticable

IFRS

Interactions with IFRS 9

World Standard-setters Conference 2017

IFRS

IFRS 17 and IFRS 9

21

	2017	2018	2019	2020	2021
Financial instruments	IAS 39	**IFRS 9**			
Insurance contracts	IFRS 4	IFRS 4 as amended in September 2016			**IFRS 17**

Overlay approach

Temporary exemption from IFRS 9

- Two scenarios when IFRS 17 is first applied
  1. Companies that initially apply IFRS 9 and IFRS 17 at the same time—ie those companies that continue to apply IAS 39 before initially applying IFRS 17
  2. Companies that apply IFRS 9, with or without the overlay approach, before they initially apply IFRS 17

IFRS

IFRS 17 and IFRS 9

22

1. Companies that initially apply IFRS 9 and IFRS 17 at the same time
   - The classification of some financial assets may change
     - eg some assets that are classified as available for sale under IAS 39 might be classified as fair value through profit or loss under IFRS 9
     - IFRS 17 permits to report the effect of changes in current interest rates in P&L; this is expected to offset, to some extent, the volatility that may result from financial assets with fair value changes reported in P&L

2. Companies that apply IFRS 9 before they initially apply IFRS 17
   - Use of IFRS 17 transition provisions for financial assets
     - opportunity to reassess the classifications for financial assets under some circumstances

IFRS

Asset liability management

23

The measurement of financial assets and insurance contract liabilities may change in applying IFRS 9 and IFRS 17

Some companies may decide to reassess how they carry out their asset and liability management

Effects of IFRS 17 will vary depending on the extent to which:

- a company currently measures its insurance contracts at current value; and
- the accounting effect drives management decisions.

IFRS

Interactions with regulatory frameworks

World Standard-setters Conference 2017

IFRS

Different objectives

25

	Primary objectives
Accounting frameworks —IFRS Standards	• Provide - useful information to investors and analysts - information on how a company earns profits - comparable information across IFRS jurisdictions
Regulatory frameworks	• Protect customers • Ensure availability of insurance products • Support economic stability

IFRS

Different information provided

26

	IFRS Standards	Regulatory frameworks
Balance sheet	✔	✔
Profit or loss	✔	✘ (1)

(1) For example, Solvency II does not prescribe performance reporting. It only requires disclosures for (a) variation of excess of assets over liabilities, (b) premiums, claims and expenses and (c) assets' profitability

IFRS

IFRS 17 provides information about long-term performance

27

Regulatory framework (eg Solvency II)		IFRS Standards	
Assets	PV of cash flows	Assets	PV of cash flows
	Risk margin		Risk adjustment
	Equity (excess of assets over liabilities)		Unearned profit
			Equity

Unearned profit (CSM)

- is recognised in P&L when insurance coverage is provided
- provides a measure of future profitability

Changes in unearned profit provide information about

- profitability of new business
- changes in profitability of existing contracts

IFRS

Effects on the insurance market

World Standard-setters Conference 2017

IFRS

Effects on the insurance market

29

Changes in accounting does not affect the underlying economic reality within the business

IFRS 17 will

- better reflect risks and profitability of insurance contracts and underwriting quality over time
- provide greater insight to management in some jurisdictions about
  - underlying economics of some insurance contracts (eg current value of financial options and guarantees)
  - economic mismatches between assets and liabilities

Changes in insurance products typically occur because of:

- changes in the economic environment (eg interest rates)
- regulatory changes (eg Solvency II)

IFRS

Effects on a company's financial statements

World Standard-setters Conference 2017

IFRS

Effects on the balance sheet

When IFRS 17 is first applied

31

Expected effects of IFRS 17 for short-term insurance contracts

Existing accounting practices used	Insurance contract liabilities	Equity
Liabilities for incurred claims are not discounted	Decrease	Increase
Liabilities for incurred claims are discounted	Depends on the length of settlement periods and on the discount rates used	
Risk margin higher than risk adjustment in IFRS 17**	Decrease	Increase
Risk margin lower than risk adjustment in IFRS 17**	Increase	Decrease

** Similar expected effects for long-term insurance contracts

IFRS

Effects on the balance sheet

When IFRS 17 is first applied

32

Expected effects of IFRS 17 for long-term insurance contracts

	Existing accounting practices used	Insurance contract liabilities	Equity
Discount rate currently used	Historical rate, lower than current rate	Decrease	Increase
	Historical rate, higher than current rate	Increase	Decrease
Current value of minimum interest rate guarantees	Not fully reflected in measurement of insurance contracts	Increase	Decrease
	Fully reflected in measurement of insurance contracts	Low effect	Low effect
Existing treatment of acquisition costs	Expensed as incurred	Decrease	Increase
	Deferred and amortised	Depends	

IFRS

Changes to balance sheet presentation

IFRS 4*	IFRS 17
Assets	**Assets**
• Reinsurance contract assets • Deferred acquisition costs • Value of business acquired • Premiums receivable • Policy loans	• Reinsurance contract assets • Insurance contract assets
Liabilities	**Liabilities**
• Insurance contracts liabilities • Unearned premiums • Claims payable	• Insurance contracts liabilities • Reinsurance contract liabilities

(*) Common presentation in the balance sheet in applying IFRS 4

Key changes

- Contracts that are assets are presented separately from those that are liabilities
- Simplified presentation consistent with the economics

IFRS

Key changes in insurance measures

	IFRS 4	IFRS 17
Deposit component	• Typically included within premiums (as income) when collected and within expenses when repaid	• Excluded from profit or loss (ie from insurance revenue and from incurred claims and other expenses)
Time value of money	• When relevant, typically included within 'change in insurance contract liabilities'	• The effect of the timing of cash flows is presented separately as insurance finance expenses

IFRS

New key financial metrics

35

Contractual service margin added from new contracts	• New metric provided by all insurers in a consistent manner • Similar to the value added from new business—a metric provided by some insurers today within their embedded value reporting
Insurance service result	• A new metric comprising insurance revenue less insurance service expenses
Net financial result	• The investment margin earned in the period will be presented in the statement of comprehensive income; it will provide an important new profitability measure

IFRS

Contact us

36

Keep up to date

@IFRSFoundation

IFRS Foundation

www.ifrs.org

IFRS Foundation

Comment on our work

go.ifrs.org/comment

IFRS

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

Education session

Better Communication in Financial Reporting

Gary Kabureck
Member
IASB

Mariela Isern
Senior Technical Manager
IASB

Michelle Fisher
Senior Technical Manager
IASB

Anamaria Frosi
Visiting Fellow
IASB

Better Communication in Financial Reporting

25 September 2017

World Standard-setters Conference 2017

IFRS

Agenda

2

- Better Communication in Financial Reporting
- Primary Financial Statements project
- Disclosure Initiative:
  - Definition of Material project
  - Materiality Practice Statement project
  - Principles of Disclosure project
  - Better Communication report
- IFRS Taxonomy

IFRS

Better Communication in Financial Reporting

World Standard-setters Conference 2017

IFRS

Central theme of the Board's work

4

Better Communication in Financial Reporting

Primary Financial Statements	Disclosure Initiative	IFRS Taxonomy™
Content and its organisation		Content delivery

IFRS

What is the problem?—comparability vs flexibility

5

Comparability	vs	Flexibility
Lack of comparability negatively affects usefulness of IFRS financial information		Flexibility allows preparers to tell their own story
Due to lack of comparability, users prefer financial statements 'standardised' by data aggregators		As long as necessary information is available in the notes, primary financial statements can be concise
Recognition and measurement should be principles-based but presentation should be more structured		IFRS Standards should keep their principles-based nature

What is the problem?—the disclosure problem

6

- **The Board has identified three main concerns about disclosures in the financial statements:**

Not enough relevant information	Irrelevant information	Ineffective communication
↓	↓	↓
Can lead to inappropriate investing or lending decisions	Can obscure relevant information and reduce understandability of financial statements	Can reduce understandability of financial statements

Primary Financial Statements project

World Standard-setters Conference 2017

IFRS

Scope—topics to explore

8

Primary Financial Statements

Statement(s) of financial performance

- ✓ Requiring EBIT subtotal
- ✓ Providing guidance on presentation of management performance measure and alternative EPS
- ✓ Better ways to communicate OCI

Statement of cash flows

- ✓ Eliminating classification options (interest/dividends)
- ✓ Aligning the operating section between the statements of cash flows and financial performance
- ✓ Requiring a consistent starting point for the indirect method

Statement of financial position / **Statement of changes in equity**

- × No planned change, except for templates and greater disaggregation
- ✓ Project on financial instruments with characteristics of equity looks at some issues

- ✓ Developing templates for primary financial statements
- ✓ Achieving greater disaggregation

Main Board discussions so far

9

- Presentation of subtotals (to provide comparability and flexibility):
  - Comparable EBIT
  - Flexible management performance measure

IFRS

Require EBIT subtotal

10

Concerns raised	Possible solutions
• Users need comparable subtotals as a starting point for their analysis • Many companies present an EBIT-type subtotal, but it varies and is not comparable	• Require presentation of comparable EBIT subtotal • Define EBIT as 'profit before finance income/expenses and tax'
• Presentation of finance income/expenses varies, even among peers (eg net interest on net defined benefit liability)	• Describe 'finance income/expenses' as 'income/expenses related to the entity's capital structure', in order to have a comparable EBIT subtotal for entities with different capital structures

Allow/require presentation of management performance measure

11

Concerns raised	Possible solutions
• Preparers want flexibility and users want information about progress towards management's business objective or strategy	• Allow/require presentation of management performance measure, rather than defining operating profit
• Users need information about persistency of income and expenses to develop forecasts • Items classified as infrequent/non-recurring vary and are not transparent. Some 'infrequent' items occur regularly	• Require additional transparency about management performance measure and infrequently occurring items

Subtotals to address flexibility and comparability

12

- **Two subtotals may help to better communicate entities' performance**

Flexibility - Performance measure that management uses to communicate progress towards its business objective or strategy

Items between two subtotals show how an entity's Management Performance Measure is different from EBIT

Comparability - Introducing a comparable performance measure among different entities as an 'anchor'

Proposed subtotals

Revenue	10,000
Cost of goods sold	-4,000
Gross profit	6,000
SG&A	-2,500
Management Performance Measure	3,500
Infrequent operating income and expenses, etc	-500
EBIT	3,000
Finance income	200
Finance expense	-1,200
Pre-tax profit	2,000
Taxation	-600
Profit	1,400

Activities in the next 12 months

13

- Focus on *exploring* targeted improvements, with Board discussions throughout 2017
- Implications regarding structured electronic reporting will be examined as relevant
- Possible output: Discussion Paper or Exposure Draft in early/mid 2018

IFRS

The Disclosure Initiative

World Standard-setters Conference 2017

IFRS

Disclosure Initiative projects

15

Disclosure Initiative

Completed projects		Materiality implementation projects		Research projects	
Amendments to IAS 1 to remove barriers to application of judgement	Amendments to IAS 7 to improve disclosure of liabilities from financing activities	Materiality Practice Statement	Definition of Material	Principles of Disclosure	Standards-level Review of Disclosures

IFRS

Disclosure Initiative
Definition of Material project

World Standard-setters Conference 2017

IFRS

Definition of ‘material’ in ED

17

‘take into account how users … could *reasonably* be expected to be influenced’ (IAS 1.7)

‘An entity shall not reduce understandability … by obscuring material information’ (IAS 1.30A)

‘Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information’ (*Conceptual Framework* QC11)

Information is material if omitting, misstating <u>or obscuring</u> it could <u>reasonably be expected</u> to influence decisions that the <u>primary</u> users of a specific reporting entity’s general purpose financial statements make on the basis of those financial statements

Disclosure Initiative
Materiality Practice Statement project

World Standard-setters Conference 2017

IFRS

Fact sheet

IFRS Practice Statement *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

Why are we issuing guidance?

Some use IFRS disclosure requirements as a checklist

This contributes to a disclosure problem—
too much irrelevant information and not enough relevant information

To reinforce the role of materiality and support the exercise of judgement

Higher quality disclosures—
reduction in boilerplate disclosure and easier access to information

Content of the Practice Statement

21

1. General characteristics of materiality
2. Interaction with local laws and regulations
3. A four-step process for making materiality judgements
4. Guidance on 'specific topics'

Illustrative examples

IFRS

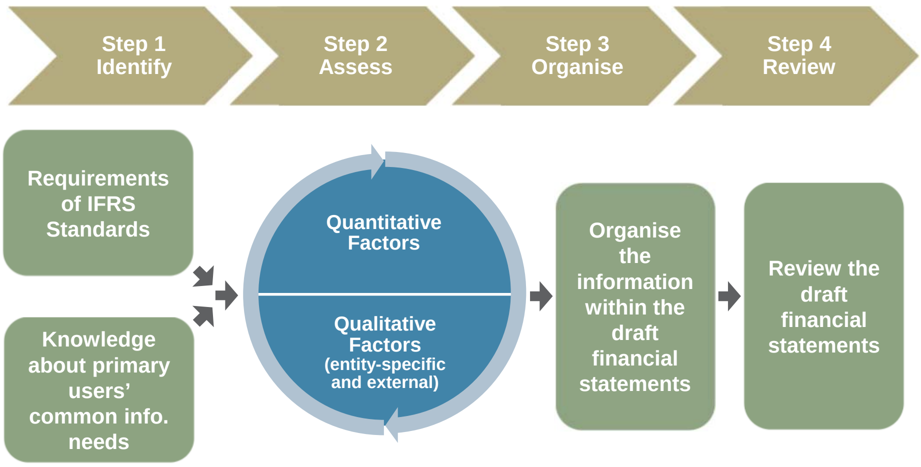
❶ General characteristics | ❷ Local laws and regulations

22

❶ General characteristics	❷ Local laws and regulations
The concept of materiality is **pervasive**. **Requirements** in IFRS Standards **only** need to be **applied** if their **effect is material**.	Financial statements **must comply** with **requirements in IFRS Standards**, including requirements related to materiality, to state compliance with those Standards.
Primary users to be considered when making materiality judgements are existing and potential investors, lenders and other creditors. Aim to meet the **common information needs** of the primary users.	An entity **cannot provide less information** than required by IFRS Standards, even if local laws and regulations permit otherwise.
Assess whether information is material to the financial statements **regardless** of whether such information is **publicly available** from other sources.	**Providing additional information** to meet local legal or regulatory requirements **is permitted** by IFRS Standards. Such information must **not obscure** material information.

❸ A four-step materiality process

23



IFRS

❹ Specific topics

24

Prior period information	Provide prior period information **necessary to understand** the current year financial statements.
Errors	Assess whether an error is material applying the **same considerations** outlined in the materiality process.
Covenants	Consider both the **consequences** of a covenant breach occurring and the **likelihood** of such a breach occurring in assessing the materiality of **information about covenants**.
Interim reporting	Apply the **same materiality factors** as in the annual assessment, taking into consideration that the **time period** and the **purpose** of an interim financial report differ from those of the annual financial statements.

IFRS

Disclosure Initiative
Principles of Disclosure project

World Standard-setters Conference 2017

IFRS

Objective of the project

26

- Request to develop disclosure principles that apply across IFRS Standards
  - Help entities apply judgement and communicate effectively
  - Help users by improving disclosures
  - Help the Board improve disclosure requirements
- Ultimate goal:
  - new general disclosure standard or amendments to IAS 1 *Presentation of Financial Statements;*
  - possibly with supporting guidance/education material.

Outline of Discussion Paper

27

Principles of effective communication in preparing financial statements

↓

Principles on where to disclose information

Roles of the primary financial statements and the notes	Location of information

↓

Principles to address specific disclosure concerns of users of financial statements

Use of performance measures	Disclosure of accounting policies

↓

Principles for improving disclosure objectives and requirements

Centralised disclosure objectives	Drafting disclosure requirements

Expected project timetable

28

30 March 2017 Discussion Paper published	**2 October 2017** Comments due	**2018** Board redeliberations

- Feedback on Discussion Paper will also inform:
  - Primary Financial Statements project
  - Standards-level Review of Disclosures project

Disclosure Initiative

Better Communication report

World Standard-setters Conference 2017

Better Communication report

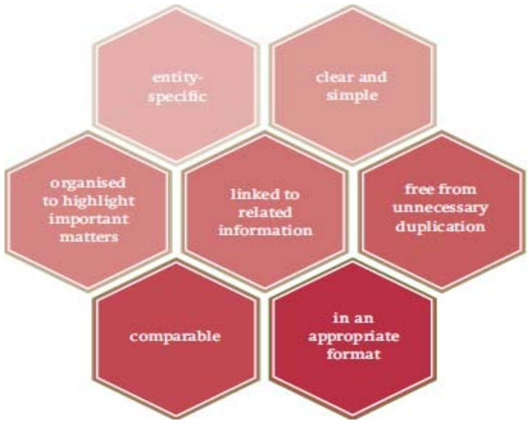
30

- We are about to publish a report that illustrates how some entities have improved communication in their financial statements.
- The report is intended to:
  - demonstrate that better communication is possible; and
  - inspire other entities to improve communication.
- Our report will focus on the effective communication principles listed on slide 31, to show:
  - how entities disclosed information before and after enhancing communication in their financial statements; and
  - entities' journeys towards improving the way they communicate (the process).

Principles of effective communication

31

- Ineffective communication can make financial statements difficult to understand and analyse.
- Information in financial statements should be:



IFRS

Factors important to improving communication

32

- Companies highlighted the following factors as important to improving communication:

Factors involving external parties

Consulting the right stakeholder groups

Meeting the information needs of the key stakeholders

Factors involving internal parties

Senior management support

Changing attitudes: communication not compliance

Setting up realistic goals

IFRS Taxonomy

World Standard-setters Conference 2017

IFRS

What is the IFRS Taxonomy?

34

- A classification system for IFRS presentation and disclosure requirements
- Consists of ‘elements’ that are used to tag information in IFRS financial statements
- Makes the tagged information readable for computers

Covers the IFRS® Standards and the *IFRS for SMEs*® Standard

IFRS

IFRS Taxonomy content

35

Elements cover two different types of content:

What is found in IFRS Standards		IFRS reporting practice
Presentation and disclosure requirements	Illustrative examples, implementation guidance	Information that companies commonly disclose when applying IFRS Standards

IFRS

IFRS Taxonomy in use

36

- Adoption of the IFRS Taxonomy around the world is increasing – the largest implementations are imminent
  - ESMA's European Single Electronic Format (ESEF)
    January 2020 – mandatory use of the IFRS Taxonomy for annual consolidated financial statements
  - US SEC
    December 2017 – mandatory use of IFRS Taxonomy for Foreign Private Issuers

IFRS

Q&A

World Standard-setters Conference 2017

IFRS

Contact us

38

Keep up to date

@IFRSFoundation

IFRS Foundation

www.ifrs.org

IFRS Foundation

Comment on our work

go.ifrs.org/comment

IFRS

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

Education session

Maintenance activities/supporting implementation

Chair: **Sue Lloyd,** *Vice-Chair,* **IASB**

Patrina Buchanan
Associate Director
IASB

Jawaid Dossani
Senior Technical Manager
IASB

Implementation and maintenance

Sue Lloyd, IASB Vice-chair and Chair of the IFRS Interpretations Committee

Patrina Buchanan, Associate Director, IASB

Jawaid Dossani, Senior Technical Manager, IASB

25 September 2017

World Standard-setters Conference 2017

IFRS

Agenda

2

- New Standards
- Standards already effective
- The work of the IFRS Interpretations Committee
- Maintenance projects

IFRS

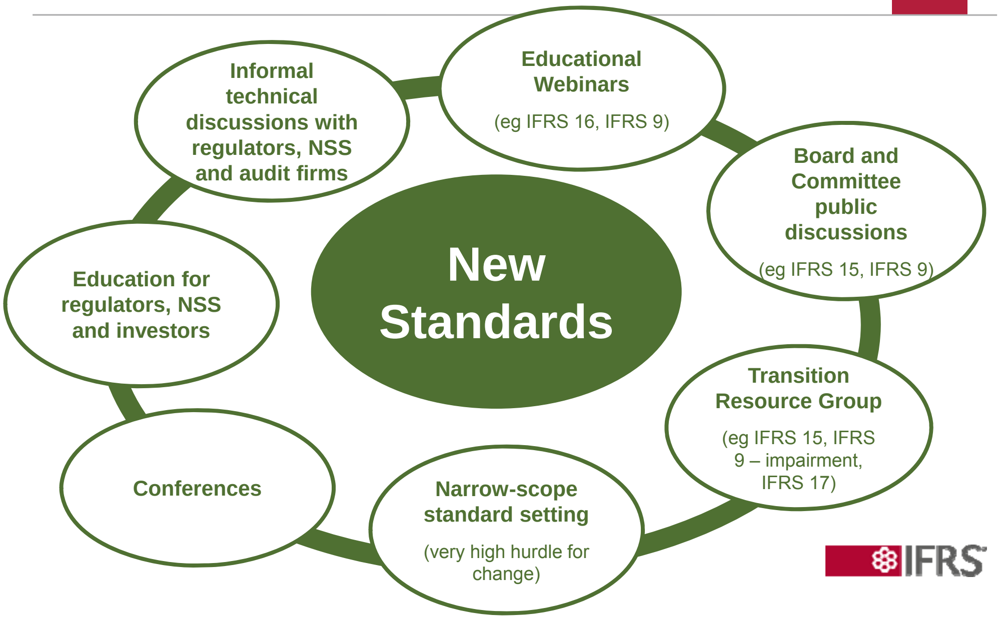
New Standards

World Standard-setters Conference 2017

IFRS

How we support implementation: New Standards

4



IFRS

Eg: Public Discussions/TRGs—IFRS 15

5

– Summaries of issues discussed at TRG Meetings

- November 2015 Meeting Summary
- July 2015 Meeting Summary
- March 2015 Meeting Summary
- January 2015 Meeting Summary
- October 2014 Meeting Summary
- July 2014 Meeting Summary
- Log of submissions received by the TRG

TRG received 87 issues

All discussions are public

– Other Board discussions relating to IFRS 15

Date	Recording
Nov 2016	Oral Update on November 2016 FASB-only TRG meeting
May 2016	Oral Update on April 2016 FASB-only TRG meeting
Dec 2015	Constraining estimates of variable consideration when the consideration

The agenda paper for the December 2015 recording can be accessed here.

Extracts from: http://www.ifrs.org/supporting-implementation/supporting-materials-by-ifrs-standard/ifrs-15

IFRS

Eg: Educational webinars—IFRS 16

6

- Transition to IFRS 16
- Definition of a lease
- Exemptions
- Lessee measurement
- Lease modifications – lessee
- Lessee disclosure

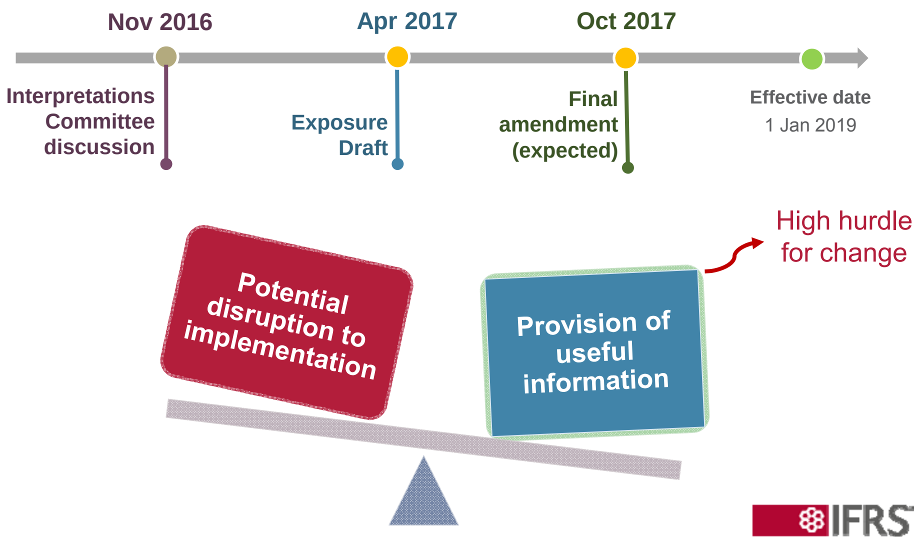
Prepared as a result of implementation questions received

Access at: http://www.ifrs.org/supporting-implementation/supporting-materials-by-ifrs-standard/ifrs-16

IFRS

Eg: Narrow-scope standard-setting Proposed amendment to IFRS 9

7



Standards already effective

World Standard-setters Conference 2017

How we support implementation: Standards already effective

9

IFRS

The work of the IFRS Interpretations Committee

World Standard-setters Conference 2017

IFRS

The process—outputs (standard-setting)

11

If the Board or Committee decide to add a standard-setting project to its agenda:

Form of standard-setting	When?
Narrow-scope Amendment	When an identified issue can be resolved effectively by changing the requirements.
Annual Improvement	A form of narrow-scope amendment, but for minor issues—to clarify wording or correct minor conflicts/oversights.
IFRIC Interpretation	When an identified issue can be resolved effectively by adding to the requirements, without changing them.

IFRS

The process—outputs (agenda decisions)

12

If the Committee decides not to add a narrow-scope project to the standard-setting agenda:

Form of agenda decision[1]	When?
Explanatory—includes information on how to apply the principles and requirements	The existing principles and requirements provide an adequate basis for a company to determine its accounting.
Explains why a standard setting project is not added	(a) The question is not widespread nor does it have a material effect on companies affected.
	(b) The issue can be addressed effectively only by considering it in a broader context. The issue is reported to the Board.

[1] All agenda decisions are open to comment for 60 days

IFRS

Agenda Decisions

13

- Point to principles and requirements in the Standards
- Where relevant:

Point to disclosure requirements	eg interest and penalties on income taxes
Include examples	eg EPS question
Narrow possible ways of reading the requirements	eg IAS 37 onerous contract test

IFRS

Recently finalised agenda decisions

14

A sample:

- IAS 12 – Deferred taxes when acquiring single-asset entity
- IAS 33 – Tax arising from payments on participating equity instruments
- IAS 19 – Discount rate in a country that has adopted another currency
- IFRS 10 – Investment entities and subsidiaries
- IAS 32 - Centrally cleared derivatives
- IAS 41 - Biological assets growing on bearer plants

IFRS

Recently published tentative agenda decisions

15

A sample:

- IFRS 3 – Acquisition of a group of assets that does not constitute a business
- IAS 37 – costs considered in assessing whether a contract is onerous
- IAS 38 – Goods acquired for promotional activities
- IAS 28 – Acquisition of an associate from an entity under common control
- IFRS 1 – Subsidiary as a first-time adopter
- IAS 12 – Interest and penalties related to Income Taxes

IFRS

Other topics to be discussed in September 2017

16

- Pattern of revenue recognition in a real estate contract (IFRS 15)
- Contributing property, plant and equipment to an associate (IAS 28)
- Taxation in fair value measurements (IAS 41)

IFRS

Overview of 2017 activities to date

17

16 addressed

13 agenda decisions with explanatory material

3 amendments or additions to IFRS Standards

3 too broad for Committee

- **1** picked up in pipeline research projects/PIRs
- **1** considered by Board as part of another narrow-scope amendment
- **1** still to be considered by Board

1 Committee provided input on Board project

3 meetings held to date in 2017 (March, May and June)

IFRS

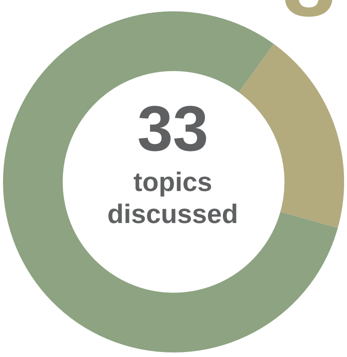
Overview of 2016 activities

18

25 addressed

16 agenda decisions with explanatory material

9 Amendments or additions to IFRS Standards



8 too broad for Committee

- **1** picked up in active research projects
- **4** picked up in pipeline research projects/PIRs
- **1** Board decided not a priority in Agenda Consultation
- **2** still to be considered by Board

6 meetings held in 2016

IFRS

World Standard-setters Conference 2017

Maintenance projects

IFRS

Recently finalised maintenance projects

20

IFRIC 22
Foreign Currency Transactions and Advance Consideration

Amendments to
IAS 40
Transfers of Investment Property

IFRIC 23
Uncertainty over Income Tax Treatments

Annual Improvements
2014-2016
IAS 28, IFRS 1, IFRS 12

IFRS

Ongoing maintenance projects

- Including topics referred by the Interpretations Committee
- There are currently 14 maintenance projects on the Board's work plan

Work plan

ALL | RP RESEARCH PROJECTS | SP STANDARD-SETTING PROJECTS | MP MAINTENANCE PROJECTS | OP OTHER PROJECTS

Maintenance projects address application questions about IFRS Standards. Such projects involve the Board or the IFRS Interpretations Committee developing narrow-scope amendments to, and interpretations of, IFRS Standards. Print this tab.

Sort by Project Name

Project	Next milestone	Expected date	Follow	Open for comment
MP Accounting Policies and Accounting Estimates (Amendments to IAS 8)	Exposure Draft	September 2017		
MP Accounting policy changes (Amendments to IAS 8)	Exposure Draft	H1 2018		
MP Availability of a refund (Amendments to IFRIC 14)	IFRS Amendment	H1 2018		

Extract from: http://www.ifrs.org/projects/work-plan/

IFRS

Ongoing maintenance projects

A sample:

IFRS 3
Definition of a business

IAS 8
Accounting policies and accounting estimates

IFRS 8
Improvements to IFRS 8 Operating Segments

IFRS 9
Prepayment features with negative compensation

IAS 16
Proceeds before intended use

Open for comment

IAS 8
Accounting policy changes

IFRS

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

Education session

Conceptual Framework

Chair: **Sue Lloyd,** *Vice-Chair*, **IASB**

Françoise Flores
Member
IASB

Yulia Feygina
Senior Technical Manager
IASB

Conceptual Framework

Françoise Flores, *Member*, IASB
Yulia Feygina, *Senior Technical Manager*, IASB

25 September 2017

World Standard-setters Conference 2017

Introduction

2

- Conceptual Framework at a glance
- Objective and qualitative characteristics
- Elements of financial statements and recognition
- Measurement
- Profit or loss and other comprehensive income
- Q&A

Conceptual Framework at a glance

World Standard-setters Conference 2017

IFRS

Conceptual Framework at a glance

4

What is it?

Underpins
developing and applying IFRS Standards

Why did we revise it?

Priority
project identified in the Agenda Consultations

What changed?

Updated
concepts that will result in better IFRS Standards

What happens next?

Q1 2018
expected publication with immediate effect for the IASB

IFRS

What is new?

5

Clarified objective and qualitative characteristics	**New** reporting entity, presentation & disclosure, derecognition and measurement
Updated elements and recognition	**To be continued** distinction between liabilities and equity

IFRS

How did we get feedback?

6

Publications Discussion Paper and Exposure Drafts	**Outreach** over 260 meetings and other events
Consultative group Accounting Standards Advisory Forum	**Effects analysis** definitions of elements and effects on preparers

IFRS

Objective and qualitative characteristics

World Standard-setters Conference 2017

IFRS

Objective of general purpose financial reporting

8

Provide financial information useful in making decisions

Buy, hold or sell

Provide or settle loans

Vote and influence management

Assess the prospects for future net cash inflows

Assess management's stewardship of the entity's resources

To make those assessments users need information about

Resources and claims and changes in them

How efficiently/effectively management discharges its responsibilities

IFRS

Qualitative characteristics

9

Useful financial information

Relevance	**Faithful representation**
Capable of making a difference to the decisions made by users	Substance of the phenomena Complete, neutral, free from error
	Prudence · Measurement uncertainty

Enhancing characteristics
Comparability • Verifiability • Timeliness • Understandability

Cost constraint

IFRS

The role of prudence

10

Prudence supports faithful representation

Exercise of caution under the conditions of uncertainty	IFRS Standards may sometimes treat assets (income) differently from liabilities (expenses) <u>if that results in most useful information</u>

Consistent with neutrality

IFRS

World Standard-setters Conference 2017

Elements of financial statements and recognition criteria

IFRS

Asset definition and supporting concepts

12

Existing Conceptual Framework	Revised Conceptual Framework
Resource	Present economic resource
Controlled by the entity	Controlled by the entity
As a result of past events	As a result of past events
Expected inflow of economic benefits	A right
	Potential to produce economic benefits

IFRS

Liability definition and supporting concepts

13

Existing Conceptual Framework

- Present obligation
- As a result of past events
- Expected outflow of economic benefits

Revised Conceptual Framework

- Present obligation
- As a result of past events
- Transfer of an economic resource
- No practical ability to avoid the transfer

IFRS

Recognition criteria

14

Meet the definition of an element of financial statements

Relevance

- Existence uncertainty
- Low probability of economic benefits
- Separability

Faithful representation

- Measurement uncertainty
- Other factors

Cost constraint

IFRS

Example 1
Purpose option

15

- An entity has entered into a contract that gives it an option to purchase a commodity for a fixed price of CU10,000. The entity can exercise the option at any time in the next year. The current price of the commodity is CU9,000.
- The entity paid CU100 for the option.
- The option cannot be traded.

Does the entity have an asset?

Example 1
Purchase option

16

Criterion	Met?
Right	✓
Potential to produce economic benefits	✓
Controlled by the entity	✓
As a result of past events	✓

⇩

Does the entity have an asset?	✓

Example 2
Production process

17

- An entity has developed an efficient process for producing a new material. The entity has not yet patented the process, but has successfully kept it secret. The process has the potential to produce significant economic benefits for the entity.
- The material is not yet in commercial production, so economic benefits are highly uncertain—the range of possible outcomes is extremely wide and the likelihood of each outcome is exceptionally difficult to estimate.

Does the entity have an asset?

IFRS

Example 2
Production process

18

Criterion	Met?
Right	✓
Potential to produce economic benefits	✓
Controlled by the entity	✓
As a result of past events	✓

⇩

Does the entity have an asset?	✓

Decide at Standards level if the asset is recognised

IFRS

Example 3
Long service leave

19

- Employees have a statutory entitlement to two months' paid long service leave if they work for the same employer for 10 years. If an employer terminates an employee's services after <u>five years</u> (for any reason other than serious misconduct), the employee is entitled to a pro-rata payment.
- An entity has employed one group of employees for <u>nine years</u>; and a second group of employees for <u>two years</u>.

Does the entity have a liability?

IFRS

Example 3
Long service leave

20

Criterion	Met?
Potential transfer of an economic resource	✓
No practical ability to avoid	Standards level
As a result of past events	✓

⇩

Does the entity have a liability?	Standards level

IFRS

Example 4
Threshold levy

21

- A government charges levies on entities that generate revenue in excess of CU50 million in a calendar year. The levy rate is two per cent of the revenue in excess of CU50 million.
- An entity generates revenue from profitable activities evenly through the year. Its 20X1 revenue reaches CU50 million on 17 July 20X1. The entity's reporting period ends on 30 June 20X1.

Does the entity have a liability on 30 June 20X1 for the 20X1 levy?

IFRIC Interpretation 21 *Levies* Illustrative Example 4

IFRS

Example 4
Threshold levy

22

Criterion	Met?
Potential transfer of an economic resource	✓
No practical ability to avoid	Likely ✓
As a result of past events	Standards level

⇩

Does the entity have a liability?	Standards level

IFRS

Example 5
Legal requirement to fit smoke filters

23

- Under new legislation, an entity is required to fit smoke filters to its factories by 30 June 20X1. At the end of the entity's reporting period (30 December 20X0), the entity has not fitted the smoke filters.
- The entity could be fined for operating without smoke filters after 30 June 20X1.

Does the entity have a liability on 30 December 20X0?

IFRS

Example 5
Legal requirement to fit smoke filters

24

Criterion	Met?
Potential transfer of an economic resource	✓
No practical ability to avoid	✓
As a result of past events	X

⇩

Does the entity have a liability?	X

IFRS

Example 6
A court case

25

- After a wedding, ten people died, possibly as a result of food poisoning from products sold by the entity. Legal proceedings are started seeking damages from the entity. The entity disputes that its products were the cause of the deaths.

Does the entity have a liability?

Example 10 in Section C of the guidance accompanying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

IFRS

Example 6
A court case

26

Criterion	Met?
Potential transfer of an economic resource	Uncertain
No practical ability to avoid	✓
As a result of past events	✓

⇩

Does the entity have a liability?	Existence Uncertainty

Decide at Standards level if the liability is recognised

IFRS

Measurement

World Standard-setters Conference 2017

IFRS

Measurement bases

28

Historical cost

- Amortised cost

Current value

- Fair value
- Value in use
- Fulfilment value
- Current cost

Historical cost	Current value
Derived from transaction or other event that gave rise to the asset or liability	Updated to reflect conditions on the measurement date
Information about margins	Information about changes in prices and other factors

IFRS

Selecting a measurement basis

29

Information in both the statement of financial position and the statement(s) of financial performance

Relevance	Faithful representation
Characteristics of the asset or liability	Measurement inconsistency (‘accounting mismatch’)
Contribution to future cash flows	Measurement uncertainty

Enhancing qualitative characteristics and cost constraint

IFRS

Selecting a measurement basis Example 1

30

- An airline’s right-of-use asset of an aircraft arising from a fixed term lease contract with fixed payments

Relevant measurement basis?

Characteristics
Contribution to cash flows ➡ Historical cost

Faithful representation of economic phenomena?

Accounting mismatch ➡ Not in fact pattern
Measurement uncertainty ➡ Fixed cash outflow

IFRS 16 *Leases*: a right-of-use asset is measured at cost

IFRS

Selecting a measurement basis Example 2

31

- Plain vanilla bond traded in an active market and managed within the 'hold and sell' business model

Relevant measurement basis?

Characteristics

Contribution to cash flows

➡ Historical cost and current value

Faithful representation of economic phenomena?

Accounting mismatch ➡ Not in fact pattern

Measurement uncertainty ➡ Traded bond

IFRS 9 *Financial Instruments*: fair value through OCI (fair value in the statement of financial position, amortised cost in profit or loss)

IFRS

Selecting a measurement basis Example 3

32

- Performance obligation arising from a contract with a customer. There is a penalty for a delayed delivery.

Relevant measurement basis?

Characteristics

Contribution to cash flows

➡ Historical cost

Faithful representation of economic phenomena?

Accounting mismatch ➡ Not in fact pattern

Measurement uncertainty ➡ Yes due to penalty

IFRS 15 *Revenue from Contracts with Customers*: transaction price including variable consideration if highly probable

IFRS

Selecting a measurement basis Example 4

- Issued plain vanilla bond subject to the same interest rate risk as a related asset measured at FVPL

Relevant measurement basis?

Characteristics

Contribution to cash flows ➡ Historical cost

Faithful representation of economic phenomena?

Accounting mismatch ➡ Related assets

Measurement uncertainty ➡ Plain vanilla bond

IFRS 9 *Financial Instruments*: entities may designate financial liabilities at FVPL if there is an accounting mismatch

IFRS

Profit or loss and other comprehensive income

World Standard-setters Conference 2017

IFRS

Profit or loss and OCI at a glance

35

Profit or loss	Other comprehensive income
Primary source of information about performance	Exceptional circumstances
Default location for income and expenses	Only changes in current values of assets and liabilities

Classification into profit or loss and OCI and recycling

Relevance	**Faithful representation**

Only the Board can make decisions on OCI and recycling

IFRS

Profit or loss

36

Primary, but not the only, source of information about financial performance for the period

Income and expenses at historical cost always in profit or loss, including when separately identified in a change in current value

Income and expenses are included in profit or loss unless exclusion enhances relevance or faithful representation

Statement of profit or loss

	20X7	20X6
Revenue from customers	234,439	212,367
Cost of sales	(112,764)	(106,259)
…	…	…
Taxes	(21,546)	(20,587)
…	…	…
Profit (loss) for the year	**18,897**	**16,763**

Required total or subtotal

IFRS

Other comprehensive income

37

Income and expenses are included in OCI only if that enhances relevance or faithful representation

Only qualifying changes in current values of assets and liabilities

Statement of comprehensive income

	20X7	20X6
Profit (loss) for the year	18,897	16,763
Currency translation	68	(51)
FV adjustment cash flow hedging	(2,764)	6,259
…	…	…
Taxes	(215)	87
Other comprehensive income for the year	*(2,546)*	*4,253*
Total comprehensive income for the year	**16,351**	**21,016**

Income and expenses included in OCI are recycled when that enhances relevance or faithful representation

IFRS

Questions & Answers

World Standard-setters Conference 2017

IFRS

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

NOTES

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

Education session

The core requirements of IFRS 17 *Insurance Contracts*

Chair: **Darrel Scott,** *Member,* **IASB**

Joanna Yeoh
Senior Technical Manager
IASB

Roberta Ravelli
Senior Technical Manager
IASB

The core requirements of IFRS 17 *Insurance Contracts*

25 September 2017

World Standard-setters Conference 2017

IFRS

Introduction: IFRS 17 *Insurance Contracts*

2

- IFRS 17
  - replaces an interim Standard—IFRS 4
  - requires consistent accounting for all insurance contracts based on a current measurement model
  - will provide useful information about profitability of insurance contracts
- Effective 2021
  - one year restated comparative information
  - early application permitted

IFRS

Today's topics

3

- How IFRS 17 works
  - The core requirements, including:
    - presentation and disclosure requirements
    - level of aggregation
  - Optional simplified approach for contracts with short-coverage periods
- Applying IFRS 17 for the first time
- Appendix

IFRS 17
core requirements

Measurement of insurance contracts

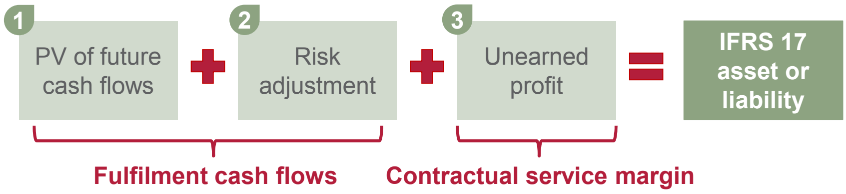
World Standard-setters Conference 2017

IFRS 17 core requirements

5

All insurance contracts measured as the sum of:

- **Fulfilment cash flows (FCF)**
  1. Present value of probability-weighted expected cash flows—reflects financial risk
  2. Plus an explicit risk adjustment for non-financial risk (eg insurance risk)
- **Contractual service margin (CSM)**
  3. The unearned profit from the contracts

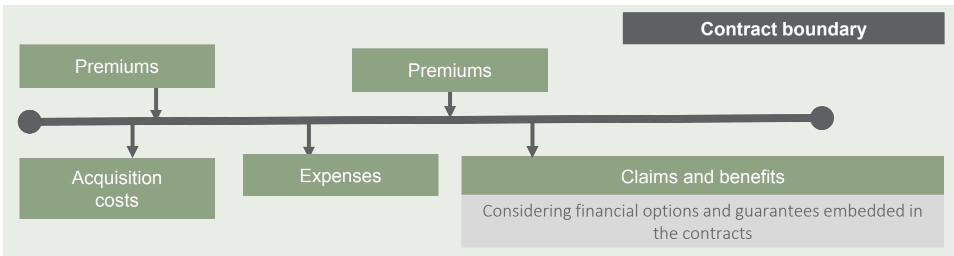


IFRS

1 Cash flows

6

- Current estimates of future cash flows within the contract boundary



- Probability weighted and unbiased
- Stochastic modelling for financial options and guarantees, where relevant

IFRS

Discount rates

7

Reflect time value of money and financial risks

- Characteristics of the cash flows
- Liquidity of the insurance contracts
- To the extent that the financial risks are not included in the cash flows

Consistent with observable market prices (if any)

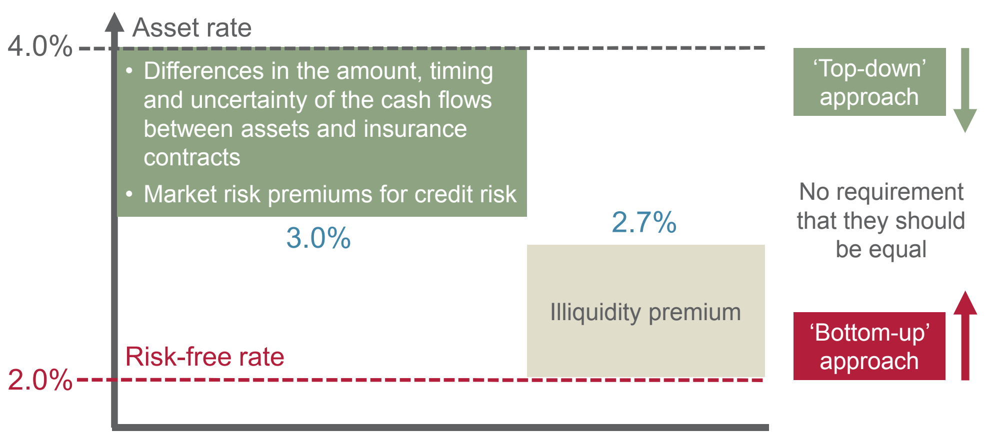
Timing	Currency	Liquidity

Exclude the effect of factors in the observable market prices not relevant to insurance contracts

IFRS

Determing discount rates

8



IFRS

2 Risk adjustment

9

- Explicit, current adjustment for the compensation a company requires for bearing non-financial risk (eg insurance risk)
- Compensation that makes a company indifferent between:
  - fulfilling a liability that has a range of possible outcomes; and
  - fulfilling a liability that will generate fixed cash flows with the same expected present value

	Group A		Group B	
	Probability	Pay-off (CU)	Probability	Pay-off (CU)
	0.5	1,000,000	1	500,000
	0.5	0		
Probability-weighted average	(0.5 x 1,000,000) + (0.5 x 0) = **CU500,000**		(1 x 500,000) = **CU500,000**	

IFRS

3 Contractual service margin—initial recognition

10

The unearned profit of the group of contracts that relates to future service to be provided

The amount determined so that no gains are recognised in profit or loss on initial recognition

Example—Consider a group of contracts with PV of future cash flows of CU4,250 and risk adjustment of CU750

If premiums CU5,500	• Contracts profitable at inception • CSM = CU500 [CU5,500 – CU750 – CU4,250]
If premiums CU3,500	• Contracts onerous at inception • Day-one loss CU1,500 recognised in profit or loss [CU3,500 – CU750 – CU4,250]. No CSM.

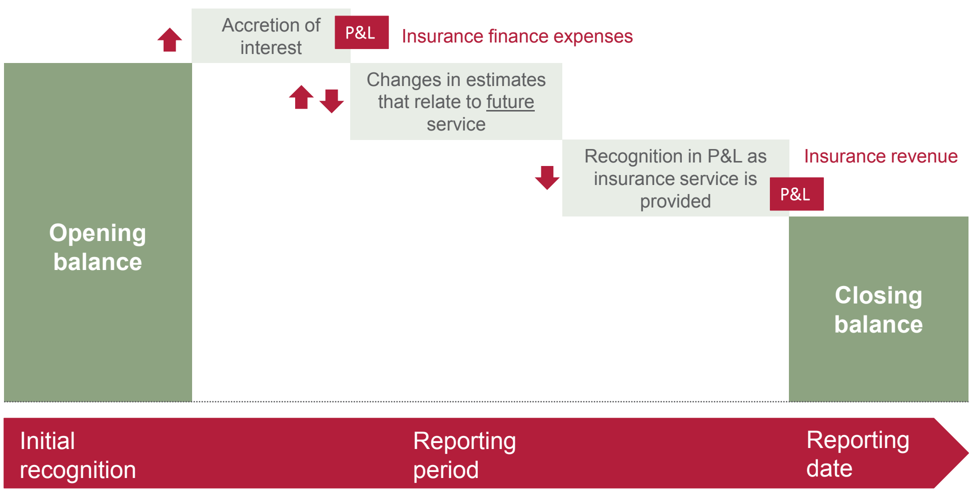
IFRS

Subsequent measurement

	Initial measurement	Subsequent measurement
1 **PV of future cash flows**	Current assumptions	Current assumptions
2 **Risk adjustment**	Current assumptions	Current assumptions
3 **Unearned profit—contractual service margin**	The amount that results in no gain recognised in profit or loss	Update by reflecting: • Time value of money • Adjustments related to future service • Allocation of the amount earned for services provided

IFRS

3 Contractual service margin—subsequent measurement



The contractual service margin balance cannot be negative

See the example on slide 31

IFRS

IFRS 17
core requirements

Presentation and disclosure requirements

World Standard-setters Conference 2017

IFRS

Example of IFRS 17 statement of comprehensive income

14

	Statement of comprehensive income	20X1
1	Insurance revenue	9,856
	Insurance service expenses	(8,621)
2	Insurance service result	1,235
	Investment income	7,787
3	Insurance finance expenses	(7,391)
	Net financial result	396
	Profit or loss	1,631
	Other comprehensive income	
	Investment income	2,115
3	Insurance finance expenses *(optional)*	(1,917)
	Total other comprehensive income	198
	Comprehensive income	1,829

Two drivers of profit presented separately

→ Insurance coverage

→ Investment activities

See slides 33-41 for further information on presentation and disclosure requirements

IFRS

IFRS 17
core requirements

The level of aggregation

World Standard-setters
Conference 2017

Grouping objectives

16

- IFRS 17 requires portfolio be divided into 1-3 groups
- IFRS 17 will provide:
  - information about losses from contracts onerous at initial recognition
  - information about losses when previously profitable groups of contracts become onerous

Grouping contracts is relevant for the recognition in P&L of profits and losses for insurance services

The level of aggregation does not affect the measurement of the fulfilment cash flows

Portfolios and groups of contracts

17

- A portfolio: insurance contracts subject to similar risks and managed together
- Entity divides each portfolio of contracts into groups

Portfolio 1	Portfolio 2	Portfolio 3
Whole-life insurance	Annuities	Car insurance
Group A Group B Group C Group D	Group	Group AA Group BB Group CC

Minimum requirement

Consistent with internal reporting

Grouping illustration for a portfolio

18

Portfolio 1
Whole-life insurance

Entity divides each portfolio into groups

- contracts issued within the same year
- information about the contracts' resilience
- consistent with internal reporting
- exemption for regulatory pricing
- group not reassessed after initial recognition

Profitable contracts	**Group A**	Contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any	Unearned profit is recognised as part of the liability and is released as insurance services are provided
	Group B	Other profitable contracts, if any	
Onerous contracts	**Group C**	Contracts that are onerous at initial recognition, if any	A loss is recognised in P&L

See examples on slides 43-45

World Standard-setters Conference 2017

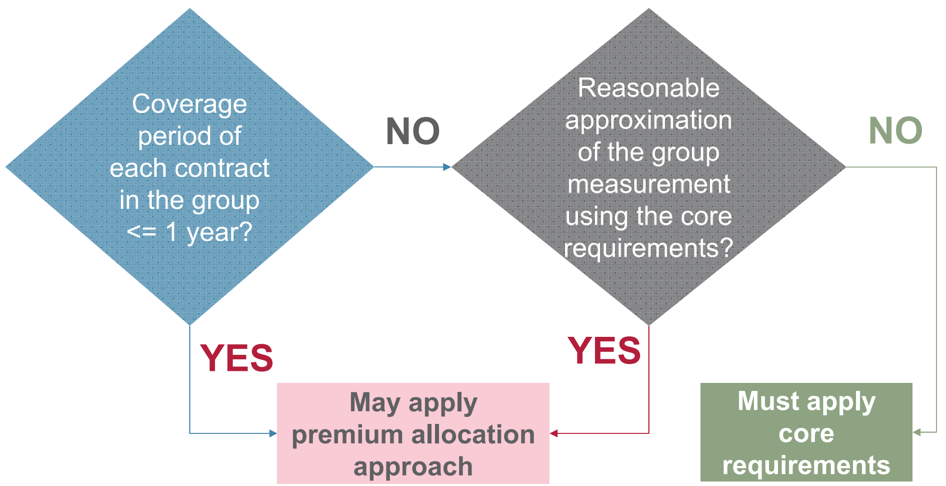
Optional simplified accounting for contracts with short-coverage periods

The premium allocation approach

IFRS

Eligibility criteria

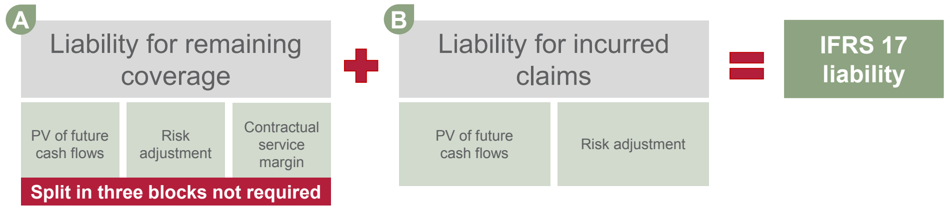
20



IFRS

Simplifications for short-term contracts

21



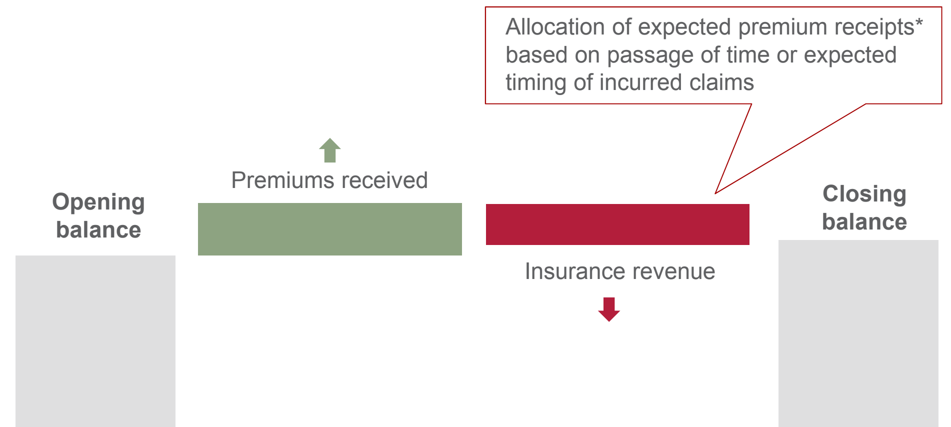
(A) Simplified measurement

(B) Measurement using the core requirements, but a practical expedient is available

IFRS

(A) Measurement of the liability for remaining coverage—simplest case

22

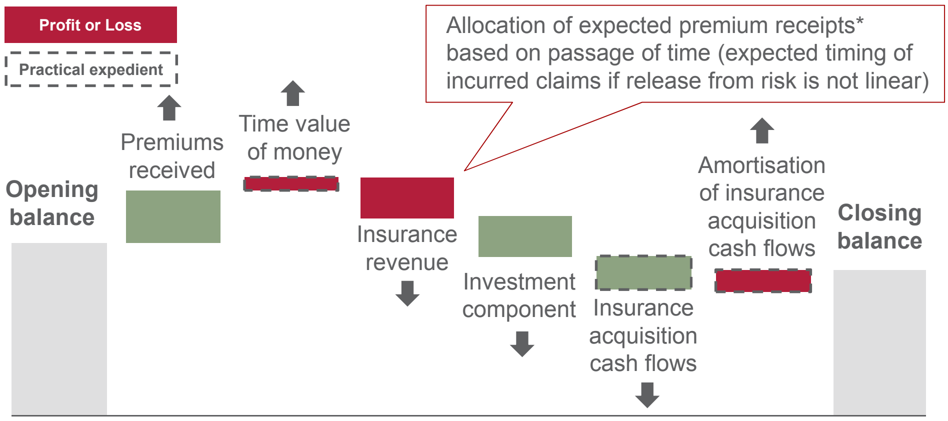


* Expected premium receipts exclude investment component and are adjusted for the time value of money if applicable.

IFRS

A Measurement of the liability for remaining coverage—overview

23



* Expected premium receipts exclude investment component and are adjusted for the time value of money if applicable.

IFRS

B Measurement of the liability for incurred claims

24

Liability for incurred claims

- A PV of future cash flows
- B Risk adjustment

- In line with the core requirements
- In addition, a practical expedient is available

A Discount incurred claims using current discount rate UNLESS

Practical expedient:
If settlement expected in no more than one year, no need to discount incurred claims

IFRS

World Standard-setters Conference 2017

Applying IFRS 17 for the first time

Transition requirements

IFRS

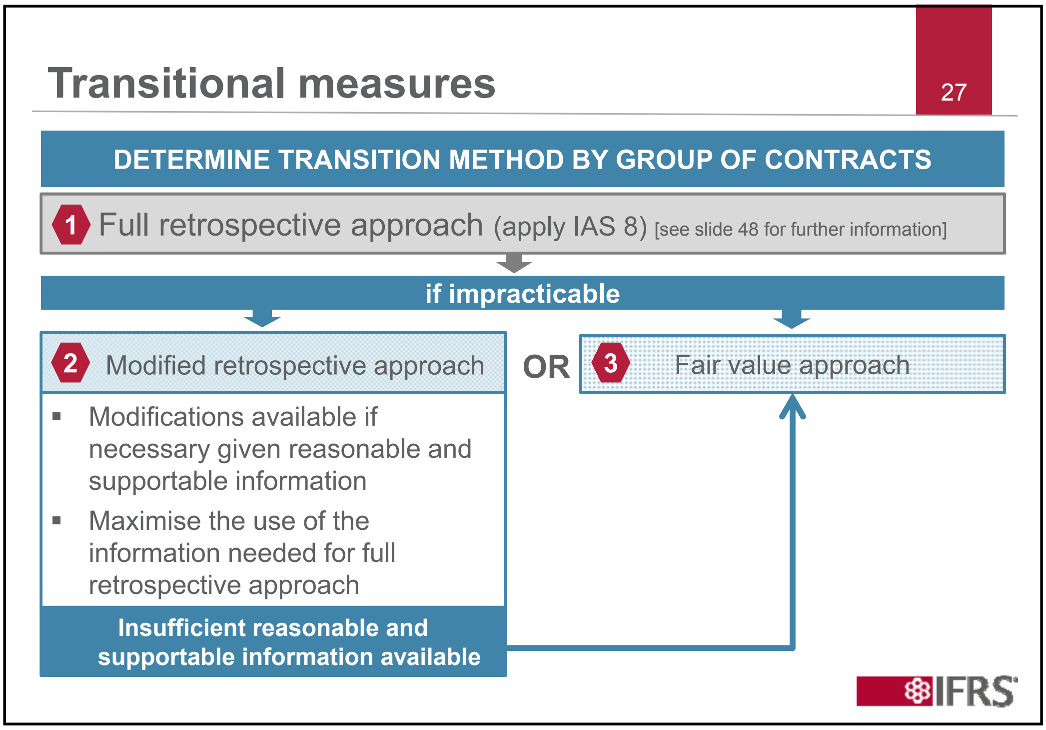
Applying IFRS 17 for the first time

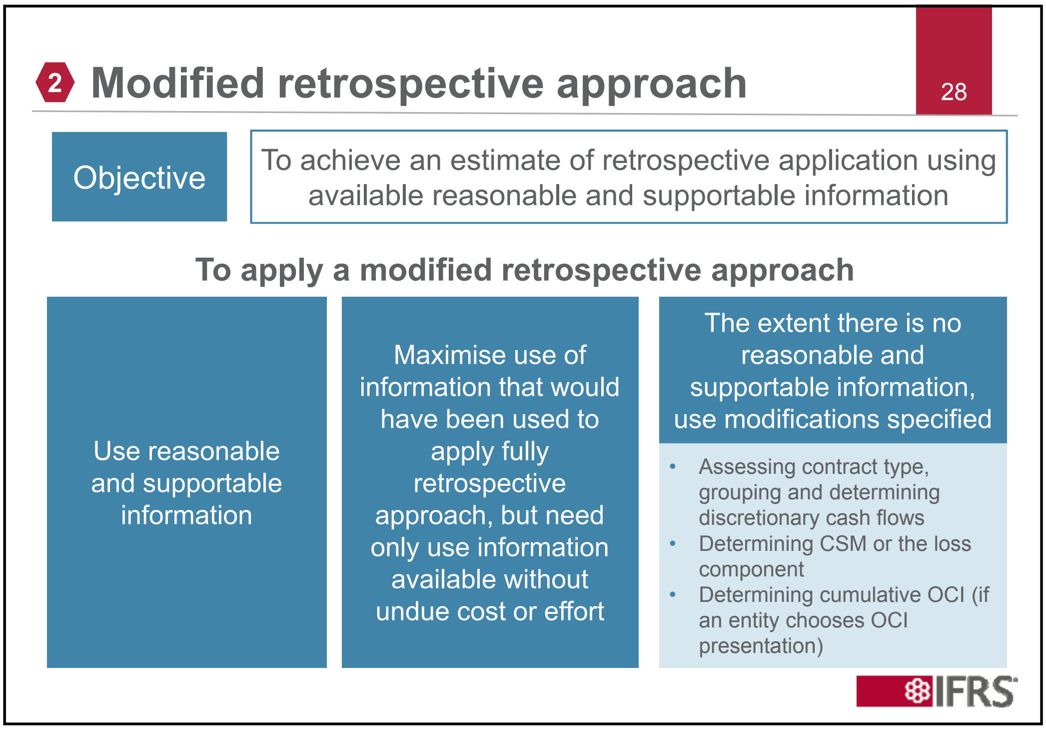
26

	1 PV of future cash flows	2 Risk adjustment	3 Unearned profit
Existing contracts (issued before transition date*)	✓ Usual IFRS 17 measurement	✓ Usual IFRS 17 measurement	× Transitional measures
New business (issued after transition date)	✓ Usual IFRS 17 measurement	✓ Usual IFRS 17 measurement	✓ Usual IFRS 17 measurement

* See slide 47 for further information on the transition date

IFRS


Transitional measures
27
DETERMINE TRANSITION METHOD BY GROUP OF CONTRACTS
1 Full retrospective approach (apply IAS 8) [see slide 48 for further information]
if impracticable
2 Modified retrospective approach
Modifications available if necessary given reasonable and supportable information
Maximise the use of the information needed for full retrospective approach
Insufficient reasonable and supportable information available
OR
3 Fair value approach
IFRS


2 Modified retrospective approach
28
Objective
To achieve an estimate of retrospective application using available reasonable and supportable information
To apply a modified retrospective approach
Use reasonable and supportable information
Maximise use of information that would have been used to apply fully retrospective approach, but need only use information available without undue cost or effort
The extent there is no reasonable and supportable information, use modifications specified
Assessing contract type, grouping and determining discretionary cash flows
Determining CSM or the loss component
Determining cumulative OCI (if an entity chooses OCI presentation)
IFRS

3 Fair value approach

29

- CSM or the loss component of the liability for remaining coverage at transition date is determined as the difference between the fair value of a group of insurance contracts at that date and the fulfilment cash flows measured at that date

IFRS 13	• Fair value is the price paid to transfer a liability [an exit notion] • Market (principal, most advantageous market—ie, where an insurer pays less to transfer contracts that are liabilities) • For the purposes of IFRS 17, fair value measurement is not subject to a deposit floor

IFRS

Appendix

Measurement of insurance contracts

World Standard-setters Conference 2017

IFRS

3 Contractual service margin—subsequent measurement example

31

Example—After one year, the insurer revises the expected risk-adjusted discounted cash outflows and the change relates to future service

Expected cash outflows revised to increase by CU300

- CSM at beginning of year 1 is CU400
- CSM adjusted by CU300, ie remaining CSM is CU100
- Insurer recognises CSM of CU100 over the coverage period

Expected cash outflows revised to increase by CU700

- CSM at beginning of year 1 is CU400
- Change in estimate of CU700:
  - eliminates remaining CSM of CU400
  - results in recognition of loss of CU300 in P&L in the same period

IFRS

Appendix

Presentation and disclosure requirements

World Standard-setters Conference 2017

IFRS

1 Insurance revenue—an activity measure

33

Different measures of the activity in the period

❶ New business	❷ Cash	❸ Service provided
• Expected cash inflows, cash outflows and profit • IFRS 17: disclosure (CSM roll forward)	• Cash inflows and cash outflows • IFRS 17: cash flow statement and CSM roll forward	• Insurance revenue and insurance service expenses • IFRS 17: presented in profit or loss

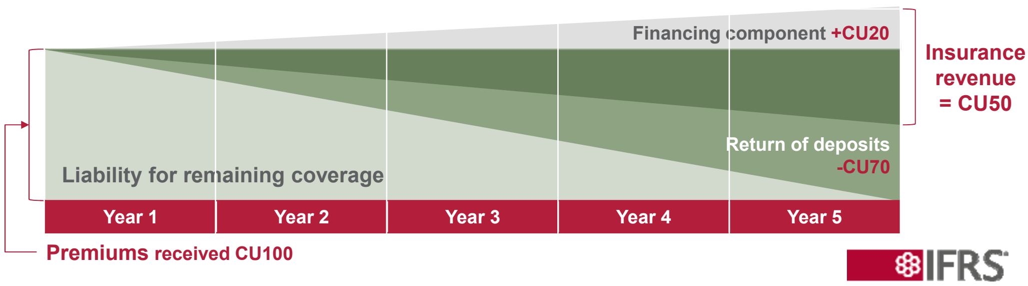
IFRS

1 Insurance revenue—overview and example

34

Revenue recognised reduces liability for remaining coverage	Equals premiums received (adjusted for a financing component) attributable to services provided in the period	Payments to policyholders unrelated to insured event (return of 'deposits') are not revenue

- Consider the following example:
  Premiums received of CU100 + financing component of CU20
  − return of deposits of CU70 = insurance revenue



IFRS

2 Insurance service result

35

The insurance service result

reflects changes in the insurance liability

(eg CSM release)

is presented in the statement of comprehensive income as:

- insurance revenue, less
- insurance service expenses

- Requires the total insurance liability to be split into:
  - Liability for remaining coverage
    - With separate identification of that related to onerous contracts
  - Liability for incurred claims

IFRS

How changes show up in performance

36

	Line item		Which changes are included in line item
2	**Insurance service result**	⬅	**Cash flows** and **risk adjustment*** that relate to current and past service** + allocation of **contractual service margin** for services provided
	Investment income		*Returns on financial assets (IFRS 9)*
3	Insurance finance expenses	⬅	Effect of time value of money and financial risk (eg **discount rates**) ***
	Net financial result		
	Profit or loss		

* Risk adjustment for current and past service includes release from risk due to passage of time

** Changes in cash flows and changes in risk adjustment that relate to future service adjust the contractual service margin

*** Option to present some of these effects in other comprehensive income

IFRS

❸ Insurance finance expenses

37

Statement of comprehensive income	20X1
Insurance revenue	9,856
Insurance service expenses	(8,621)
Insurance service result	1,235
Investment income	7,787
Insurance finance expenses	(7,391)
Net financial result	396
Profit or loss	1,631
Other comprehensive income	
Investment income	2,115
Insurance finance expenses *(optional)*	(1,917)
Total other comprehensive income	198
Comprehensive income	1,829

Insurance finance expenses

- excluded from insurance service result
- presented (i) fully in P&L or (ii) in P&L and OCI (accounting policy choice)

OCI option

- P&L: systematic allocation of total insurance finance expenses to period
- OCI: the effect of discount rate changes

IFRS

Disclosures—overview

38

Amounts	Judgements	Risk
• Present value of future cash flows • Risk and the contractual service margin • New contracts written in the period	• Estimating inputs and methods • Effects of changes in the methods and inputs used • Reason for change, identifying the type of contracts affected	• Nature and extent of risks arising • Extent of mitigation of risks arises from reinsurance and participation • Quantitative data about exposure to credit, market and liquidity risk

Compared to IFRS 4, additional disclosures relating to the amounts reported in the financial statements

IFRS

Example of IFRS 17 balance sheet

39

1 PV of future cash flows + 2 Risk adjustment + 3 Unearned profit = IFRS 17 liability

Balance sheet	20X1	20X0
Financial assets at fair value through profit or loss	185,152	160,936
Financial assets at fair value through OCI	41,145	35,764
Other assets	34,467	31,293
Total assets	260,764	227,993
Insurance contract liabilities	205,724	178,818
Other liabilities	30,859	26,823
Equity	24,181	22,352
Total liabilities and equity	260,764	227,993

IFRS

Insurance contract liability reconciliation

40

	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Liability
BEGINNING OF PERIOD	163,962	5,998	8,858	178,818
Changes related to:				
- Future service yet to be provided	*(784)*	*1,117*	*(116)*	*217*
- Current service provided in the period	*35*	*(604)*	*(923)*	*(1,492)*
- Past service adjustment to past claims	*47*	*(7)*	*-*	*40*
Insurance service result	(702)	506	(1,039)	(1,235)
Insurance finance expenses	9,087	-	221	9,308
TOTAL CHANGES IN P&L AND OCI	8,385	506	(818)	8,073
CASH FLOWS	18,833	-	-	18,833
END OF PERIOD	191,180	6,504	8,040	205,724

IFRS

Revenue and expenses roll forward

41

	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding onerous contracts component	Onerous contracts component		
BEGINNING OF PERIOD	161,938	15,859	1,021	178,818
Insurance revenue	(9,856)			(9,856)
Insurance service expenses	1,259	(623)	7,985	8,621
Investment components	(6,465)		6,465	0
Insurance service result	(15,062)	(623)	14,450	(1,235)
Insurance finance expenses	8,393	860	55	9,308
Total changes in P&L and OCI	(6,669)	237	14,505	8,073
Cash flows				
Premiums received	33,570			33,570
Claims, benefits and other expenses paid			(14,336)	(14,336)
Insurance acquisition cash flows	(401)			(401)
Total cash flows	33,169	-	(14,336)	18,833
END OF PERIOD	188,438	16,096	1,190	205,724

IFRS

Appendix

The level of aggregation

World Standard-setters Conference 2017

IFRS

Level of aggregation
Examples 1 and 2

43

- **Example 1**: A set of 100 'identical' contracts are written with a probability that 5 of the policyholders will claim
  - 100 contracts are a group; company does not treat the 5 contracts as a separate group
- **Example 2**: a company issues 500 contracts; there is information that a set of 200 'identical' contracts are under priced, but the company expects that a set of 300 profitable 'identical' contracts will cover losses (or possible losses) on the set of 200 under-priced contracts
  - Group A—losses on the 200 under-priced contracts are recognised immediately
  - Group B—profits on 300 contracts are recognised over the coverage period

Level of aggregation
Coverage units

44

The recognition in P&L of profits and losses for insurance services is based on coverage units in the group

- Quantity of benefits
- Expected coverage period

Level of aggregation

Coverage units example

45

By grouping, there is no need to track contracts individually

Consider the following simplified assumptions:

- an insurer writes some 5-year contracts that IFRS 17 requires, at a minimum, to treat as a single group:
  - 5 contracts issued in January with an expected total profit of 50
  - 5 contracts issued in February with an expected total profit of 40
  - all contracts provide the same level of cover per year
- the insurer expects that one contract will claim at the end of Year 4

	Inception	Year 1	Year 2	Year 3	Year 4	Year 5
Remaining unearned profit (end of year)	90	71.6	53.2	34.8	16.4	-
Coverage units per year		10	10	10	10	9
Profit recognised in P&L		18.4	18.4	18.4	18.4	16.4
		10 / 49	10 / 39	10 / 29	10 / 19	9 / 9

IFRS

Appendix

Transition requirements

World Standard-setters Conference 2017

IFRS

Transition and initial application

47

2020	2021
Transition date	**Date of initial application (DIA)**
Beginning of the annual reporting period immediately preceding the DIA	Start of the annual reporting period in which an entity first applies IFRS 17
Activities	**Activities**
• Measure each group of contracts applying IFRS 17 • Derecognise existing balances as if IFRS 17 had always applied • Recognise net difference in equity	• Publish first IFRS 17 financial statements • Restate at least one-year of comparatives

IFRS

1 Full retrospective approach

48

- A full retrospective approach measures in-force contracts on the transition date as if an entity had always applied IFRS 17
- The principle of retrospective application is set out in IAS 8

Initial recognition	Each intervening reporting period	Transition date
Calculate the CSM	**Calculate the CSM**	**Calculate the CSM**
• Identify all contracts in each group • For each group determine: – Cash flows – Discount rates – Risk adjustment to calculate opening balance	• Adjust opening balance for changes in – Cash flows – Risk adjustment – Accretion of interest – Allocation to P&L to determine closing balance	• Opening balance

IFRS

Appendix

The variable fee approach

World Standard-setters Conference 2017

IFRS

Variable fee approach—scope

50

- Variable fee approach makes accounting outcome more consistent with that of asset management contracts
- Scope identifies contracts that provide a variable fee for investment-related services
  - Policyholder participates in a share of a clearly identified pool of underlying items
  - Insurer expects to pay policyholder a substantial share of the fair value returns on the underlying items
  - Cash flows expect to vary substantially with the change in the fair value of the underlying items

IFRS

Variable fee approach compared with core requirements

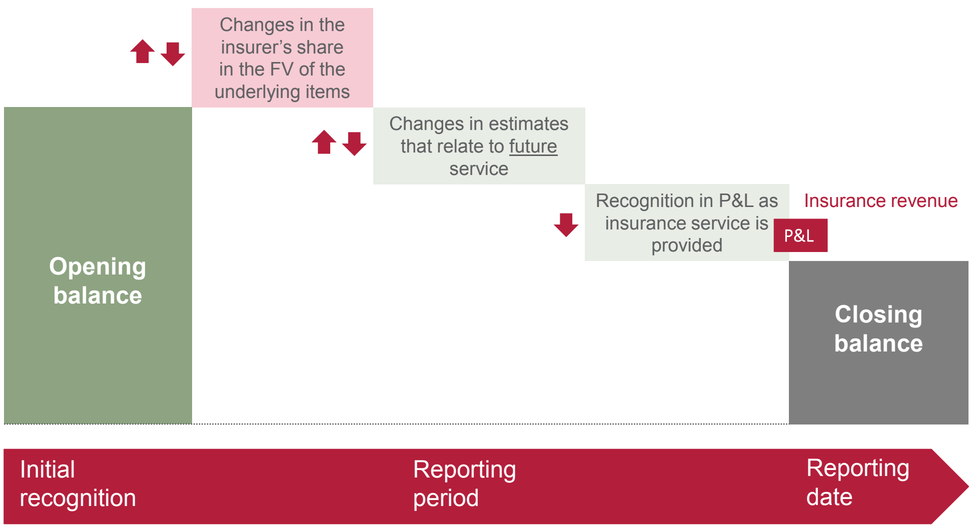
51

	1 PV of future cash flows	2 Risk adjustment	3 Unearned profit
Initial recognition	✓ No difference	✓ No difference	✓ No difference
Subsequently	✓ No difference	✓ No difference	× Difference in how CSM is adjusted for changes in financial variables

IFRS

CSM for direct participating features

52



IFRS

World Standard-setters Conference 2017

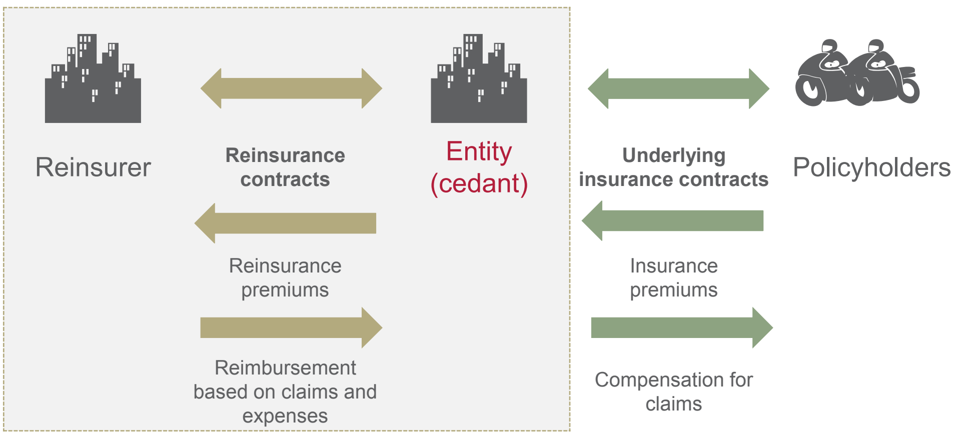
Appendix

Reinsurance contracts held

IFRS

Reinsurance contracts held

54



IFRS

Reinsurance contracts held—overview

55

- Separate recognition and measurement for reinsurance contracts held and the underlying insurance contracts to which they relate
- No mirror accounting
- Apply the core requirements to measure fulfilment cash flows
  - use consistent estimates about cash flows, but
  - differences in estimates may arise because of access to different information, and different adjustments for diversification effects

IFRS

Reinsurance contracts held—overview

56

Initial recognition	• Net cost or net gain on purchasing a group of reinsurance contracts is recognised as CSM over coverage period as services are received
After inception	• Recognise in CSM changes in estimates of fulfilment cash flows relating to future service (consistent with core requirements), except • Recognise in profit or loss those changes which arise as a result of changes in estimates of fulfilment cash flows of underlying insurance contracts, and which are recognised immediately in profit or loss

IFRS

Further information

World Standard-setters Conference 2017

IFRS

Materials published in May 2017

58

- **IFRS 17 Insurance Contracts**—specifies requirements for accounting for insurance contracts.
- **Basis for Conclusions on IFRS 17**—summarises the Board’s considerations in developing the requirements in IFRS 17.
- **Illustrative Examples on IFRS 17**—illustrate aspects of IFRS 17 but provide no interpretative guidance.
- **Effects Analysis on IFRS 17**—describes the likely costs and benefits of IFRS 17.
- **Project Summary of IFRS 17**—provides an overview of the project to develop IFRS 17.
- **Feedback Statement on IFRS 17**—summarises feedback on the proposals that preceded IFRS 17 and explains the Board’s response.

IFRS

Series of webinars to support implementation of IFRS 17

59

Webinars for general audience	
May 2017	Introducing IFRS 17
June 2017	Core requirements: scope of IFRS 17
July 2017	Core requirements: measurement essentials of IFRS 17
August 2017	Simplified accounting for contracts with short coverage periods
September 2017	Reinsurance contracts held [soon to be released]

Webinars for investors and standard-setters	
May 2017	Understanding IFRS 17
July 2017	IFRS 17 for investors

Information about implementation support is available at go.ifrs.org/IFRS-17-implementation

IFRS

Contact us

60

Keep up to date

@IFRSFoundation

IFRS Foundation

www.ifrs.org

IFRS Foundation

Comment on our work

go.ifrs.org/comment

IFRS

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

Day 2 Welcome

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

Financial Instruments with Characteristics of Equity:
case study

Facilitated by: **Amaro Gomes,** *Member,* **IASB**

Manuel Kapsis
Senior Technical Manager
IASB

Peter Clark
Technical Director
IASB

Kumar Dasgupta
Technical Director
IASB

Uni Choi
Practice Fellow
IASB

Ross Turner
Industry Fellow
IASB

Financial Instruments with Characteristics of Equity

Part A - Overview

25 September 2017

World Standard-setters Conference 2017

IFRS

Agenda – Part A

2

- About the project
- Challenges identified and proposed response
- Overview of proposals to be included in the Discussion Paper

IFRS

About the project

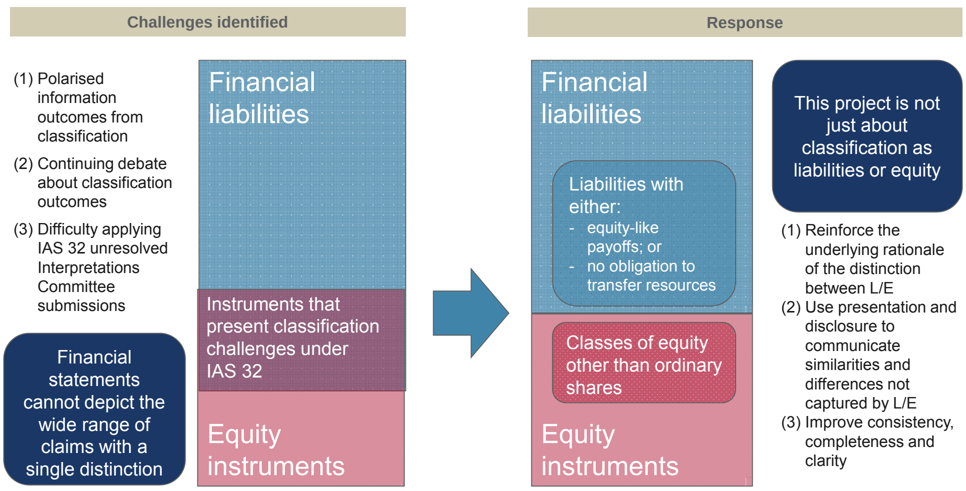
3

- This is a research project
- This research project is investigating:
  - the classification of liabilities and equity; and
  - presentation and disclosure requirements for both liabilities and equity.
- Why are we doing this project?
  - resolve debates about underlying rationale of distinction between liabilities and equity
  - issues submitted to IFRS Interpretations Committee but remain unresolved
- The Board is considering various ways of overcoming the challenges identified when applying IAS 32, not just classification.

IFRS

Challenges identified and proposed response

4



IFRS

Proposals

5

Preliminary views in the Discussion Paper include:

- The underlying rationale of classification between liabilities and equity
- Presentation proposals for subclasses of liabilities and equity
- Potential disclosures
- Improvements to the consistency, completeness and clarity of the requirements (in particular for derivatives on own equity)

IFRS

Classification – underlying rationale

6

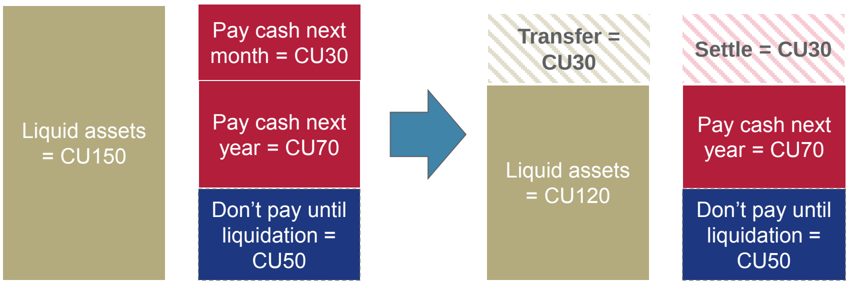
- Classify as a liability claims with either an obligation:
  - to *transfer economic resources* at particular points in time other than at liquidation
    - eg obligations to deliver cash at specified dates or on demand
  - for a *specified amount* independent of the economic resources of the entity (irrespective of 'form') (so not dependent on the entity's 'residual')
    - eg fixed monetary amounts regardless of settlement requirements
- Classify as equity claims that are not liabilities:
  - do not require transfer of resources at a time other than liquidation, <u>and</u> that depend on the residual amount
    - eg ordinary shares

IFRS

Classification:
Transfer of economic resources

7

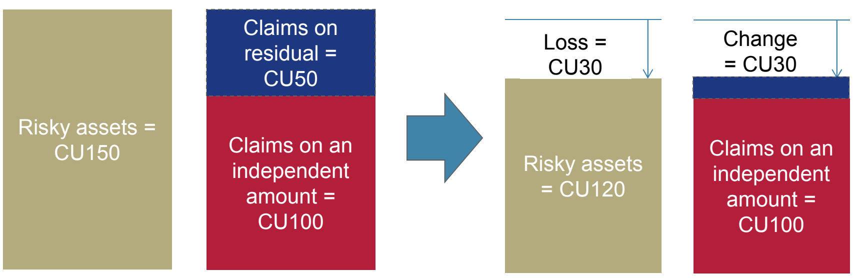
- Timing of resource transfer requirements relevant for assessing:
  - Whether the entity will have the assets required when it needs to transfer them
  - Liquidity (current ratio and quick ratio)
  - 'Flighty' vs long-term funding



Classification:
Amount of the obligation

8

- Amount independent of economic resources relevant for assessing:
  - Whether the entity has sufficient economic resources
  - How claims respond to gains/losses on economic resources
  - Financial leverage and flexibility (eg interest coverage, leverage ratio, debt overhang)



Classification – ‘Puttables’ Exception

9

- Preliminary view is that the exception in IAS 32 to treat some liabilities as equity may still be needed
  - exception applies to financial instruments as described in paragraphs 16A and 16B [or 16C and 16D] of IAS 32
  - retaining the exception would address previous concerns with classifying some puttable instruments that represent the most residual claim to the net assets of the entity as liabilities.
  - disclosure requirements would provide sufficient information for users to estimate the potential cash outflows arising from the claims which meet the exception in paragraphs 16a and 16B [or 16C and 16D].

IFRS

Classification - derivatives

10

- Discussion Paper will propose:
  - continue to classify the derivative in its entirety as liability or equity
  - classification principle that applies the classification approach to the derivative as a whole.
  - additional requirements to ensure consistent accounting for similar economic outcomes, in particular for compound instruments and redemption obligations (eg in written puts on own equity).
- Discussion Paper will include analysis of how the proposals might help alleviate challenges with existing requirements (See Appendix)

IFRS

Presentation: Liabilities

11

- Separate presentation requirements for some liabilities that have different features
  - statement of financial position and statement of financial performance
- For some liabilities, separately present gains and losses
  - if the amount of the obligation to transfer cash or other financial assets solely depends on the entity's share price
    - eg shares redeemable at fair value, net cash settled fixed-for-fixed derivatives
  - foreign currency fixed-for-fixed derivatives in some cases
    - eg conversion option in foreign currency convertible
- The Discussion Paper will explore separate presentation of these gains and losses within profit or loss and using other comprehensive income
  - Preliminary view present separately in OCI. Discuss whether to recycle into profit or loss

IFRS

Presentation: Equity

12

- The Discussion Paper will explore separate presentation requirements for equity claims other than ordinary shares
  - Update carrying amounts in statement of changes in equity
  - Attribute profit or loss and OCI to
    - non-derivatives: use existing requirements in IAS 33 *Earnings per Share*
    - derivatives: a number of approaches considered (see Appendix)

IFRS

Disclosure

13

- The Discussion Paper will explore the following potential disclosures:
  – the priority of claims on liquidation (eg capitalisation table)
  – the potential dilution of ordinary shares
  – terms and conditions

Next steps

14

- Board has granted permission to begin drafting and balloting Discussion Paper
- NSS Support is needed to help us gather feedback on the Discussion Paper
- Based on feedback received:
  - Develop project proposal to amend, or replace, IAS 32
  - One possible outcome of the research is a recommendation to consider adding a project to amend the Conceptual Framework in relation to distinguishing between liabilities and equity

Appendix: Practical issues addressed by the proposed approach

15

Challenges	Outcomes
Application of the 'fixed for fixed' condition	Clarifies that the underlying principle of the 'fixed-for-fixed' condition.
Accounting for put options written on non-controlling interests (NCI puts)	1) Achieves consistent classification outcomes for arrangements with similar economic outcomes, eg convertible bonds and written put options 2) Requires separate presentation of gains and losses for liabilities with amounts linked to share price eg when shares can be redeemed at fair value
Accounting for bonds that are contingently convertible to equity	Clarifies classification of liability and equity components. The contingent conversion option would be classified as equity only if it solely depends on the residual amount.

IFRS

Appendix: Presentation of equity derivatives

16

- The Discussion Paper will discuss costs and benefits of different approaches to attribution of profit or loss and OCI to equity derivatives
  - For example, one approach will attribute based on changes in fair value of equity instruments other than ordinary shares.
    - This will result in measuring the effect on ordinary shares as if the claim were liability classified.
    - However, remeasuring at fair value will introduce some of the issues that we are addressing for liabilities linked to share price.
  - Other approaches include:
    - Calculations, similar to diluted EPS, that are based on fair value instead of intrinsic value and apply to all instruments regardless of whether they are dilutive (reduced EPS) or anti-dilutive (increased EPS)
    - Not attributing any amounts, rely solely on disclosure

IFRS

Attribution of profit or loss to other classes of equity (Simplified illustration)

17

In Currency Units (CU)	Attribute based on fair value	Attribute similar to EPS
Total Profit or loss	**15,000**	**15,000**
Attributed to:		
Warrants	5,000	900
Ordinary shares	10,000	14,100
Comparison to EPS:		
Amount attributed to ordinary shares / total shares outstanding (1000)	10	14.10
Diluted EPS per IAS 33	14	13.50

IFRS

Statement of Changes in Equity (Simplified illustration of FV approach)

18

In Currency Units (CU)	Warrants	Ordinary shares (inc retained earings etc)	Total equity
Start of the year	**-**	**10,000**	**10,000**
Warrants issued	5,000	-	5,000
Attribution of total comprehensive income	5,000	10,000	15,000
End of the year	**10,000**	**20,000**	**30,000**

IFRS

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

NOTES

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

Small group discussions

Financial Instruments with Characteristics of Equity: case study

Facilitated by: **Amaro Gomes,** *Member,* **IASB**

Manuel Kapsis
Senior Technical Manager
IASB

Peter Clark
Technical Director
IASB

Kumar Dasgupta
Technical Director
IASB

Uni Choi
Practice Fellow
IASB

Ross Turner
Industry Fellow
IASB

Financial Instruments with Characteristics of Equity

Part B-Examples

Manuel Kapsis *Technical Staff*
Amaro Gomes *Board Member*

25 September 2017

World Standard-setters Conference 2017

IFRS

Contents

- Summary of the preliminary approach to be proposed in the Discussion Paper
- Questions
- Examples:
  - Example 1: Obligation to deliver a fixed number of ordinary shares
  - Example 2: Variable share-settled bonds
  - Example 3: Shares puttable for fair value
  - Example 4: Cumulative preference shares
  - Example 5: Non-cumulative preference shares

IFRS

Summary of the preliminary approach

3

- Step 1-Classification: Is the financial instrument a financial liability or an equity instrument?
  – Is there an obligation to *transfer economic resources* at particular points in time other than at liquidation?
  – Is there an obligation for a *specified amount* independent of the economic resources of the entity?

IFRS

Summary of the preliminary approach

4

- Step 2-Presentation: What separate presentation requirements apply to the financial liability?
  – Separate presentation of income and expense: Does the amount of the obligation solely depend on the residual amount?
  – Separate presentation on statement of financial position: Is settlement required only at liquidation?

IFRS

Summary of the preliminary approach

5

- Step 3-Disclosure: What disclosure requirements apply to the financial liability or equity instrument?
  - What is the priority of the claim on liquidation?
  - Does the claim result in potential dilution of ordinary shares?

IFRS

Questions

6

For each example you are asked to answer the following questions:

1. What are the features of this financial instrument?
   (eg timing of transfer of economic resources, amount of the obligation, priority on liquidation, type of resources required to be transferred)
2. Is the financial instrument classified as liability or equity? (Step 1)
3. If classified as liability – does the financial instrument qualify for separate presentation of income and expense? (Step 2)
4. What features would be depicted through disclosure? How? (Step 3)

IFRS

Example 1: Obligation to deliver a fixed number of ordinary shares

7

- An entity issues a financial instrument that will be settled by delivering 1,000 ordinary shares, which the entity is able to deliver.

IFRS

Example 2: Variable share-settled bonds

8

- An entity issues a financial instrument that is to be settled in a variable number of the entity's ordinary shares equal to CU1,000 on the date of settlement.
- The settlement date is 2 years after issuance.
- The financial instrument was issued for CU 800 and is subordinated to other ordinary bonds of the entity.

IFRS

Example 3: Shares puttable for fair value (that do not meet 'puttables' exception)

9

- An entity issues 1,000 puttable shares.
- The puttable shares have the same rights as ordinary shares, however the holder has the additional right to put the shares back to the entity at any time.
- If the put option is exercised, the entity is required to deliver cash equal to the fair value of 1,000 ordinary shares on the date of exercise.
- The entity has other ordinary shares on issue that do not have this feature.

Example 4: Cumulative preference shares

10

- An entity issues 1,000 cumulative preference shares for CU1,000, each with an annual dividend of 10%.
- The entity has the right to defer dividend payments, and/or the par payment (ie CU1,000) indefinitely until liquidation.
- However, missed dividend payments are compounded over time at a rate of 10% until paid.
- The entity has the right to settle the claim at any time by paying the par amount and any accrued dividends.
- The preference shares are senior to the entity's ordinary shares and non-cumulative preference shares.

Example 5: Non-cumulative preference shares

11

- An entity issues 1,000 non-cumulative preference shares for CU1,000, each with an annual dividend of 10%.
- The entity has the right to miss dividend payments at its sole discretion, however it cannot pay ordinary dividends without paying dividends on the preference shares.
- Missed dividend payments are not compounded.
- The non-cumulative preference shares are senior to the entity's ordinary shares.
- At liquidation the entity pays available resources to the non-cumulative preference shares up to the par amount (ie CU1,000) before any payment to ordinary shareholders.

IFRS

Answer Sheet

12

	1. What are the features of this financial instrument? (timing, amount, priority, type)	2. Is the financial instrument classified as liability or equity? (Step 1)	3. If classified as liability – does the financial instrument qualify for separate presentation of income and expense? (Step 2)	4. What features would be depicted through disclosure? How? (Step 3)
Example 1				
Example 2				
Example 3				
Example 4				
Example 5				

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

Small group discussions: Feedback

Rate-regulated activities: case study

Facilitated by: **Darrel Scott,** *Member,* **IASB**

Jane Pike
Technical Principal
IASB

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

NOTES

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

Small group discussions: Feedback

Financial Instruments with Characteristics of Equity: case study

Facilitated by: **Amaro Gomes,** *Member,* **IASB**

Manuel Kapsis
Senior Technical Manager
IASB

World Standard-setters Conference

Monday 25 and Tuesday 26 September 2017

NOTES