

CMAC meeting, 21 March 2019
Agenda Paper 1A

IASB Technical Update CMAC

November 2018 – February 2019

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The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or IFRS Foundation.



November 2018 – March 2019 activities & achievements

Consultation documents

The Board expects to issue the following consultation documents:

H2 2019

H1 2020

Primary Financial Statements

Management Commentary

Rate-regulated Activities

Business Combinations under
Common Control

Goodwill and Impairment

2019 Comprehensive Review of the
IFRS for SMEs Standard

Maintenance projects—issued and upcoming Exposure Drafts

Exposure Draft out for comment

Onerous Contracts—
Cost of Fulfilling a
Contract
*(comment period due
by 15/04/19)*

Upcoming Exposure Drafts (expected 2019)

Amendments to IFRS 17 *Insurance Contracts*

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

Disclosure Initiative—Accounting Policies

Updating a reference to the Conceptual Framework

Annual Improvements (2018-2020)

IFRS Amendments expected 2019

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The Board expects to issue the following IFRS amendment in 2019:

Classification of Liabilities as Current or Non-current

The Board expects to issue the following Exposure Draft and IFRS amendment in 2019:

IBOR Reform and its Effects on Financial Reporting

Completed projects

The Board issued the following project summaries in February 2019:

Discount rates

Improvements to IFRS 8 *Operating Segments*

The Board expects to issue the following project summaries later in 2019:

Disclosure Initiative—Principles of Disclosure

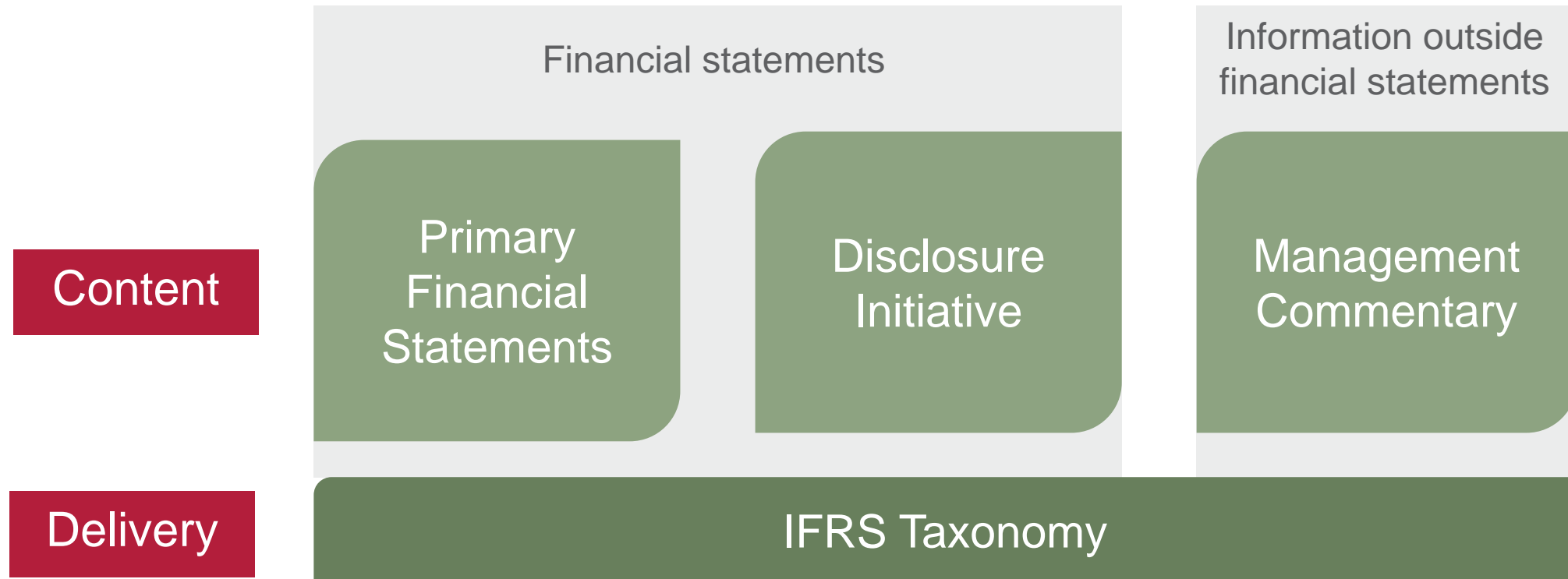
Active Projects

Active projects

Project	Next Milestones	When?	Reference
Business Combinations under Common Control	Discussion Paper	H1 2020	Agenda Paper 7
Disclosure Initiative—Targeted Standards-level Review of Disclosures	Exposure Draft	2020	Agenda Paper 4A/4B
Extractive Activities	Review Research		Agenda Paper 2
Goodwill and Impairment	Discussion Paper	H2 2019	<i>Slides 20-25</i>
Management Commentary	Exposure Draft	H1 2020	Agenda Paper 6
Pension Benefits that Depend on Asset Returns	Review Research	H2 2019	<i>Slides 35-36</i>
Primary Financial Statements	Discussion Paper or Exposure Draft	H2 2019	<i>Slides 11-19</i>
Provisions	Review Research	H2 2019	Agenda Paper 5
Rate-regulated Activities	Discussion Paper or Exposure Draft	H2 2019	<i>Slides 26-28</i>
Dynamic Risk Management (DRM)	Core Model	H2 2019	<i>Slides 29-31</i>
Financial Instruments with Characteristics of Equity	Comment Letter Analysis in Progress		Agenda Paper 3
Interbank Offered Rate (IBOR) and the Effects on Financial Reporting	Decide Project Direction	Q2 2019	<i>Slides 32-34</i>

Better Communication in Financial Reporting

Better Communication in Financial Reporting



Primary Financial Statements

Primary Financial Statements (PFS)—Overall project objective

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Objective of the Primary Financial Statements project

Targeted improvements to the primary financial statements with a focus on the statement(s) of financial performance



Primary Financial Statements

Statement(s) of financial performance

Statement of financial position

Statement of cash flows

Statement of changes in equity

PFS—Stakeholder feedback and key tentative Board decisions



Users

Statements of financial performance are not sufficiently comparable between different companies

Introduce **defined subtotals** in the statement(s) of financial performance



Users

Non-GAAP measures can provide useful information, but transparency needs to be improved

Introduce disclosure of **Management Performance Measures**



Preparers

I need flexibility to tell my company's story

Improve **disaggregation**



Users

There is insufficient disaggregation in financial statements

PFS—Introduce three defined subtotals in the statement of profit or loss

1

Operating profit

Excludes share of profit from **all** associates/JVs

2

Operating profit and share of profit of integral associates/JVs

- Excludes **income/expenses from investments**, which are defined as ‘income/expenses from assets that generate a return individually and largely independently of other resources held by the entity’
- Excludes share of profit from **non-integral** associates and JVs

3

Profit before financing and income tax

Excludes:

- Income/expenses arising from **financing activities**
- Income from **cash and cash equivalents**
- **Unwinding of discount** on liabilities that do not arise from financing activities



Defined bottom-up

PFS—Classification of income/expenses for financial entities

Starting point

(Tentative Board decisions for non-financials)

Present all 3 subtotals

All expenses from financing activities and income from cash & cash equivalents:

Financing

All income (expenses) from investments:

Investing

Tentative Board decisions for financial entities

If providing financing to customers is the main business activity, make accounting policy choice:

Allocate expenses from financing activities and income from cash & cash equivalents:

- Related to provision of financing to customers
- Not related to provision of financing to customers

Operating

Financing

OR

Present all expenses from financing activities and income from cash & cash equivalents in:

Operating

If the entity invests in the course of its main business activities:

Allocate income/expenses from investments:

- Investments in course of main business activities
- Investments not in course of main business activities

Operating

Investing

If no expenses from financing activities or income from cash & cash equivalents in financing category:

No 'profit before financing & tax' subtotal

Insurance finance expenses (income):

Operating



Preparers

I need flexibility to tell my company's story

Tentative Board decisions

Identify a measure (or measures) of profit that, in management's view, communicates the financial performance of the entity.

This measure will often be a subtotal or total specified by IFRS Standards, but could be a **management performance measure** (MPM) that complements those subtotals or totals.

If entities identify MPMs, they will usually be disclosed in the **notes**, because few will fit the structure of the statement(s) of financial performance

No specific constraints on the calculation of MPMs.



Users

Non-GAAP measures can provide useful information, but transparency needs to be improved

Tentative Board decisions

- Disclose a **reconciliation** in the **notes** between the MPM and the most directly comparable subtotal/total specified by IFRS Standards (*not* as a column on the face)
- Disclose the **effect on tax and non-controlling interests** separately for each reconciling item
- Explain any **differences** between MPMs and **segment** measures
- **Describe why** the MPMs provide management's view of performance and **how** they have been **calculated**
- **Label** MPMs in a **clear** and **understandable** way
- Explain any **changes over time** in calculation of MPMs

Tentative Board decisions

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

Removal of classification options for interest and dividends



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

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



Users

There is insufficient disaggregation in financial statements

Tentative Board decisions

Introduce improved principles, definitions and guidance on aggregation and disaggregation including specific principles to address large 'other' balances.

Require entities to disclose information about unusual and infrequent items in the notes, attributed to line items in the statement(s) of financial performance.

Require entities to present their primary analysis of expenses by nature **or** by function in the statement(s) of financial performance.

Develop illustrative examples for the primary financial statements for a small number of industries.

Board still to consider

Expanding the list of minimum required line items in the primary financial statements

Developing principle-based guidance for identifying unusual or infrequent items

Goodwill and Impairment

Goodwill and Impairment—Objectives for the project

- ✓ The Board has tentatively decided to pursue three objectives to address the interrelated problems identified in the research. The objectives are:

Objective A	Identifying disclosures to enable investors to assess: <ul style="list-style-type: none">• management’s rationale for the business combination; and• whether the post-acquisition performance of the business combination meets expectations set at the acquisition date
Objective B	Simplifying the accounting for goodwill by exploring whether to: <ul style="list-style-type: none">• permit an indicator-only approach to determine when an impairment test is required; and/or• reintroduce amortisation of goodwill
Objective C	Improving the calculation of value in use by exploring whether to: <ul style="list-style-type: none">• remove the prohibition on the inclusion in cash flow projections of future enhancements to the asset; and• permit the use of post-tax inputs in the calculation of value in use

Goodwill and Impairment— Objective A - Work in progress: Disclosures

- ✓ Staff's ideas to improve disclosures for business combinations are as follows:

Improving existing disclosure objectives of IFRS 3 to meet research objective A

Making targeted improvements to existing disclosure requirements of IFRS 3

Developing additional disclosure requirements on subsequent performance of business combinations

Performing limited review of IFRS 3 disclosures in the light of the disclosure objectives

Goodwill and Impairment—

Objective B - Work in progress: Indicator-only approach

- ✓ Exploring possible relief from mandatory annual quantitative impairment test
 - requiring impairment testing of goodwill only when there are indicators of possible impairment (indicator-only approach)

Basis of the indicator-only approach

- assesses whether the carrying amount of the unit is recoverable;
- shielding limits the effectiveness of the impairment test;
- focus of the test if the unit does not include goodwill is the same but required if indicator present; and
- frequency of quantitative impairment test should not depend on whether the unit contains goodwill – mandatory annual test does not make test significantly more robust

Pros

- is consistent with impairment testing for other assets, other than indefinite life intangibles;
- reduces the cost and complexity of current test without any significant information loss; and
- reduces disclosure burden (eg disclosing inputs to the quantitative test each year)

Cons

- increases concerns about timely recognition of impairments of goodwill;
- Further increases management (and auditors’) judgement in impairment testing; and
- risks loss of good governance mechanism and useful disclosures

Goodwill and Impairment—

Objective B - Work in progress: Amortisation of goodwill

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✓ Rationale for reconsidering amortisation of goodwill

Not possible to make impairment test effective enough to solve “too little too late” issue

Improved information about post-acquisition performance to be provided through better disclosures

Amortisation of goodwill

Some still concerned by increasing amounts of goodwill

Amortisation could be a pragmatic way to reduce the acquired goodwill balance

✓ Amortisation with impairment model vs Impairment-only model

- Stakeholder views during the post implementation review were polarised
- No significant new arguments or evidence to support the reintroduction of amortisation identified during the research project
- Amortisation being reconsidered on cost-benefit grounds
- Decision is whether to change IFRS 3
- Staff think there needs to be a strong argument to reintroduce amortisation

Goodwill and Impairment—Objective C - Work in progress: Improving calculation of value in use

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- ✓ Pursuing targeted changes to the value in use calculation by removing the requirement of IAS 36:

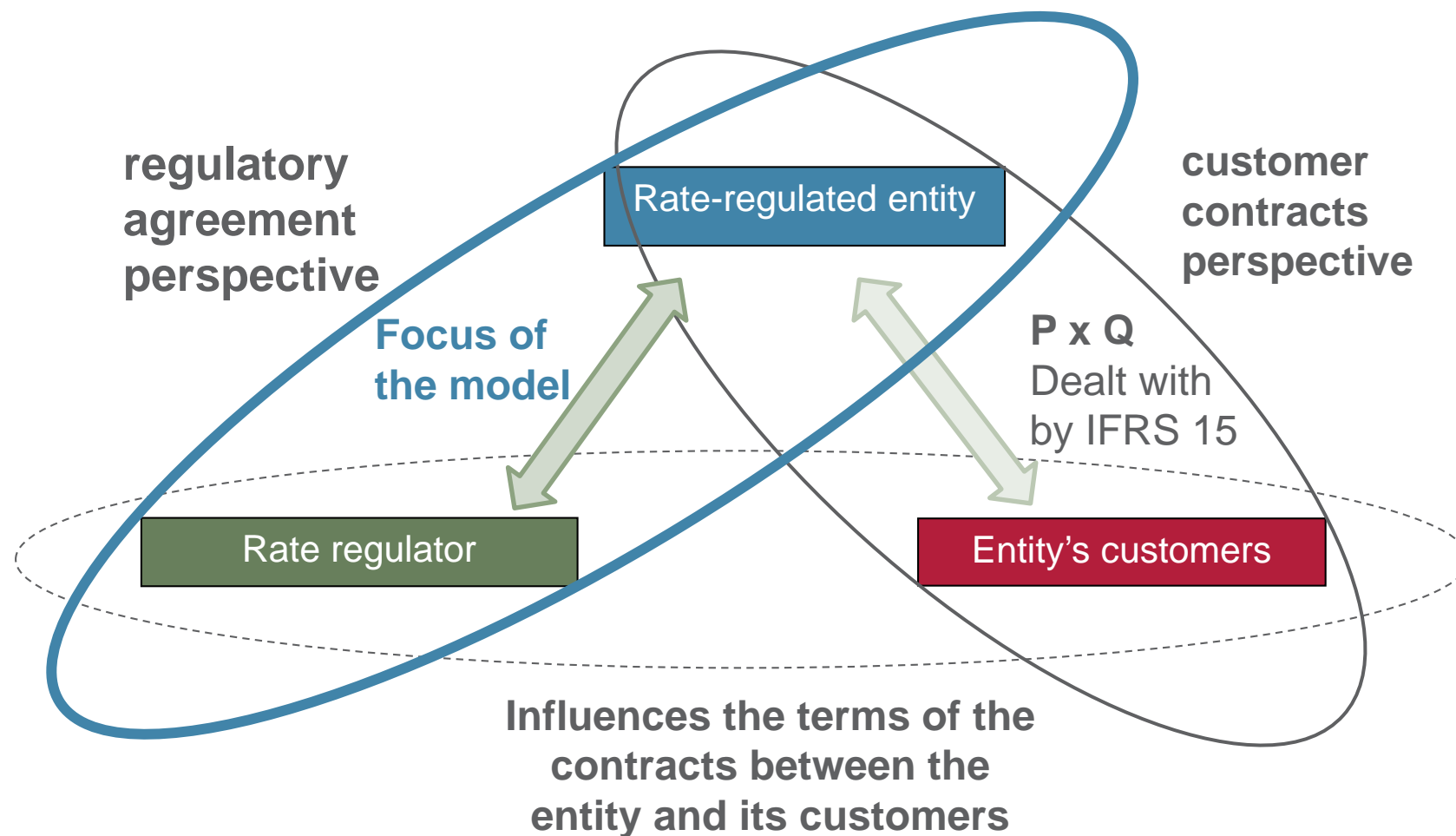
- | | |
|---|---|
| <ul style="list-style-type: none">▪ To exclude from the calculation of value in use those cash flows arising from a future restructuring or from a future enhancement | <ul style="list-style-type: none">▪ To use pre-tax inputs in calculating value in use |
|---|---|

- ❖ Relatively straightforward improvements.
- ❖ Reduce the costs and complexity of the impairment test in IAS 36.
- ❖ Need to address concerns over ensuring cash flows from future restructuring or enhancement reasonable

Rate-regulated Activities

Rate-regulated Activities—the regulatory agreement

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



Rate-regulated Activities—the model being developed

Challenge

- how should companies recognise assets and liabilities arising from the effects (timing and amount) of **defined rate regulation**?

Project scope

Regulatory framework that:

- is **binding** for both company and regulator; and
- establishes a **rate-setting mechanism** for goods or services that creates assets and liabilities due to **timing differences** arising when the regulated rate in **one period** includes amounts relating to required activities carried out by the entity in a **different period**

Supplementary model

- would not amend existing IFRS Standards

Ongoing Board discussions

Output

Discussion Paper or Exposure Draft in H2 2019

Dynamic Risk Management

Objective

- Improve information regarding risk management and how risk management activities affect the entity's current and future economic resources

Guiding principles

- Transparency
- Consideration of capacity constraints
- Dynamic nature
- Performance measurement

Focused on solutions involving both measurement and disclosure

Approach to developing the Dynamic Risk Management model

Current stage

- Develop 'core areas' that will underpin the DRM model ('core model'):
 - asset profile
 - target profile
 - derivatives used for DRM purposes
 - performance assessment

Next steps

- Presentation and disclosure
- Seek feedback on the 'core model' before developing 'non-core areas'. These include:
 - financial assets at FVOCI
 - equity as a source of funding

Interbank Offered Rate (IBOR) and the Effects on Financial Reporting

Identified problem

- The potential discontinuation of interest rate benchmarks (ie IBOR reform) could have a significant and widespread impact across financial markets as they are embedded in a variety of financial instruments

Approach

- Assess the nature and extent of the issues affecting financial reporting before IBOR reform is enacted
- A later phase will address issues arising when IBOR reform is enacted

Board's decisions

- Address concerns related to the uncertainties arising from IBOR reform by providing relief on the application of the following hedge accounting qualifying criteria required by IFRS 9 and IAS 39:
 - ‘highly probable’
 - ‘prospective assessment’ and
 - ‘separately identifiable risk components’
- That relief does not affect the actual economics of the transactions which should continue to be reflected in financial reporting

Next steps

- The Board is planning to issue an Exposure Draft in Q2 2019

Pension Benefits that Depend on Asset Returns

The challenge

- To address the mismatch that arises when:
 - pension benefits are promised on the return of a specified pool of assets, whereas
 - the pension liability is determined using a discount rate that is determined by reference to high quality corporate bond rates

Approach being explored

- The staff are exploring whether it is feasible to cap the asset returns so that the estimate of asset returns does not exceed the discount rate.

Next steps

- The staff will report their findings to the Board in H2 2019.

Supporting Implementation



New website
www.ifrs.org



Video



Leaflet
Supporting IFRS
Standards

Supporting materials sorted by Standard

IFRS Standards

IFRIC
Interpretations

News and events



For example, for IFRS 9 *Financial Instruments*



Webinars



Articles



Transition
Resource
Group



Agenda
decisions

IASB support for IFRS 17 implementation



Webinars



Articles and other materials



Conferences



Transition Resource Group (TRG)



Education for

- investors
- regulators
- standard-setters
- preparers



IASB discussions

- deferral of effective date to 2022*
- targeted amendments to ease implementation*

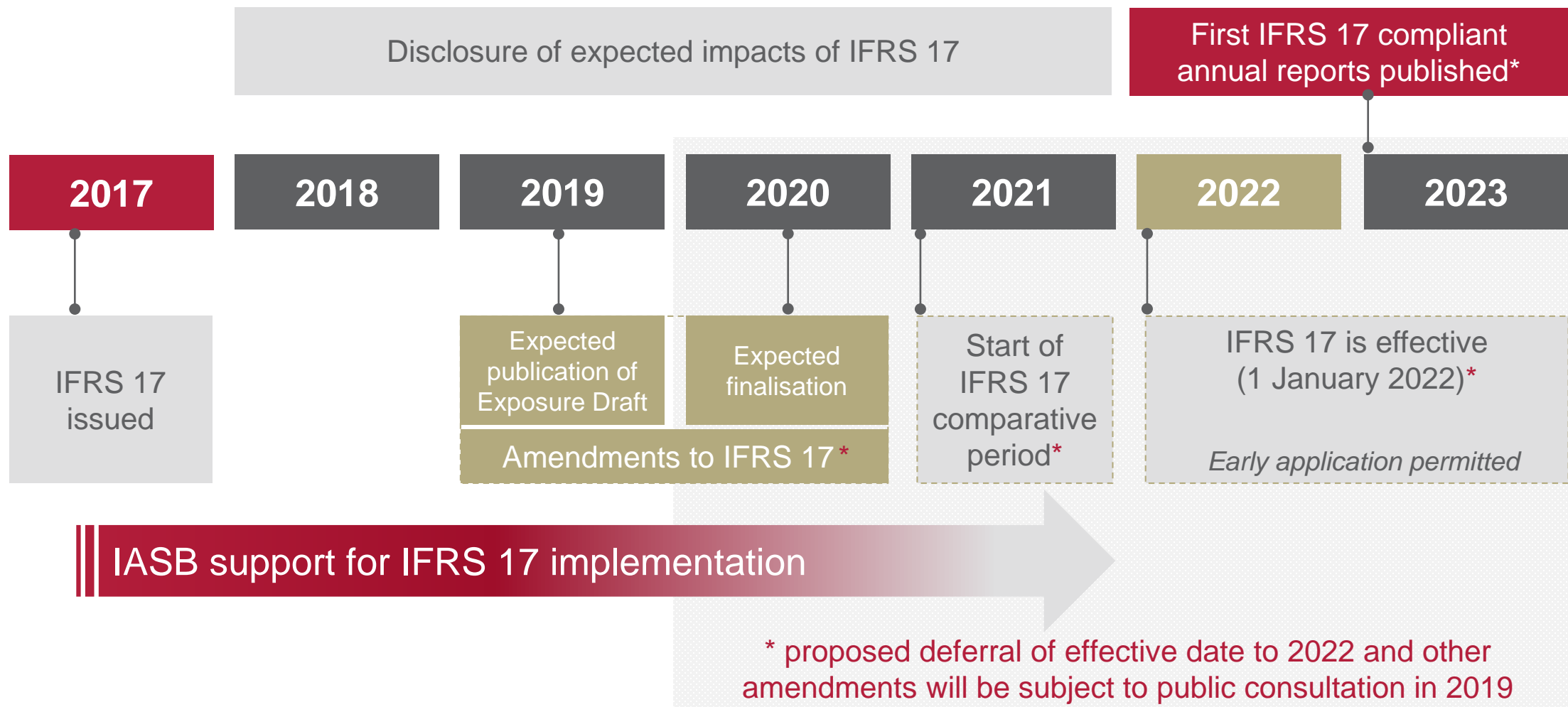


Informal technical discussions with

- regulators
- standard-setters
- audit firms
- preparers

* proposed deferral of effective date to 2022 and proposed targeted amendments will be subject to public consultation in 2019

IFRS 17 timeline



- The Board is expected to:
 - complete its discussions on potential amendments to IFRS 17 to help implementation of the Standard at the end of the first quarter 2019
 - publish the Exposure Draft on the proposed amendments at the end of June 2019
- Ongoing activities to support IFRS 17 implementation
 - TRG meeting scheduled on 4 April 2019

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