

IASB Update

Hot Topics of IFRS Standards and Management Reports

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IASB Board Member

November 2019

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

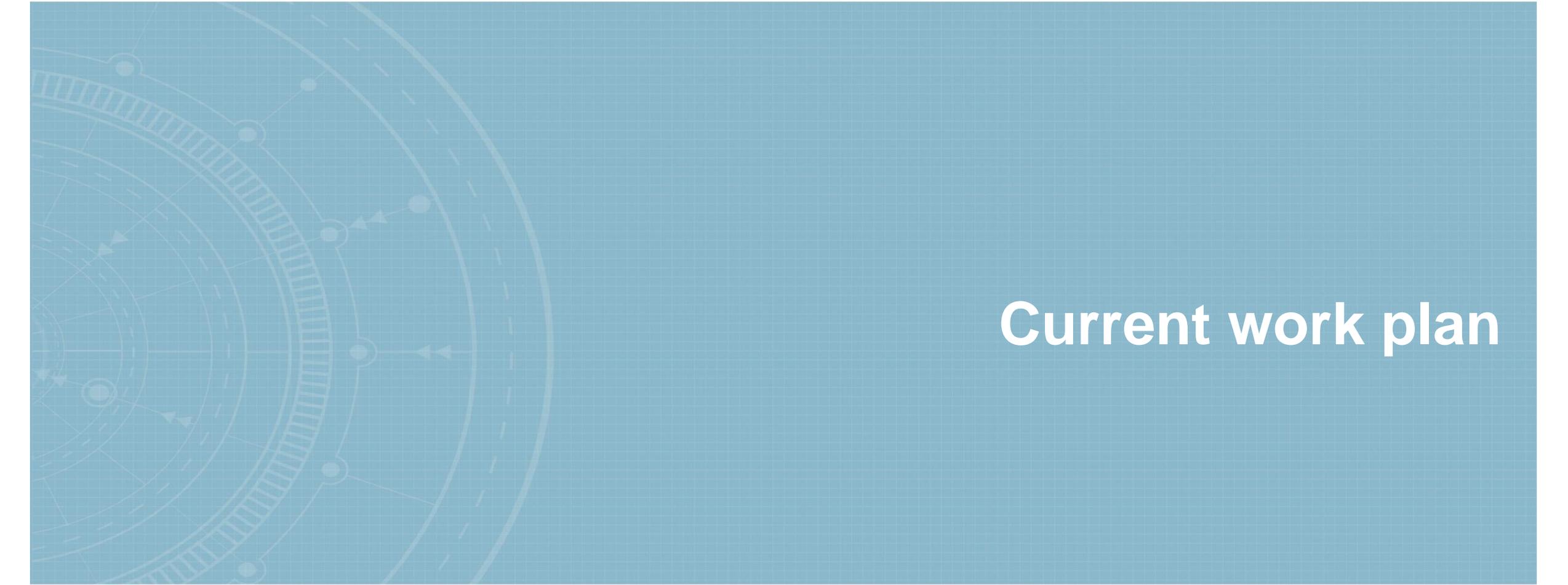


Today's Agenda

- ✓ Recent Highlights
- ✓ Current Work Plan
- ✓ Recently Completed Projects
- ✓ 2020 Major Consultations
- ✓ Better Communications in Financial Reporting
- ✓ Goodwill
- ✓ Financial Instruments with Characteristics of Equity
- ✓ Active Research Projects
- ✓ 2019 Review of IFRS for SMEs Standard
- ✓ Interpretations Committee
- ✓ Helpful Material
- ✓ Appendix – Other Active Projects

Recent Highlights

- ✓ IBOR Reform – IBOR reform will not disqualify hedge accounting; final standard issued.
- ✓ Insurance – ED comment period closed. So far, strong support for deferral to 2022; general, not universal, support for most amendments. Annual cohorts remains an issue.
- ✓ Primary Financial Statements – ED published by year end.
- ✓ Goodwill – DP by early 2020. Impairment model remains; look for disclosure heavy recommendations and modest simplifications.
- ✓ Rate Regulated Enterprises – ED early 2020. Very similar to US GAAP.
- ✓ Leasing – uneventful 2018 & 2019 transitions and application



Current work plan

Amendments and Interpretations (effective date)

Topic	Effective date
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	1 January 2019
Plan Amendment, Curtailment or Settlement (Amendment to IAS 19)	1 January 2019
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019
Annual Improvements 2015-2017 <ul style="list-style-type: none">• Amendments to IFRS 3 and IFRS 11: <i>Previously Held Interests in a Joint Operation</i>• Amendments to IAS 12: <i>Income Tax Consequences of Payments on Instruments Classified as Equity</i>• Amendments to IAS 23: <i>Borrowing costs eligible for capitalisation</i>	1 January 2019
Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
Conceptual Framework for Financial Reporting	1 January 2020
Interest Rate Benchmark Reform	1 January 2020
Amendment to IFRS 3 – Definition of a Business	1 January 2020

Exposure Drafts out for comment

Comments due by

Deferred tax related to assets and liabilities
from a single transaction

14 November

Disclosure Initiative—Accounting Policy Disclosure

29 November

Board considering feedback

Next steps

Amendments to IFRS 17 *Insurance Contracts*

Exposure Draft
feedback

Updating IFRS 3 reference to the
Conceptual Framework

Exposure Draft
feedback

Annual Improvements to IFRS Standards 2018 – 2020

Exposure Draft
feedback

Accounting Policies and Accounting Estimates

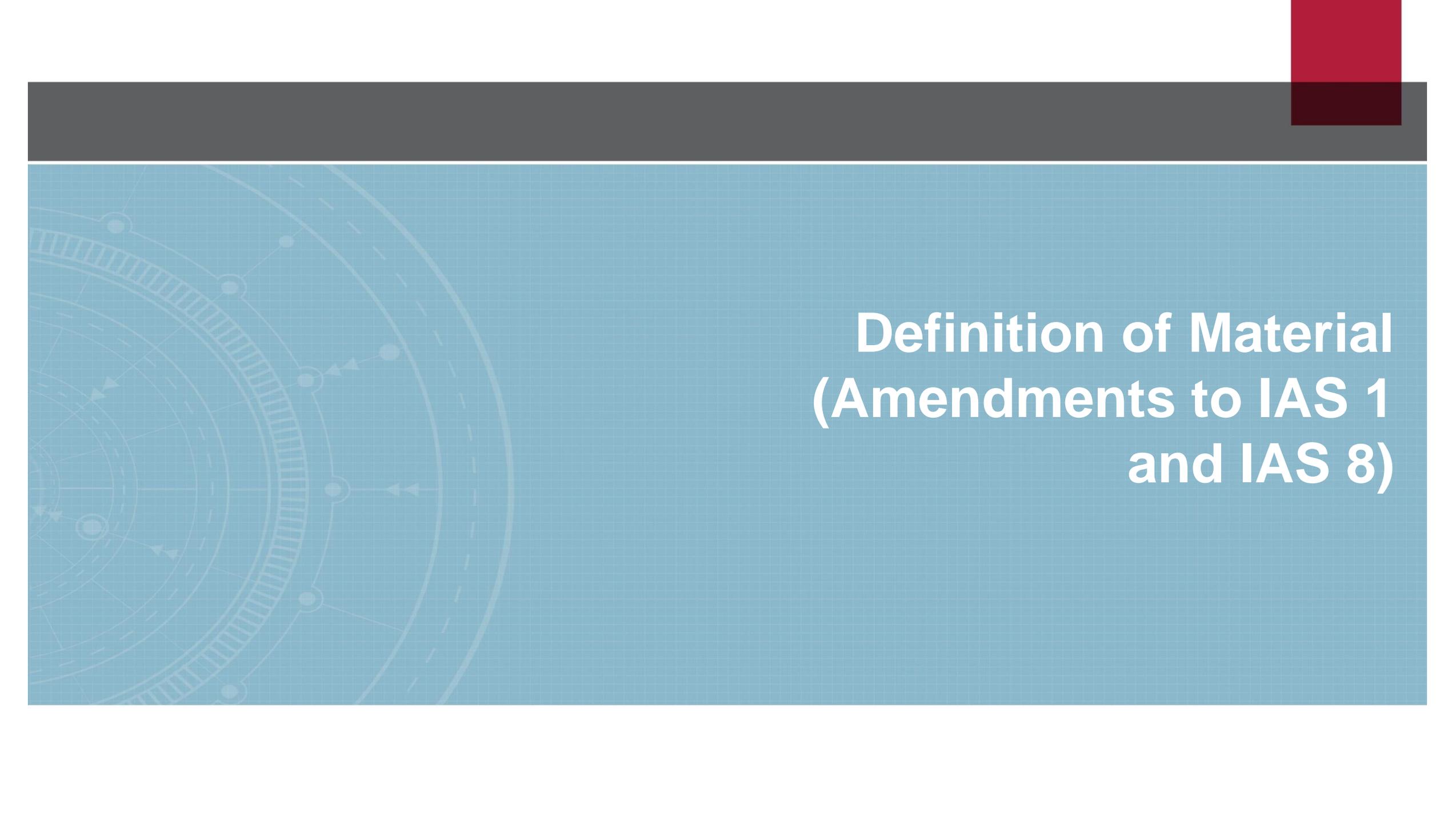
Deliberations
Completed in October

Accounting Policy Changes

Decide project direction



Recently Completed Projects



Definition of Material (Amendments to IAS 1 and IAS 8)

Disclosure Initiative—Definition of Material (Amendments to IAS 1 and IAS 8)

New definition

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity



Some think the threshold 'could influence' is too low and could be applied too broadly

Replaces with 'could reasonably be expected to influence'*

Focused only on information that cannot be omitted (material information)

Includes 'obscuring' to clarify that the effect of including immaterial information should also be considered*

Referred to 'users' but does not specify their characteristics

Uses the wording of the definition in the Conceptual Framework

*Consistent with existing requirements in IAS 1 *Presentation of Financial Statements*



IBOR Reform—phase I

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

Phase I: pre-replacement

- Completed in September 2019
- Amendments to IAS 39, IFRS 9 and IFRS 7 to provide temporary relief from specific hedge accounting requirements

Phase II: replacement

- Project plan agreed and deliberations started in September
- Classification and measurement issues discussed and tentatively decided in October
- Technical deliberations expected over next 3-4 months

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

Bottom Line: if you qualified for hedge accounting before IBOR, then you should continue to qualify

Final Amendments Published 26 September; effective for 1 January 2020; early adoption permitted

Forthcoming IFRS amendments

Next steps

Classification of liabilities as current or non-current

IFRS amendment
Q1 2020

Property, Plant and Equipment: Proceeds before Intended Use

IFRS amendment
Q1 2020

Onerous Contracts—Cost of Fulfilling a Contract

IFRS amendment

Onerous Contracts—Costs of Fulfilling a Contract (IAS 37)

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Identified problem

Diverse views on which costs to include in the cost of fulfilling a contract when assessing whether a contract is onerous.

Exposure Draft *Onerous Contracts—Cost of Fulfilling a Contract* (Proposed amendments to IAS 37) published in December 2018

The Board proposes to amend IAS 37 to:



1. Specify that when assessing whether a contract is onerous, the cost of fulfilling the contract includes both:
 - ✓ the **incremental costs**; and
 - ✓ an **allocation of other costs** that relate directly to contract activities.

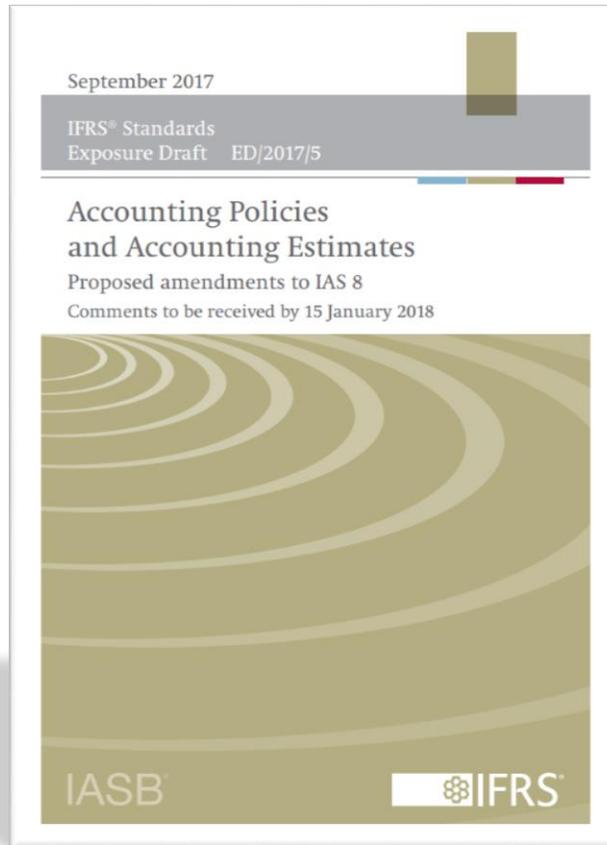


2. Include **examples** of costs that relate and do not relate directly to a contract.

In **September** 2019, the Board decided to proceed with the project and confirmed its views on which costs to consider in assessing whether a contract is onerous. Most technical discussion completed in **October**.

Accounting Policies and Accounting Estimates (IAS 8)

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Proposed amendments would clarify:



How accounting policies and accounting estimates relate to each other



Selecting an estimation technique (or valuation technique) constitutes making an accounting estimate



~~Selecting the inventory cost formulas in IAS 2 constitutes selecting an accounting policy~~

Feedback on the ED

Amendments help clarify the distinction between accounting policies and estimates.

However:

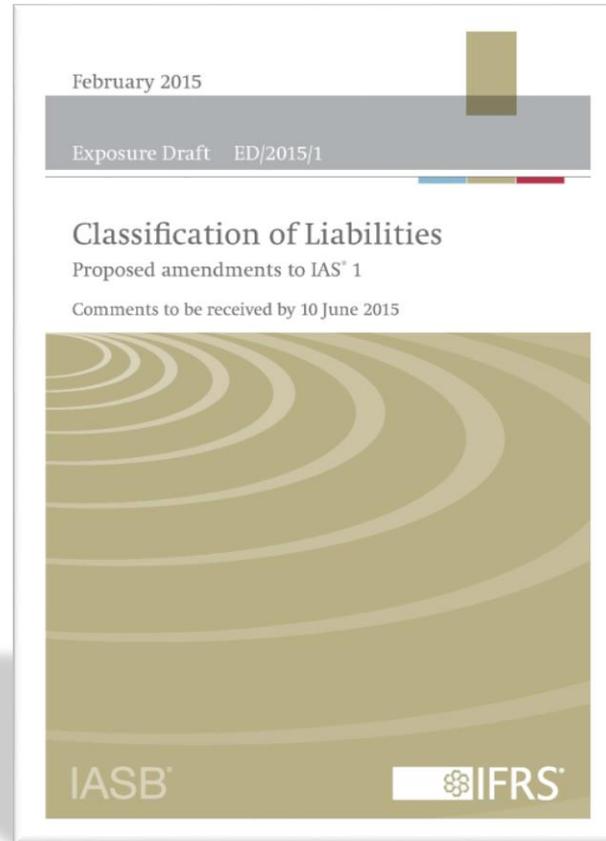
- concerns on particular aspects
- request for additional clarity
- request for illustrative examples
- questions on cost/benefits of proposed amendments.



Board **voted in**
October to finalize

Classification of liabilities as current or non-current (IAS 1)

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Proposal

- Narrow-scope amendments to IAS 1 *Presentation of Financial Statements*
- Clarify IAS 1 criteria for classifying liability as non-current:
Entity must have right at reporting date to defer settlement of liability for at least 12 months after reporting period

Feedback

- Respondents broadly agreed but asked for further clarification

Classification of liabilities as current or non-current (IAS 1)

Subsequent decisions

Board has decided to clarify:

- compliance with any conditions in lending agreement should be assessed as at reporting date
- entity's right to defer settlement is not affected by management's expectations at reporting date, or settlement of liability after reporting date
- how equity-settlement features affect classification

Next steps

Board has completed its discussions and aims to issue IFRS Amendment in Q1 2020

Property, Plant and Equipment—Proceeds before Intended Use (IAS 16)

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Proposal

Recognise in **profit or loss** proceeds that a entity receives (and related production costs) from selling items produced while an item of PPE is being prepared for its intended use.

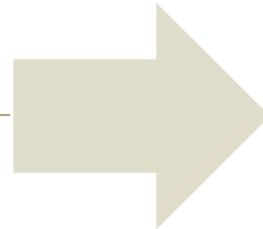
Property, Plant and Equipment—Proceeds before Intended Use (IAS 16)

Feedback

Amendments would improve financial reporting, in particular by removing diversity in how entities report sales proceeds. |

Suggestions / concerns

- Should the Board consider broader matter of identifying when an item of PPE is available for use? |
- How to identify production costs? |
- Do the expected benefits exceed the costs?



Board's tentative decisions

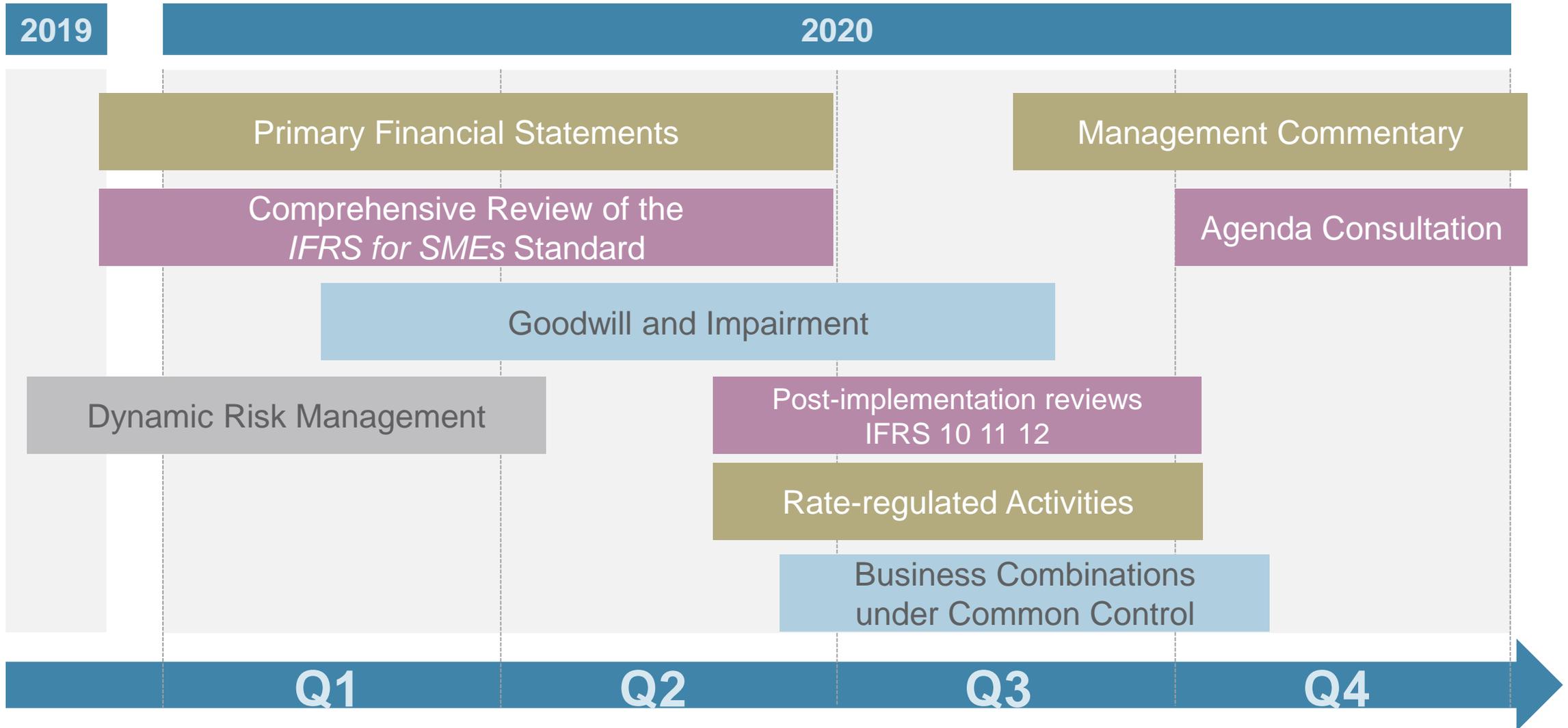
Proceed with finalising amendments with the following modifications:

- identify and measure production costs applying IAS 2 *Inventories*; and
- disclose separately sales proceeds and related productions costs when the sale is not part of ordinary activities.



Board to discuss due process steps at a future meeting

2020 major consultations





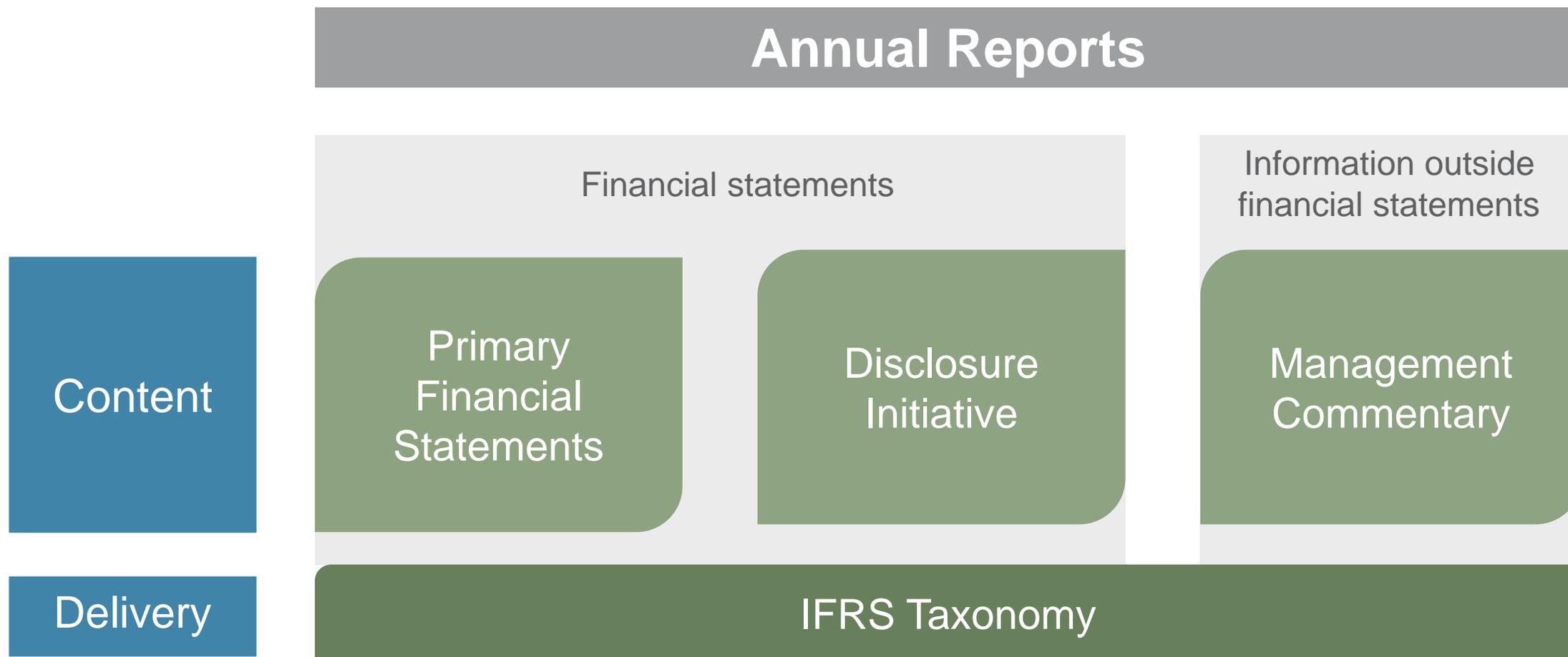
Better Communication in Financial Reporting

Primary Financial Statements

Disclosure Initiative

Management Commentary

IFRS Taxonomy





Primary Financial Statements

Primary Financial Statements project

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objective

To improve how information is communicated in the financial statements, with a focus on information included in the statement of profit or loss

Main issues the Board is addressing in the project



Users

Statements of financial performance are not sufficiently comparable between different companies

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



Users

Non-GAAP measures can provide useful information, but transparency and discipline need to be improved

Introduce disclosure of **Management Performance Measures (MPMs)**



Users

Level of disaggregation does not always provide the information I need

Introduce **requirements to improve disaggregation**

Introducing required and defined subtotals in P&L

(example for general corporates, analysis of expenses by nature)

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

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

Are used in public communications with users of financial statements, **outside financial statements**

Complement totals or subtotals included in IFRS Standards

Communicate **management's view** of an aspect of an entity's financial performance

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

Example of MPM reconciliation

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

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



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

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

General

Improved principles, definitions and guidance on aggregation and disaggregation (eg on 'other' balances)

Operating expenses

- Entities are required to present their primary analysis of operating expenses by nature **or** by function in the statement(s) of financial performance.
- When primary analysis of expenses is presented by function, entities are required to disclose a **full analysis of expenses by nature in the notes**.

Unusual items

- **Definition of unusual items:** 'income or expenses with limited predictive value. Income and expenses have limited predictive value when it is reasonable to expect that income or expenses that are similar in type and amount will not arise for several future annual reporting periods.'
- Requirement for all entities to provide a note disclosing **unusual items, attributed to line items** in the statement(s) of financial performance.



Disclosure Initiative

Disclosure Initiative—the disclosure problem

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

Not enough relevant information

Too much irrelevant information

Ineffective communication

Enabling preparer judgement



Improved disclosure requirements



Improved disclosures and better communication

Disclosure Initiative—overview of projects

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Active projects

Targeted
Standards-level
Review of
Disclosures

Accounting
Policy
Disclosures

Exposure Draft
issued on 1 August
2019

Completed projects

Amendments to
IAS 1 and IAS 8 —
Definition of
Material

Materiality Practice
Statement

Amendments to
IAS 1 to remove
barriers to
application of
judgment

Better
Communication
Case Studies

Amendments to
IAS 7 to improve
disclosure of
changes in
financing liabilities

Principles of
Disclosure
research project

Disclosure Initiative—Targeted Standards-level Review of Disclosures

Objective

- help stakeholders improve the usefulness of disclosures for the primary users of financial statements
- develop guidance for the Board to use when developing and drafting disclosure objectives and requirements (as a set of Board decisions)
- **not to change the volume of required disclosures**, although this may be a consequence

Next steps

- test the draft guidance for the Board by applying it to **IAS 19 *Employee Benefits*** and **IFRS 13 *Fair Value Measurement***
- publish an exposure draft of amendments to the disclosure requirements in IAS 19 and IFRS 13, where formal stakeholder feedback on the draft guidance for the Board will be obtained



Users say that accounting policy disclosures today are often not useful

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

Board's proposals

Clarify that not all accounting policies that relate to material transactions, other events or conditions are themselves material to the financial statements.

Amend IAS 1 *Presentation of Financial Statements* to require entities to disclose their **material accounting policies** rather than their significant accounting policies.

Add guidance and examples to the Materiality Practice Statement. These will explain how to apply the four-step materiality process to accounting policies.

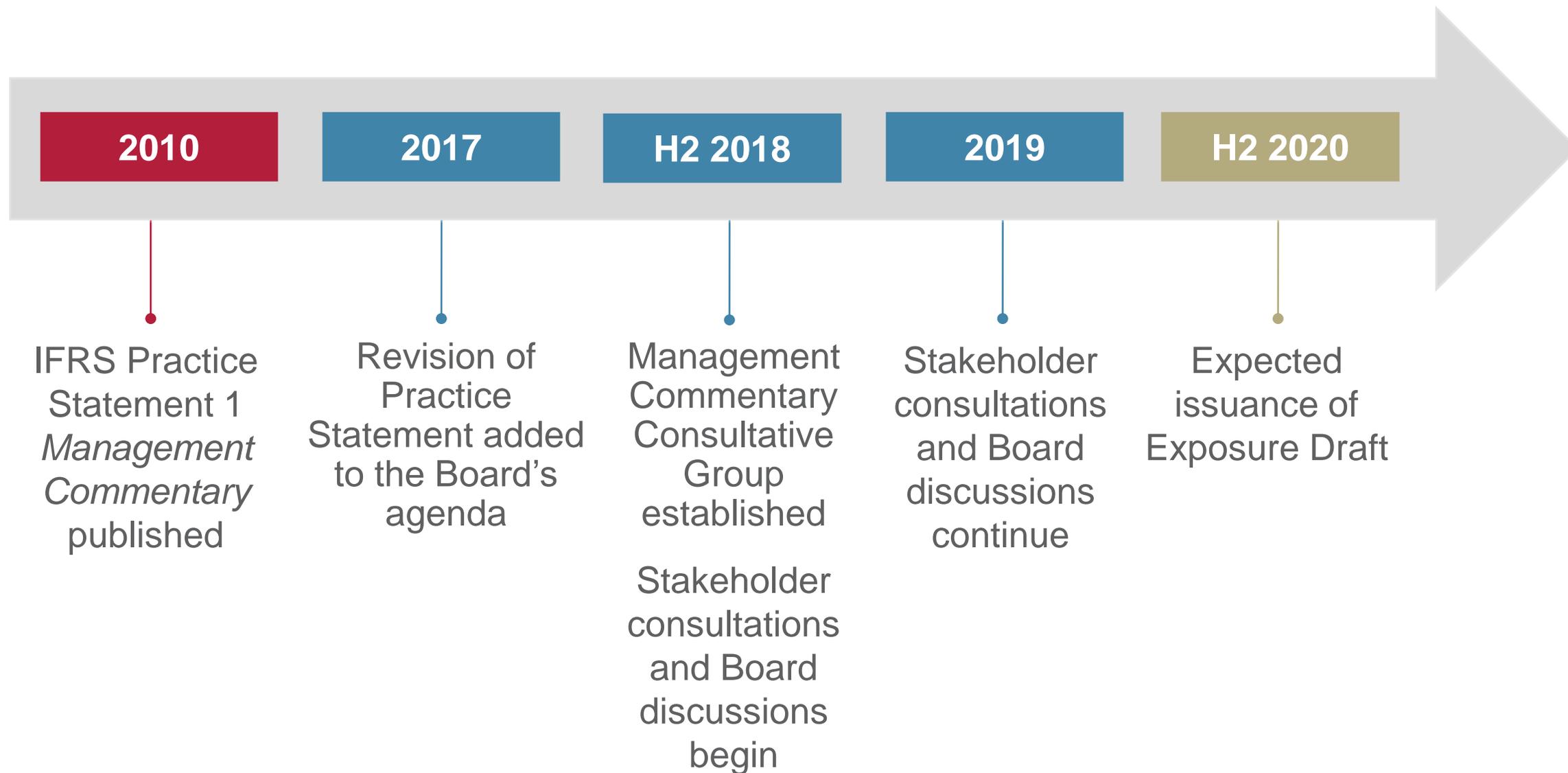


Comment letter deadline: 29 November 2019



Management Commentary

Management Commentary project



What is management commentary?

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

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



Why revise?

Developments in narrative reporting



Gaps in current reporting practice



Increasing need for additional information



Focus of revision

Meet primary users' information needs

Retain a principles-based approach but expand the guidance to:

- consolidate innovations
- address gaps in reporting
- support rigorous application

Particular emphasis on:

- company-specific matters
- intangibles and ESG matters
- matters that underpin long-term success
- coherent discussion linked to strategy

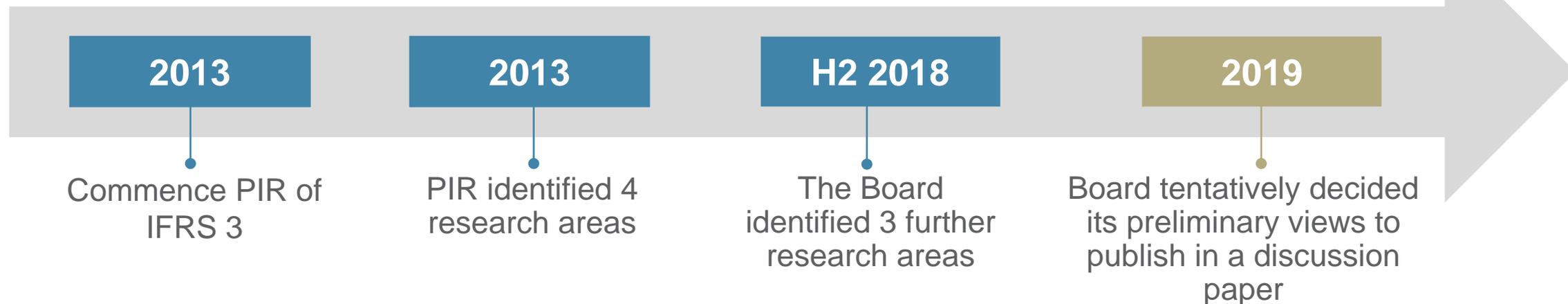
Intended to be compatible with jurisdictional requirements and subject-matter frameworks (eg TCFD, SASB)



Goodwill and Impairment

Goodwill and Impairment project

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What is the project objective?

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

Next steps

Discussion Paper expected in Q1 2020

Main issues the Board is addressing in the Goodwill and Impairment project



Information on subsequent performance of an acquisition inadequate



Goodwill impairment losses 'too late'
– reintroduce amortisation

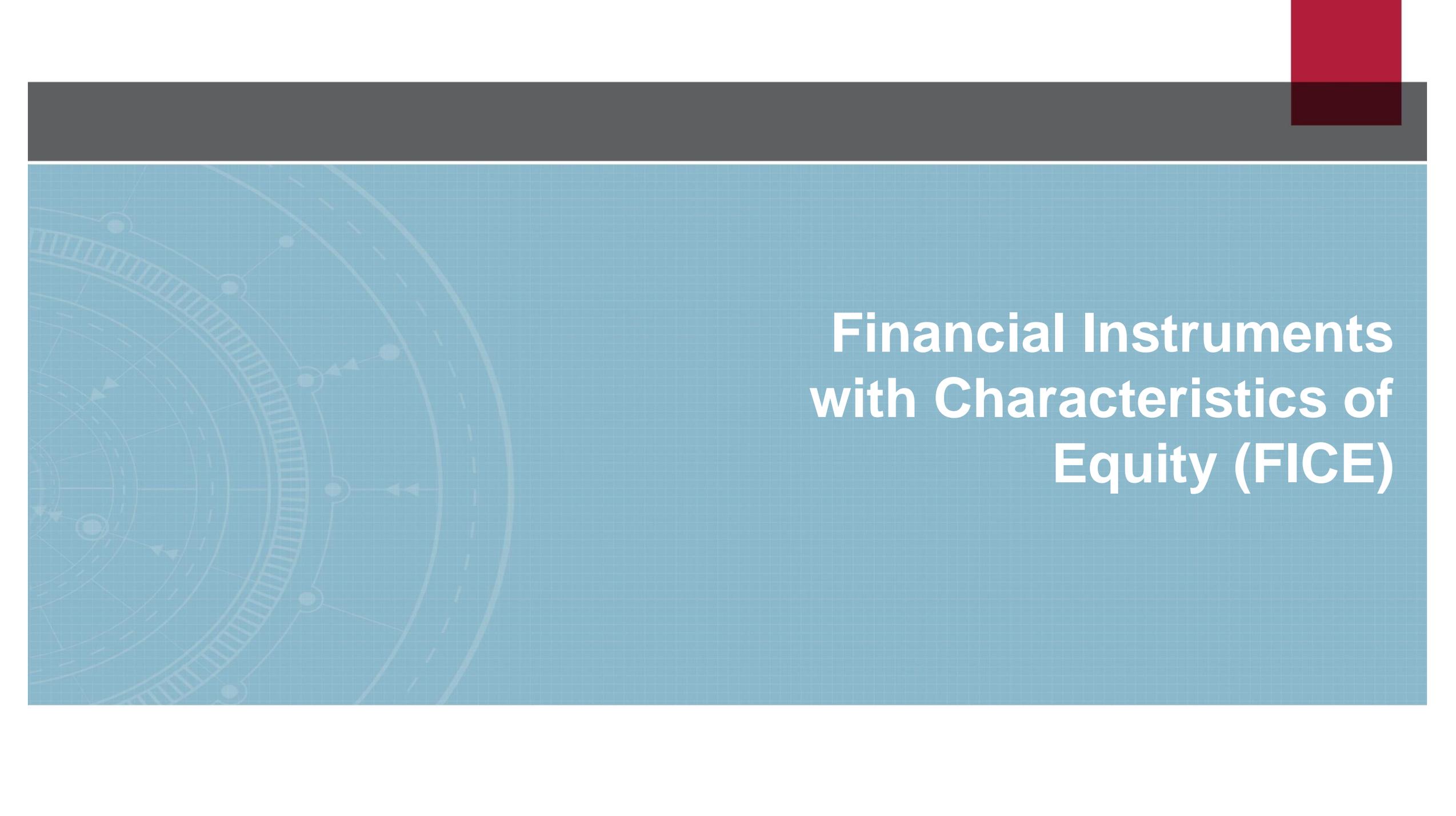


Impairment test costly and complex



Challenges identifying and measuring some intangible assets

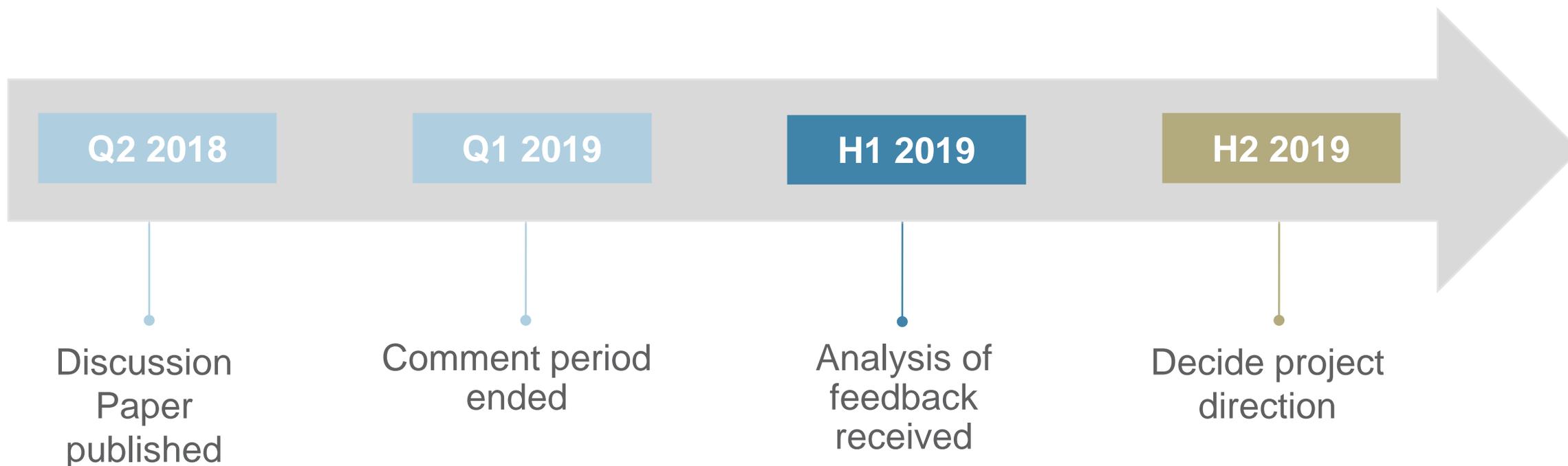
- **Improve disclosures** about the acquisition and subsequent performance
- Not feasible to make impairment test significantly more effective
- Do **NOT** reintroduce amortisation of goodwill
- Present total equity before goodwill
- **Simplify** the impairment test
- Identifiable intangible assets **NOT** to be included in goodwill



Financial Instruments with Characteristics of Equity (FICE)

FICE—timeline and problem to address

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Problem

IAS 32 *Financial Instruments: Presentation* works well for most financial instruments, but presents challenges for some complex financial instruments

Limited information available about a reporting entity's own equity instruments

FICE: feedback on Discussion Paper

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

Key

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

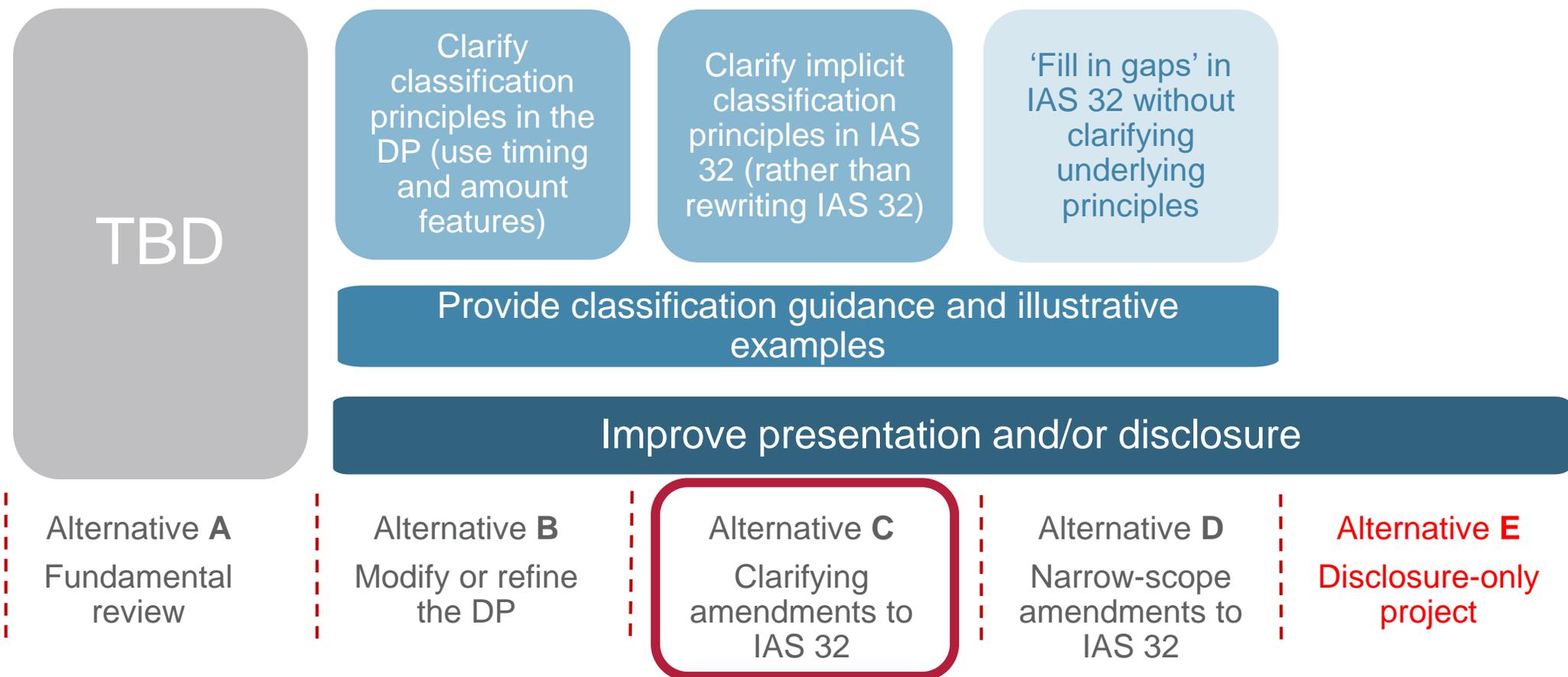
128 comment letters



Next steps Deliberations in process

FICE—project direction alternatives

In September 2019, the Board discussed possible alternative project directions and tentatively decided to consider making clarifying amendments to IAS 32.





Active Research Projects

Provisions

Subsidiaries that are SMEs

Extractive Activities

Pension Benefits that Depend on Asset Returns

Status and next step



Staff have completed evidence-gathering activities

Staff and Board members have discussed research findings with advisory body and consultative groups

- Accounting standards Advisory Forum, Global Preparers Forum, Capital Markets Advisory Committee
- Members of all groups expressed support for a standard-setting project to make the **three targeted improvements**

Next step

Board will review research findings and decide:

- whether to initiate a standard-setting project
- if so, what the scope of the project should be

Status and next step



Staff have completed evidence-gathering activities



Staff and Board members have discussed the project with consultative groups and others

- Accounting Standards Advisory Forum, Global Preparers Forum, International Forum of Accounting Standard Setters
- Members expressed support, although not relevant for some jurisdictions
- Some suggest might encourage greater adoption of IFRS Standards



Next step

Board will review research findings and decide:

- whether to initiate a standard-setting project as part of IFRS Standards

Extractive Activities

Gather evidence to decide whether to start a project to replace IFRS 6 *Exploration for and Evaluation of Mineral Resources*
[Project activated in September]

Pension Benefits that Depend on Asset Returns

Address inconsistency arising when amount of pension benefits depends on the return of a specified pool of assets, but pension liability is measured using a discount rate determined by reference to high quality corporate bond rates [Currently dormant; to restart in next few months]

Research pipeline—Projects to start in the future

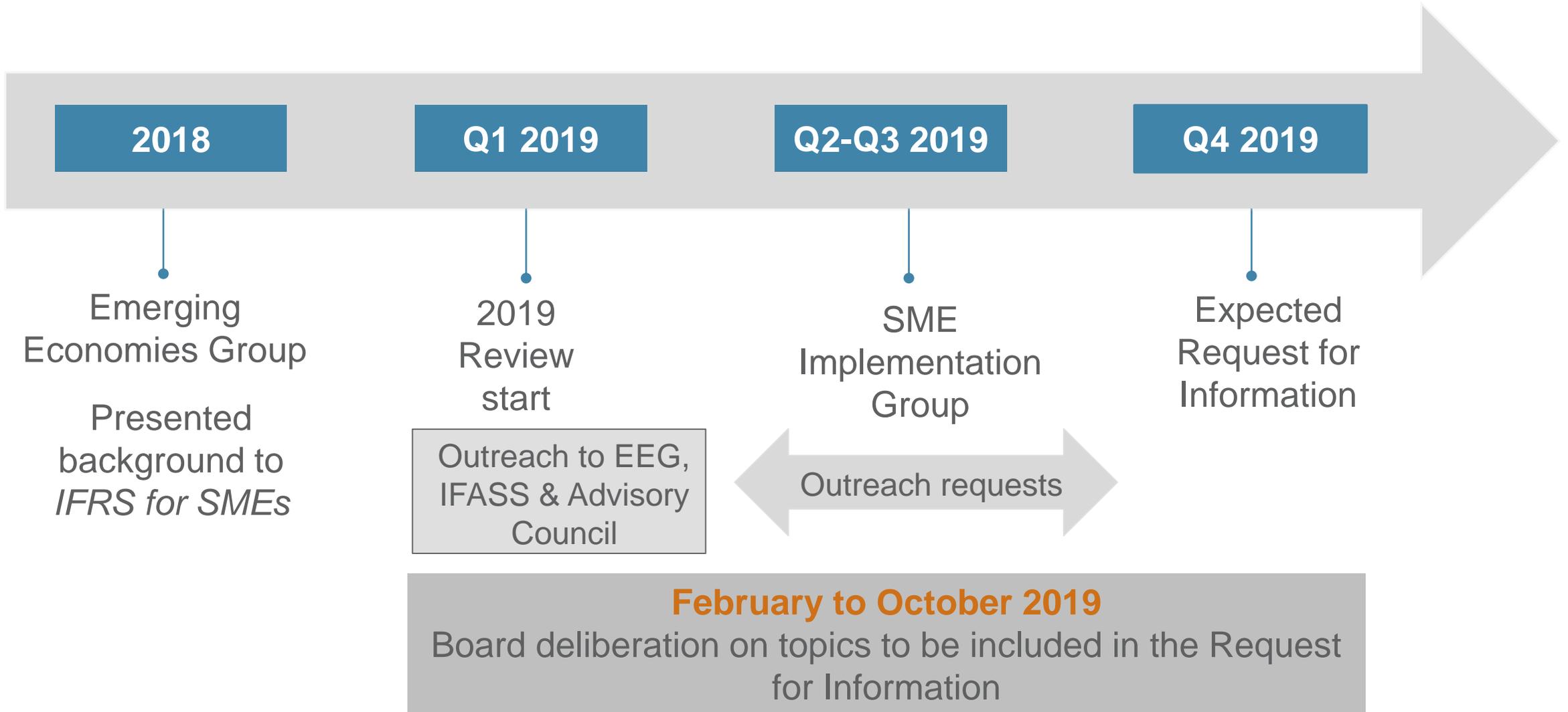
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Project	Comments
Equity Method	A number of queries over time. Topic to be investigated after starting PIR of IFRS 11 <i>Joint Arrangements</i>
Pollutant Pricing Mechanisms	Assess whether the Board should develop a proposal to address any diversity that may exist in accounting for pollutant pricing mechanisms.
High Inflation: Scope of IAS 29	Assess whether it is feasible to extend the scope of IAS 29 to cover economies subject to high, rather than hyper, inflation. No other work is planned on IAS 29.
Variable and Contingent Consideration	Cross-cutting issue raised in agenda consultation and in earlier deliberations of other topics. This work may also lead to follow on work on risk-sharing and collaborative arrangements.



2019 Comprehensive Review of the *IFRS for SMEs* Standard

IFRS for SMEs 2019 Review – Phase 1



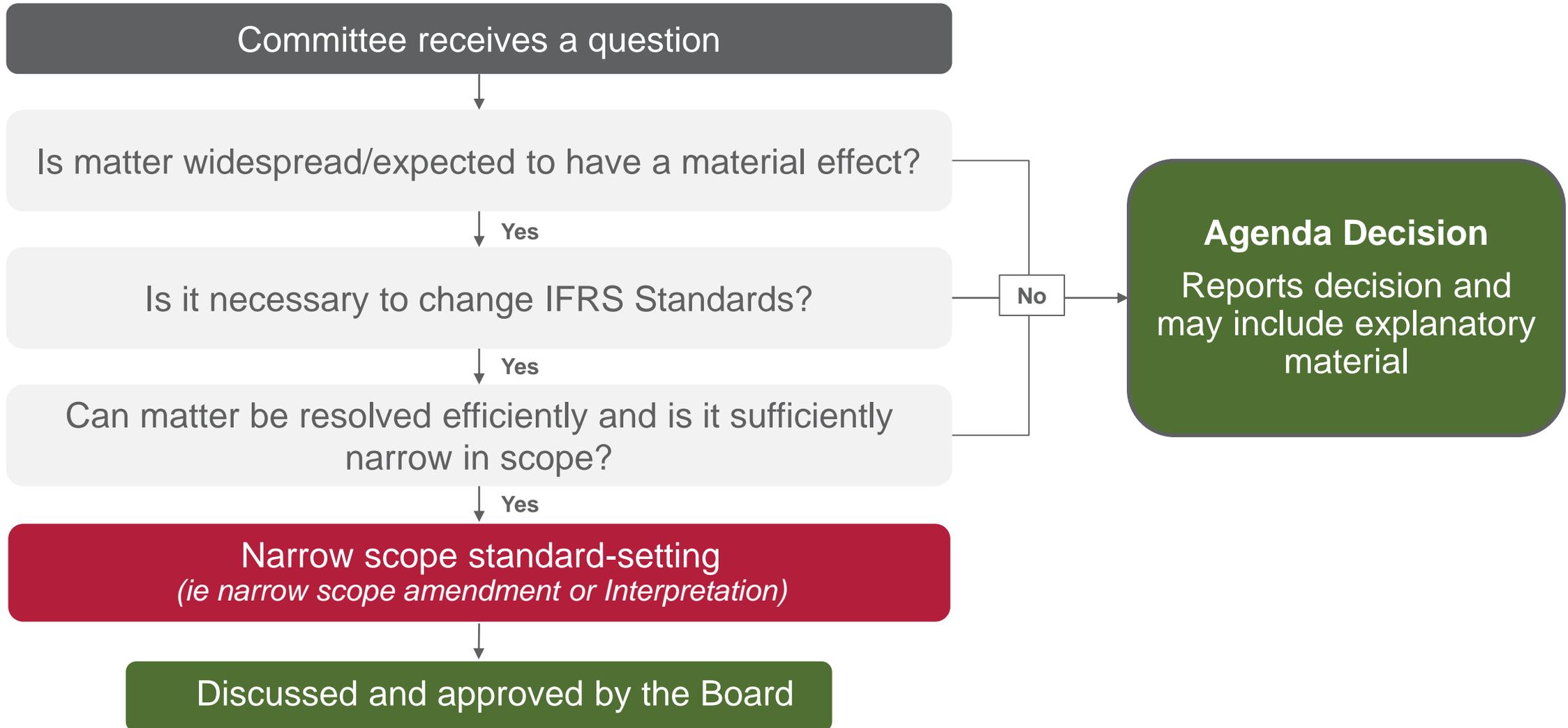
Topics included in the 2019 Review





Work of the IFRS Interpretations Committee

The Interpretations Committee's process





28 addressed by Committee through agenda decisions with explanatory material

2 Work in progress

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

Sample of recent finalised agenda decisions

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IFRS 9 *Financial Instruments*

Curing of Credit-impaired Financial Asset

Fair value hedge of FX risk on non-financial assets

Credit enhancements in measuring ECL

Highly probable requirement

Contracts to Buy or Sell a Non-financial item

IFRS 16 *Leases*

Lease liabilities in a Joint Operation

Lessee's Incremental Borrowing Rate

Definition of Lease: Subsurface Rights

IFRS 15 *Revenue from Contracts with Customers*

Assessment of Promised Goods or Services

Compensation for Delays or Cancellations

Over Time Transfer of Constructed Good

Other Standards

Cloud Computing Arrangements

Holdings of Cryptocurrencies

Sufficient time for implementing agenda decisions

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New information from agenda decisions



Explanatory material in agenda decisions provides new information



Entities may determine a need to change their accounting policy



Some changes require time to implement

Board's view

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

How the Board is trying to help?

New rubric in IFRIC update

Feature: Agenda decisions—time is of the essence

More information on our website:

www.ifrs.org



Helpful material

Resources available on our website



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

IFRS Standards and their Annotated equivalents



IFRS Standards

The IFRS[®] Standards
Required 2019

The IFRS[®] Standards
Issued 2019

IFRS Standards + extensive cross-references + annotations

The Annotated IFRS[®]
Standards Required 2019

The Annotated IFRS[®]
Standards Issued 2019

Annotated IFRS Standards also available in Spanish



Appendix:
Other active projects:
IFRS 17 – Insurance
Business Combinations
under Common Control
Dynamic Risk Management



Insurance – IFRS 17

Example: IFRS 17 *Insurance Contracts*

IASB support for IFRS 17 implementation

A comprehensive programme of stakeholder engagement and implementation support



Webinars



Articles and other materials



Conferences



Transition Resource Group (TRG)

4 meetings

127 implementation questions

Education for

- investors
- regulators
- standard-setters
- preparers



Over 100 meetings with investors

Informal technical discussion with

- regulators
- standard-setters
- preparers
- auditors



Over 300 meetings with stakeholders

IFRS 17—easing implementation

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

Exposure Draft issued on 26 June 2019

Deferral of effective date by one year

IFRS 17
IFRS 9

1

Additional scope exclusions

Loans
Credit cards

2

Allocation of acquisition costs to expected contract renewals

3

Attribution of profit to service relating to investment activities

4

Extension of risk mitigation option

5

Reduced accounting mismatches for reinsurance

6

Simplified balance sheet presentation

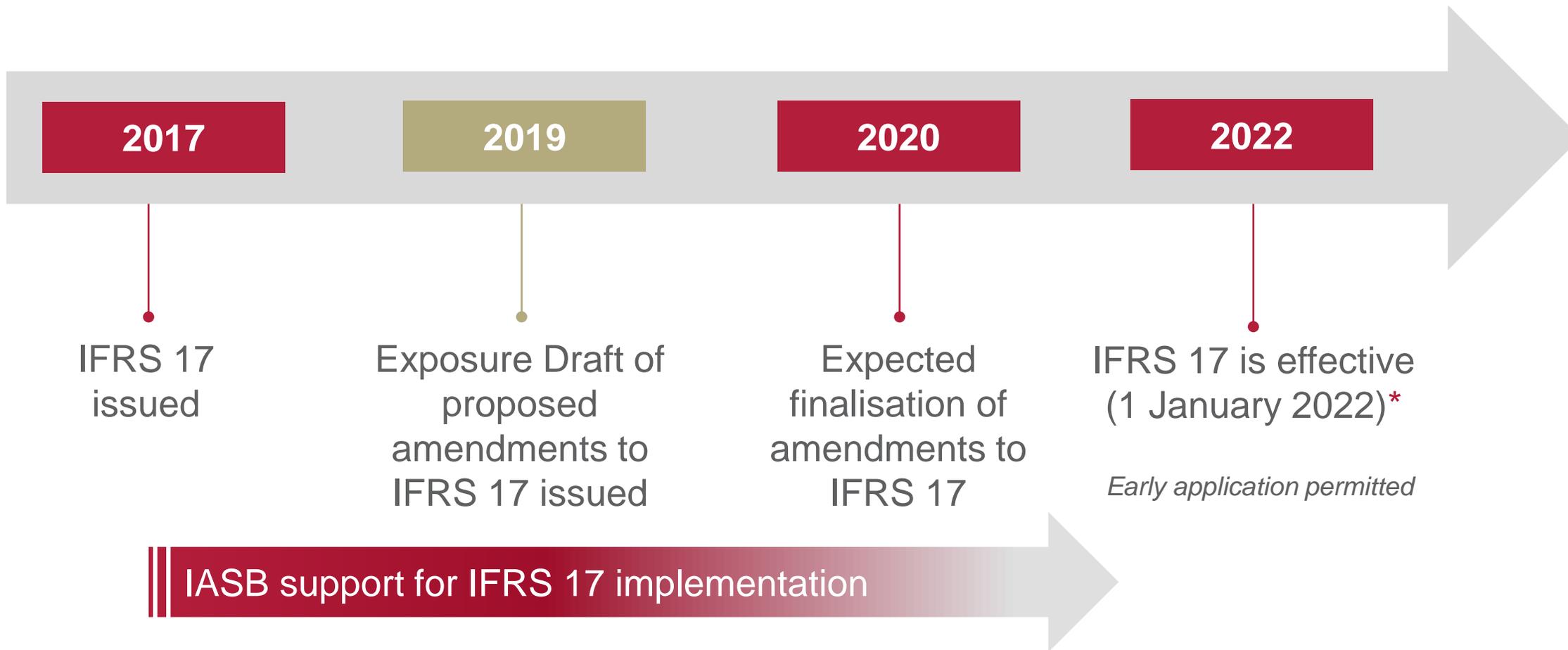
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Additional transition reliefs

Business combinations
Risk mitigation from the transition date
Risk mitigation and fair value approach

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IFRS 17 timeline



 * Proposed deferral of effective date to 2022 and other amendments was open for comments until 25 September 2019. The Board will consider feedback on the proposed amendments and aims to issue final amendments in mid-2020.

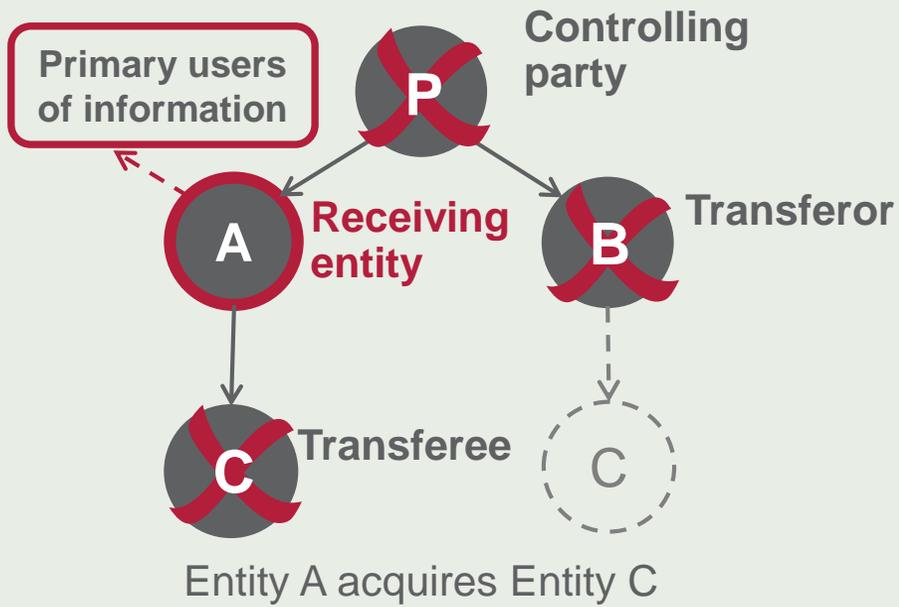


Business Combinations under Common Control

Problem

Absence of IFRS requirements reduces comparability and understandability of financial information

Approach



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

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

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

Business Combinations under Common Control

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Board's tentative decisions

No single approach for all business combinations under common control.

A current value approach for transactions that affect non-controlling shareholders of a receiving entity unless equity instruments of the receiving entity are not traded in a public market and:

- a. all non-controlling shareholders are the receiving entity's related parties; or
- b. the receiving entity chooses to apply a predecessor approach and all its non-controlling shareholders have been informed about, and did not object.

A form of predecessor approach should be applied for all other business combinations under common control.

Next steps

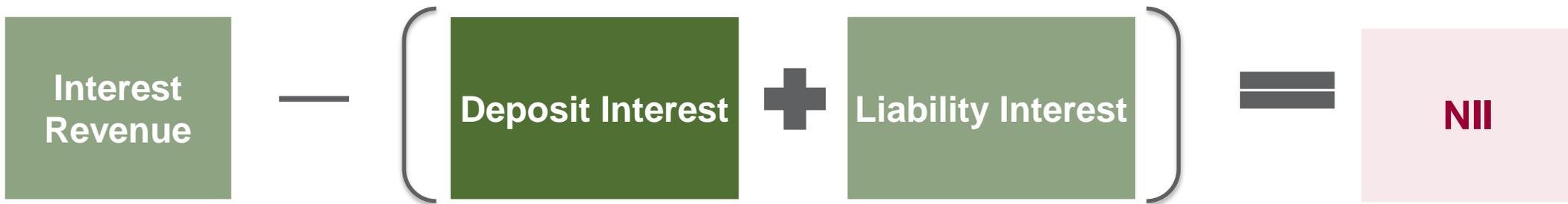
How a current value approach and a predecessor approach should be applied
What information should be disclosed in the notes
Discussion paper is planned for the first half of 2020



Dynamic Risk Management

Dynamic Risk Management: Business Activity of Financial Institutions

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



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

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

Dynamic Risk Management: Outline of the model

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

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



Next steps The Board plans to conduct focused outreach



2020 Agenda Consultation

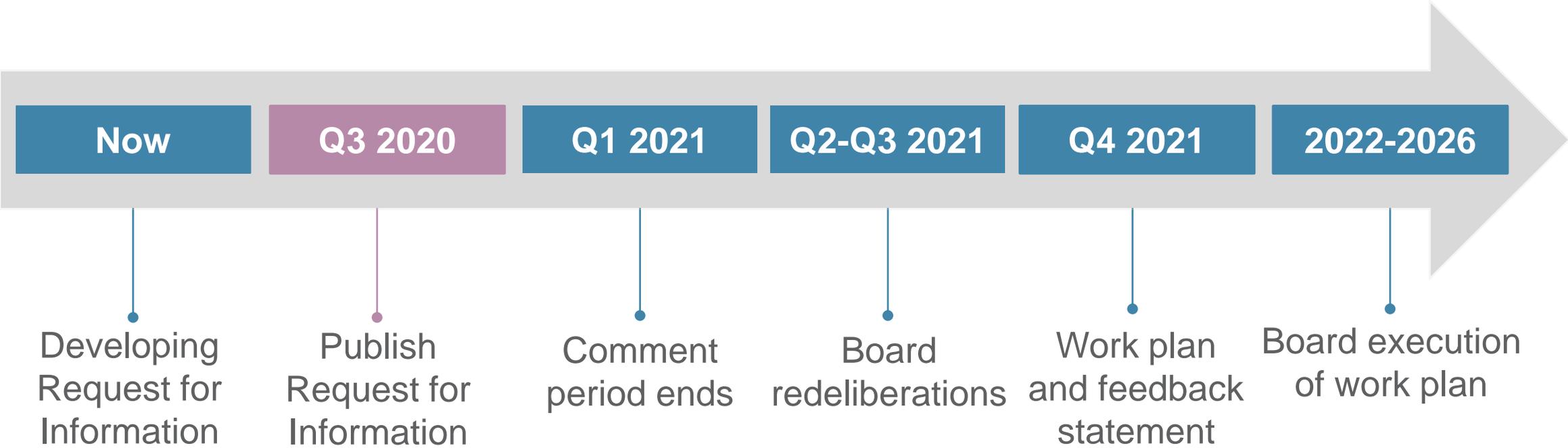
2020 Agenda Consultation

The purpose of an agenda consultation is to seek feedback on

Strategic direction and balance of work plan

Criteria for assessing projects to be added

Priority of financial reporting issues



Join the IFRS Foundation team



a mission
that matters



working with global
accounting experts



access to network of
influential people



small organisation
with a big impact



unique development
opportunities



intellectually
stimulating



international
environment

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