



IFRS® Foundation

Service for Accounting, Reporting and
Auditing Supervision - Georgia

IASB Technical Update and Management Commentary

Tadeu Cendon
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Overview

Update on current work plan – consultations open for comment

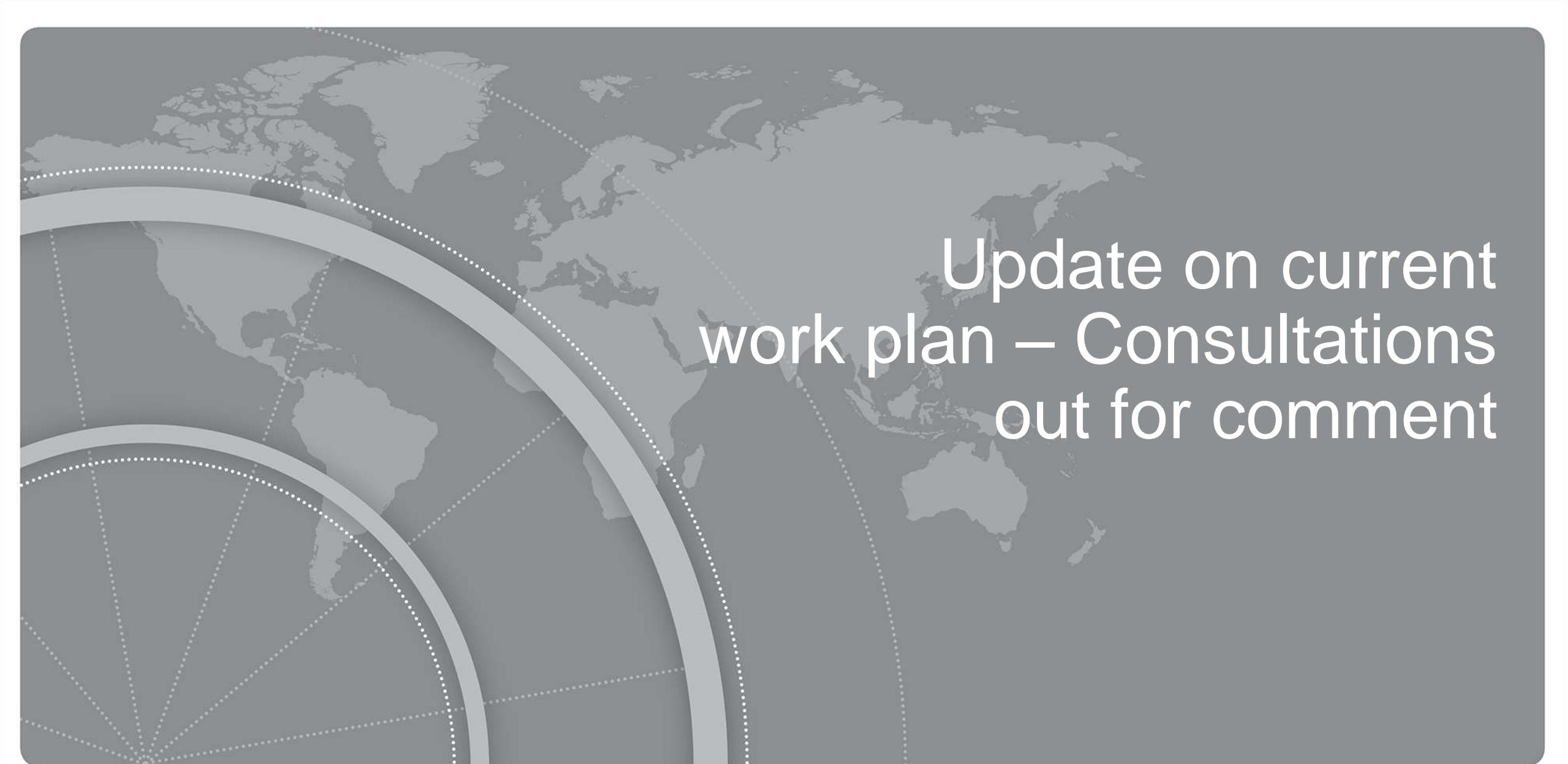
Forthcoming consultations

Redeliberations

Other projects

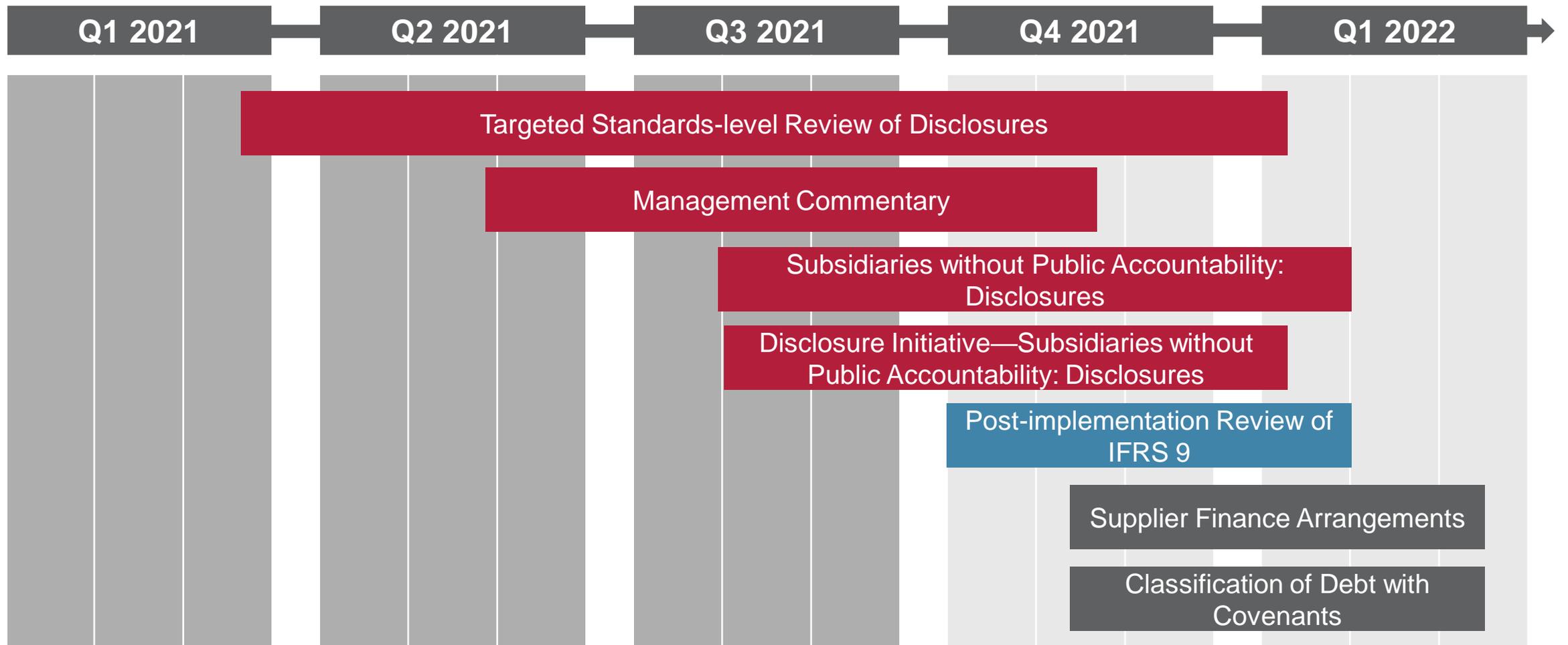
IFRS Interpretation Committee

Strategy and Governance projects



Update on current
work plan – Consultations
out for comment

Overview of main consultations



Research projects

Standard-setting projects

Maintenance projects

Disclosure Initiative—Targeted Standards-level Review of Disclosures



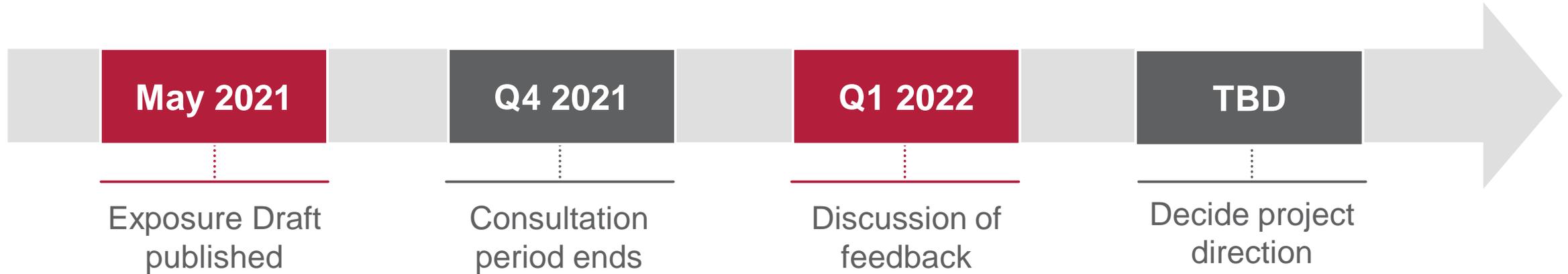
Objective

- Improve the Board’s approach to developing disclosure requirements in a way that enables companies to enhance their judgement and provide more decision-useful information for investors

Main proposals

- 1 New approach for the Board to use when developing and drafting disclosure requirements in IFRS Standards (proposed Guidance)
- 2 Replace disclosure requirements in IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits* with a new set of disclosure requirements developed applying the proposed Guidance
- 3 Focus compliance on detailed disclosure objectives rather than prescriptive requirements, thus requiring companies to apply judgement

Management Commentary



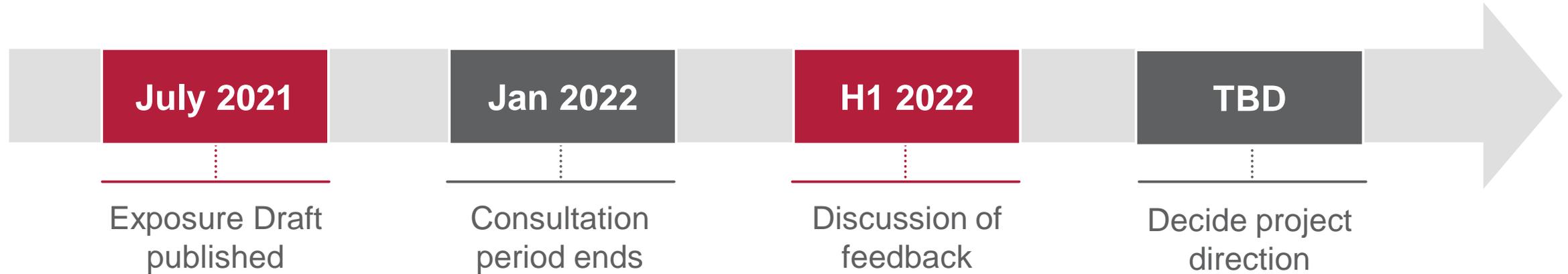
Objective

Overhaul IFRS Practice Statement 1 to provide a **comprehensive framework** for preparing management commentary—building on recent developments in narrative reporting

Features of the proposals

- 1 Focus on information needs of **investors** and **creditors**
- 2 Disclosure objectives + supporting guidance
- 3 Would bring together in one report **financial**, **sustainability** and **other** information about matters fundamental to entity's long-term prospects

Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures



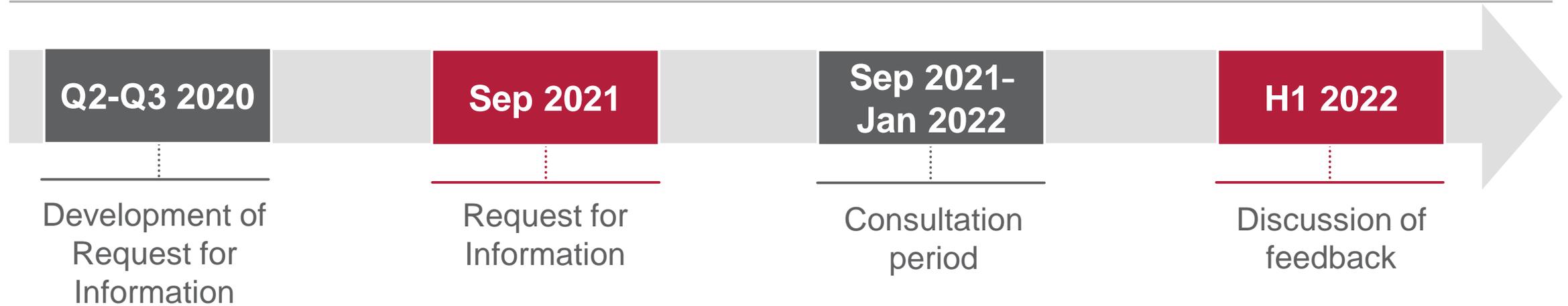
Objective

To permit eligible subsidiaries to apply the disclosure requirements in the draft Standard and the recognition, measurement and presentation requirements in IFRS Standards.

Features of the proposals

- 1 Sets out **reduced disclosure requirements** for eligible subsidiaries
- 2 A **voluntary standard** forming part of the IFRS Standards
- 3 Would **reduce costs** for preparers and **maintain usefulness** of the financial statements

Post-implementation Review of IFRS 9— Classification and Measurement



Objective

- Assess whether the classification and measurement requirements in IFRS 9 are working as intended

Topics in the Request for Information

- | | | |
|---|--|-----------------------|
| 1 | Business model, SPPI, Fair value changes in equity instruments | Financial assets |
| 2 | Presentation of own credit gains and losses | Financial liabilities |
| 3 | Modifications to contractual cash flows, Effective interest method, Transition to IFRS 9 | Other topics |



Forthcoming consultations

Supplier Finance Arrangements

Objective

Provide information that would help investors determine the effects of supplier finance arrangements on a company's liabilities and cash flows.

Approach

- **Explain** the type of arrangements to be included within the scope of the proposed amendments
- Add **qualitative and quantitative disclosure** requirements for supplier finance arrangements to meet overall and specific disclosure objectives
- Add supplier finance arrangements **as an example** within the existing liquidity risk disclosure requirements in IFRS 7

Next milestone

Exposure Draft expected Q4 2021

Classification of Debt with Covenants

Objective

Improve the information about liabilities with covenants provided through classification (as current or non-current), presentation and disclosure in financial statements

Approach

- Specify that covenants with which an entity must comply **after the reporting period** do not affect classification of a liability as current or non-current at the end of the reporting period.
- Add **presentation and disclosure requirements** for non-current liabilities subject to covenants
- Clarify situations in which an entity **does not have a right to defer settlement**

Next milestone

Exposure draft expected Q4 2021

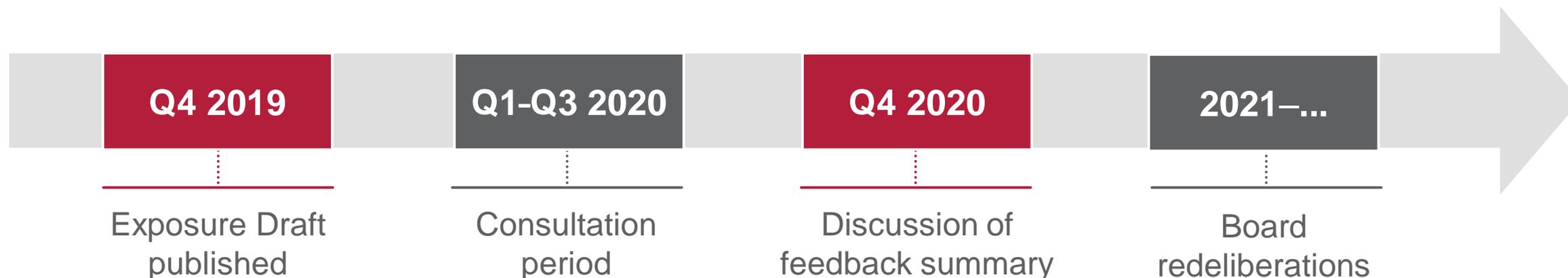


Redeliberations

Board redeliberating ...

	Next steps
Primary Financial Statements	IFRS Standard
Second Review of the <i>IFRS for SMEs</i> Standard	Exposure Draft
Goodwill and Impairment	Decide Project Direction
Lease Liability in a Sale and Leaseback	Decide Project Direction
Post-implementation Review of IFRS 10, IFRS 11, and IFRS 12	Feedback Statement
Rate-regulated Activities	Feedback Discussion
Business Combinations under Common Control	Feedback Discussion
Lack of Exchangeability	Feedback Discussion
Amendment to IFRS 17	IFRS Standard

Primary Financial Statements



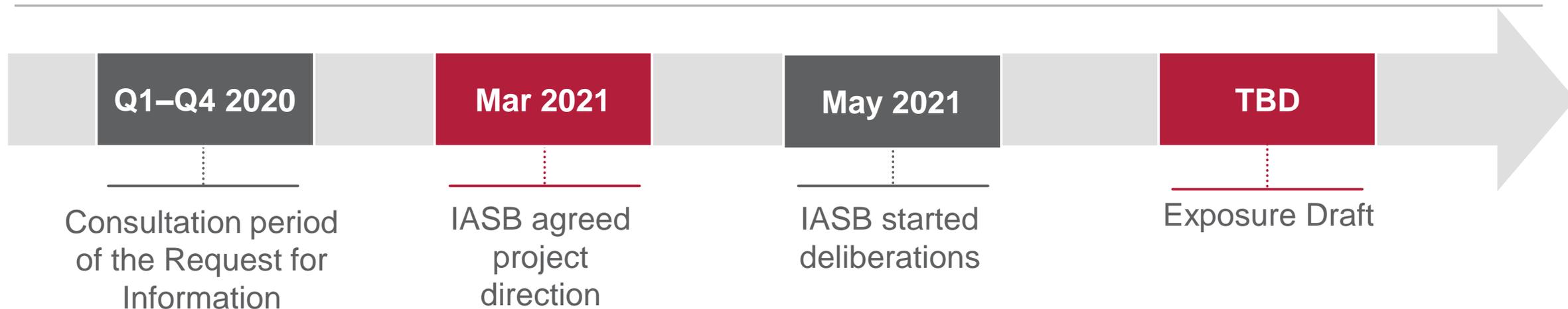
Objective

- Improve communication in financial statements
- Focus on information included in the statement of profit or loss

Main proposals

- 1 Require additional **defined subtotals** in statement of profit or loss
- 2 Strengthen requirements for **disaggregating information**
- 3 Require disclosures about **management performance measures**

Second Review of the *IFRS for SMEs* Standard



Objective

- Update the *IFRS for SMEs* Standard for new requirements in IFRS Standards that are in the scope of the review

Approach

- Apply alignment approach to decide how to update the *IFRS for SMEs* Standard
- The alignment approach uses the principles of relevance to SMEs, simplicity and faithful representation, including the assessment of costs and benefits, to identify possible amendments

Goodwill and Impairment



Preliminary views



Objective

- Improve information companies provide about their acquisitions

1

- Disclose management's objectives for acquisitions and subsequently disclose the performance against those objectives
- Some targeted improvements to existing standards

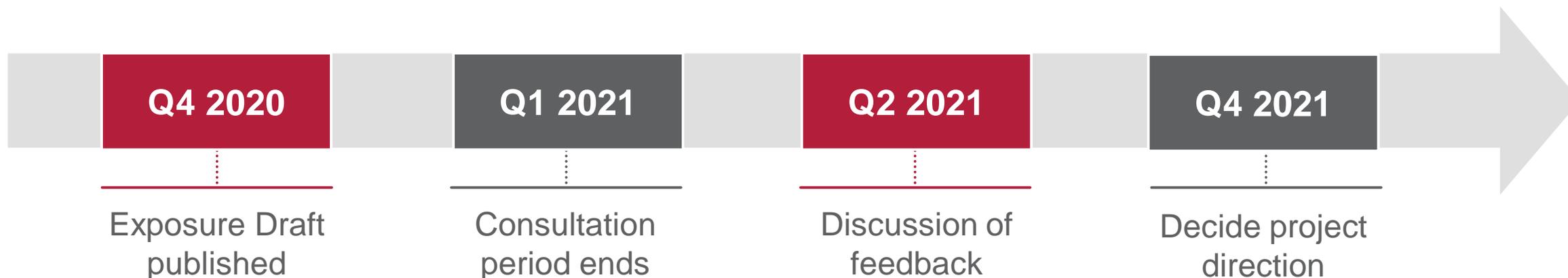
2

- Retain impairment-only model for goodwill
- Simplify impairment test

3

- Present amount of total equity excluding goodwill
- Do not change recognition of intangibles separately from goodwill

Lease Liability in a Sale and Leaseback



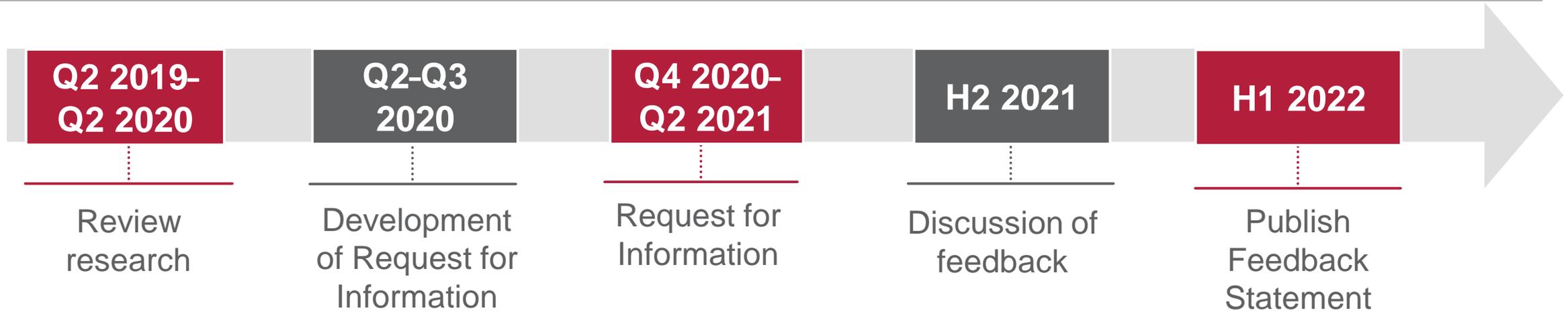
Objective

- Improve the measurement requirements for sale and leaseback transactions — particularly those with variable payments

Proposed amendment to IFRS 16 *Leases*

- 1 Specify the method used in initially measuring the right-of-use asset and liability arising in a sale and leaseback transaction
- 2 Specify subsequent measurement requirements for the lease liability in a sale and leaseback transaction

Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12



Topics in the Request for Information



Objective

- Assess whether IFRS 10, IFRS 11 and IFRS 12 are working as intended

- | | | |
|---|---|----------------------|
| 1 | Control assessment, investment entities, specific accounting requirements | Consolidated reports |
| 2 | Collaborative arrangements, classifying joint arrangements, requirements for joint operations | Joint arrangements |
| 3 | Whether the disclosures provided applying IFRS 12 meet the Standard's objective | Disclosures |

Rate-regulated Activities



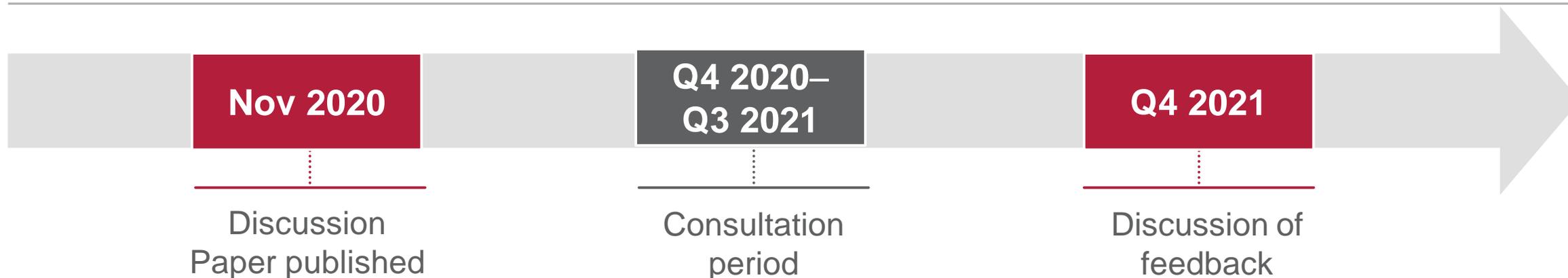
Objective

- Provide information about the effects of regulatory income, regulatory expense, regulatory assets and regulatory liabilities on companies' financial performance and financial position

Main proposals

- 1 Require recognition of **regulatory assets, regulatory liabilities, regulatory income** and **regulatory expense**
- 2 Reflect **compensation** for goods or services supplied as part of a company's reported financial performance for the period in which it supplies those goods or services
- 3 Measure regulatory assets and regulatory liabilities using a **cash-flow-based** measurement technique

Business Combinations under Common Control



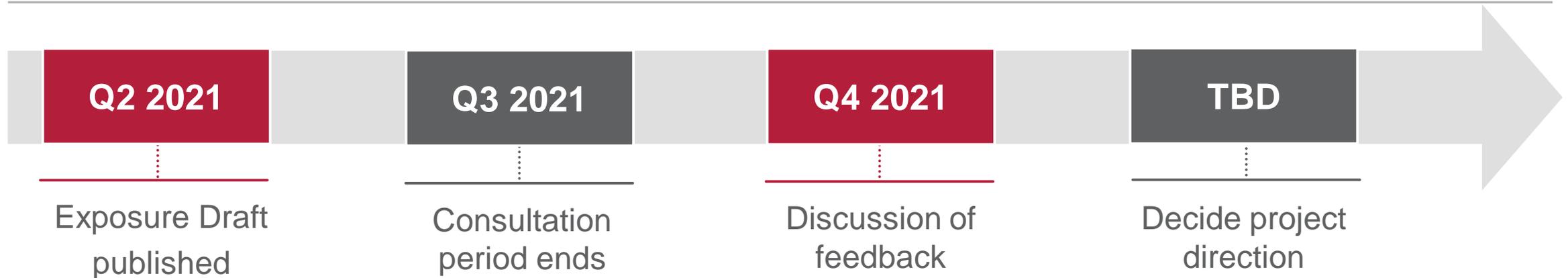
Objective

- Fill a 'gap' in IFRS Standards
- Give investors the information they need without imposing unnecessary costs on companies

Preliminary views

- 1 Specify which method should be applied in which circumstances to reduce diversity in practice and improve transparency in reporting
- 2 Use the **acquisition method** set out in IFRS 3 *Business Combinations* for combinations that affect investors outside the group, including all combinations by companies whose shares are publicly traded
- 3 Use a **book-value method** to be specified in IFRS Standards in all other cases – such as group restructurings involving wholly-owned subsidiaries

Lack of Exchangeability



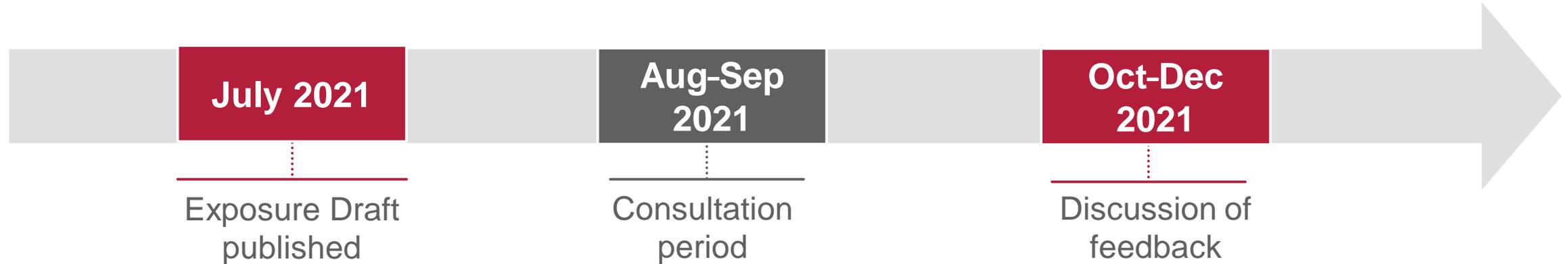
Objective

- Improve usefulness of information provided by requiring a consistent approach to determining whether a currency is exchangeable into another currency and the exchange rate to use when it is not

Proposed Amendments to IAS 21

- 1 Specify when exchangeability between two currencies is lacking and how to make that assessment
- 2 Estimate the spot exchange rate when exchangeability is lacking
- 3 Disclose how the lack of exchangeability affects, or is expected to affect, the entity's financial performance, financial position, and cash flows

Initial Application of IFRS 17 and IFRS 9— Comparative Information (Amendment to IFRS 17)



Objective

Enable insurance companies to resolve possible accounting mismatches in the prior periods presented on initial application of IFRS 17 and IFRS 9

Features of the proposal

- 1 Optional 'classification overlay'
- 2 Relates only to comparative information presented on initial application of IFRS 17 and IFRS 9 by insurance companies
- 3 Enables companies to present comparative information about particular financial assets in a manner consistent with IFRS 9 (rather than its predecessor IAS 39)



Other projects

Financial Instruments with Characteristics of Equity

Purpose

- Improve the information that companies provide in their financial statements about financial instruments that they have issued
- Address challenges with applying IAS 32 *Financial Instruments: Presentation*

Approach

- Explore clarifying IAS 32 classification principles (rather than rewriting IAS 32) to address practice issues (eg classification of financial instruments settled in the issuer's own equity instruments)
- Provide classification guidance and illustrative examples
- Improve presentation and disclosure

Next milestone

Exposure Draft

Dynamic Risk Management

Objective

Develop an accounting model that will better reflect a company's dynamic risk management process in the financial statements. The process involves understanding and managing the amount, timing and uncertainty caused by interest rate risks

Core model

Derivatives

+

Asset profile

=

Target profile

- When **derivatives** are successful in aligning the **asset profile** with the **target profile**, changes in fair value of such derivatives are deferred in OCI and reclassified to the statement of profit or loss over time
- Assuming perfect alignment, the results reported in the statement of profit or loss should reflect the company's target profile

Next steps

Redeliberation of key issues identified in the outreach

Provisions—Targeted Improvements to IAS 37

Objective

- Develop proposals for three targeted amendments to *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*

Targeted amendments

- **Align requirements** for identifying liabilities with *Conceptual Framework*
- Clarify which **costs** to include in measure of a provision
- Specify whether **discount rates** used should reflect entity's own credit risk

Next steps

Staff will prepare a project plan for consideration by the IASB

Equity Method

Objective

- Assess whether application questions with the equity method as set out in IAS 28 *Investments in Associates and Joint Ventures* can be addressed in consolidated and individual financial statements by identifying and explaining the principles of IAS 28

Project plan

- Identify application questions in the equity method and decide which of these problems to address
- Address application questions by identifying and explaining the principles that underlie IAS 28

Next steps

Review list of application questions and decide project direction

Pension Benefits that Depend on Asset Returns

Objective

- Assess whether to make a narrow-scope amendment to IAS 19 *Employee Benefits* for the measurement of pension benefits that depend on asset returns

Project plan

- Explore how a capped approach would apply with the use of illustrative examples; and
- Assess the use of pension benefits that depend, wholly or partly, on the return on a specified pool of assets ('reference assets')

Next steps

Complete presentation of research findings and decide next steps

Extractive Activities

Objective

- Provide more useful information about exploration and evaluation expenditure and activities accounted for applying IFRS 6 *Exploration for and Evaluation of Mineral Resources* by improving the transparency and comparability of this information

Project scope

- Explore developing requirements or guidance to improve the disclosure objectives and requirements about an entity's exploration and evaluation expenditure and activities
- Explore removing the temporary status of IFRS 6

Next steps

Consider research to be performed



IFRS Interpretations Committee

Committee's work: Overview of 2021 activities



11 addressed by Committee through agenda decisions (most including explanatory material)

1 work in progress

2 addressed through a narrow-scope amendment

Five Committee meetings held in 2021 to date

Sample of recent agenda decisions

Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition
(IAS 32 *Financial Instruments: Presentation*)

Non-refundable Value Added Tax on Lease Payments
(IFRS 16 *Leases*)

Hedging Variability in Cash Flows due to Real Interest Rates
(IFRS 9 *Financial Instruments*)

Deferred Tax related to an Investment in a Subsidiary
(IAS 12 *Income Taxes*)

Player Transfer Payments
(IAS 38 *Intangible Assets*)

Attributing Benefit to Periods of Service
(IAS 19 *Employee Benefits*)

Configuration or Customisation Costs in a Cloud Computing Arrangement
(IAS 38 *Intangible Assets*)

Costs Necessary to Sell Inventories
(IAS 2 *Inventories*)

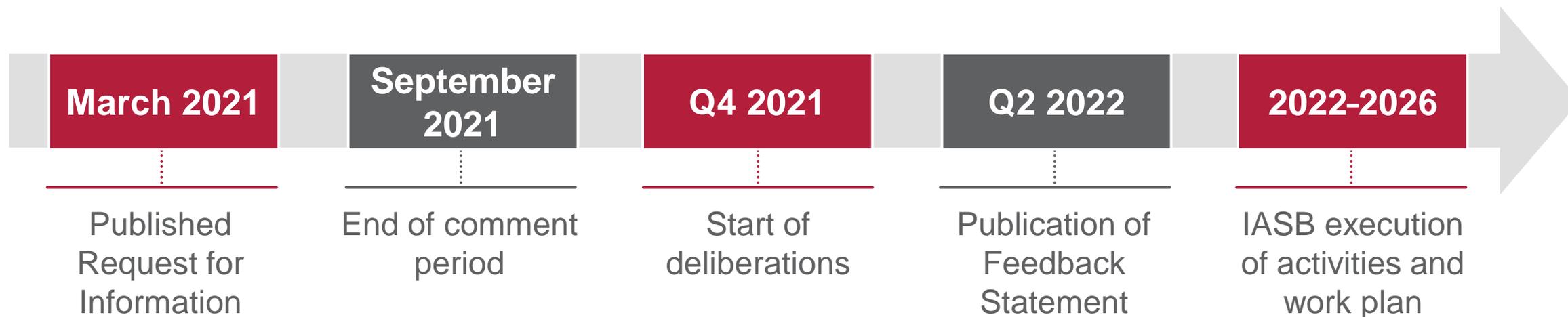
Preparation of Financial Statements when an Entity is No Longer a Going Concern
(IAS 10 *Events after the Reporting Period*)



Strategy and Governance projects

Third agenda consultation and Sustainability Reporting

Third Agenda Consultation

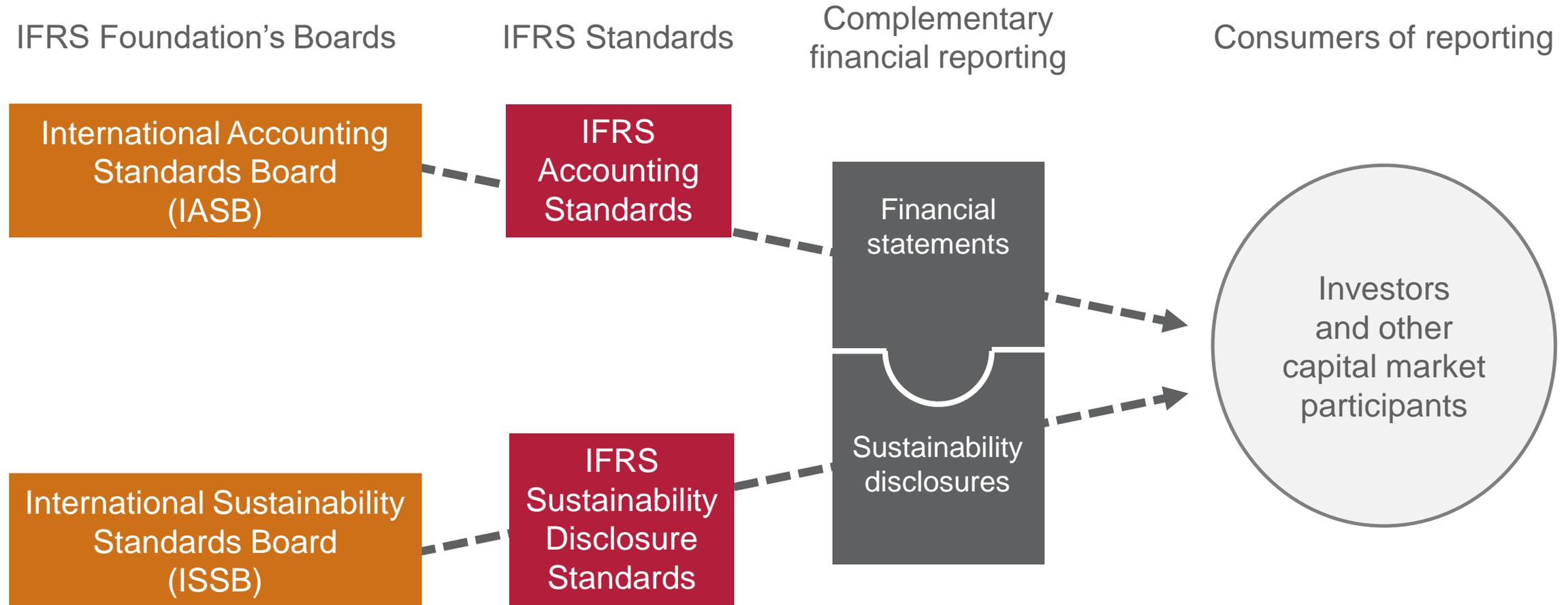


Objective of the agenda consultation

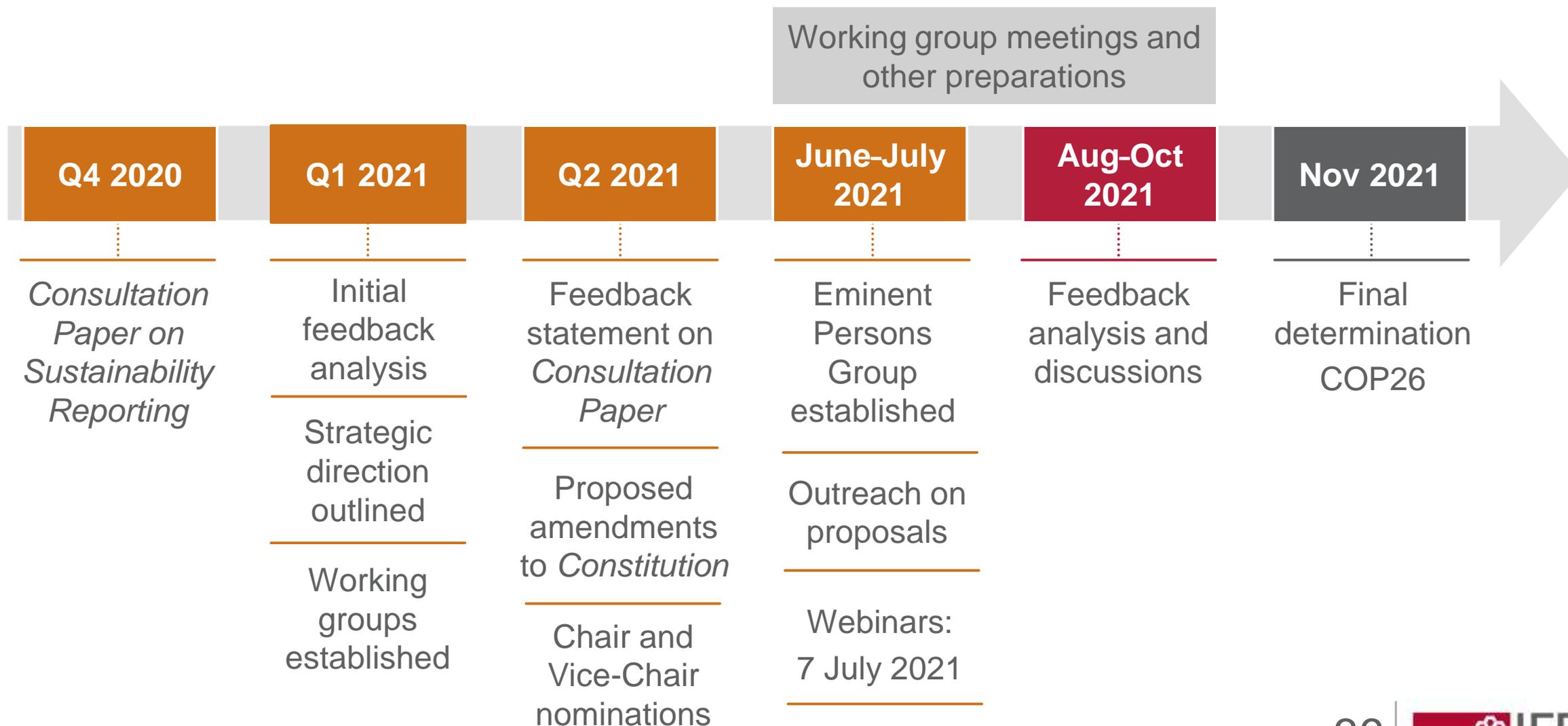
To seek views on

- the strategic direction and balance of the IASB's activities
- the criteria for assessing the priority of financial reporting issues that could be added to the work plan
- new financial reporting issues that could be given priority in the IASB's work plan

Meeting capital markets' information needs



Road to COP26



A grayscale world map is centered in the background. Overlaid on the map are several thick, light gray curved lines that sweep across the frame from the bottom left towards the top right. A network of thin, dotted white lines is also visible, connecting various points across the map.

Management Commentary *Overview of the Exposure* *Draft*

A grayscale world map is the background for the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the continents. Additionally, there are several dotted lines that form a grid-like pattern across the map, intersecting the curved lines.

Introduction

What is management commentary?



A financial report

- Complements financial statements
- Provides insights into a company's ability to create value and generate cash flows
- Aimed at investors and creditors
- May be useful for a wider range of stakeholders but is not aimed at them

IFRS Practice Statement 1
Management Commentary

Management commentary



Why is the IASB doing the project?



Developments in narrative reporting

- Notions of ‘enterprise value’ and ‘value creation’
- Focus on resources and relationships, including intangibles
- Developments in sustainability reporting



Changing information needs

- Increased demand for information about:
- Long-term prospects
 - Intangibles
 - Environmental, social and governance (ESG) matters



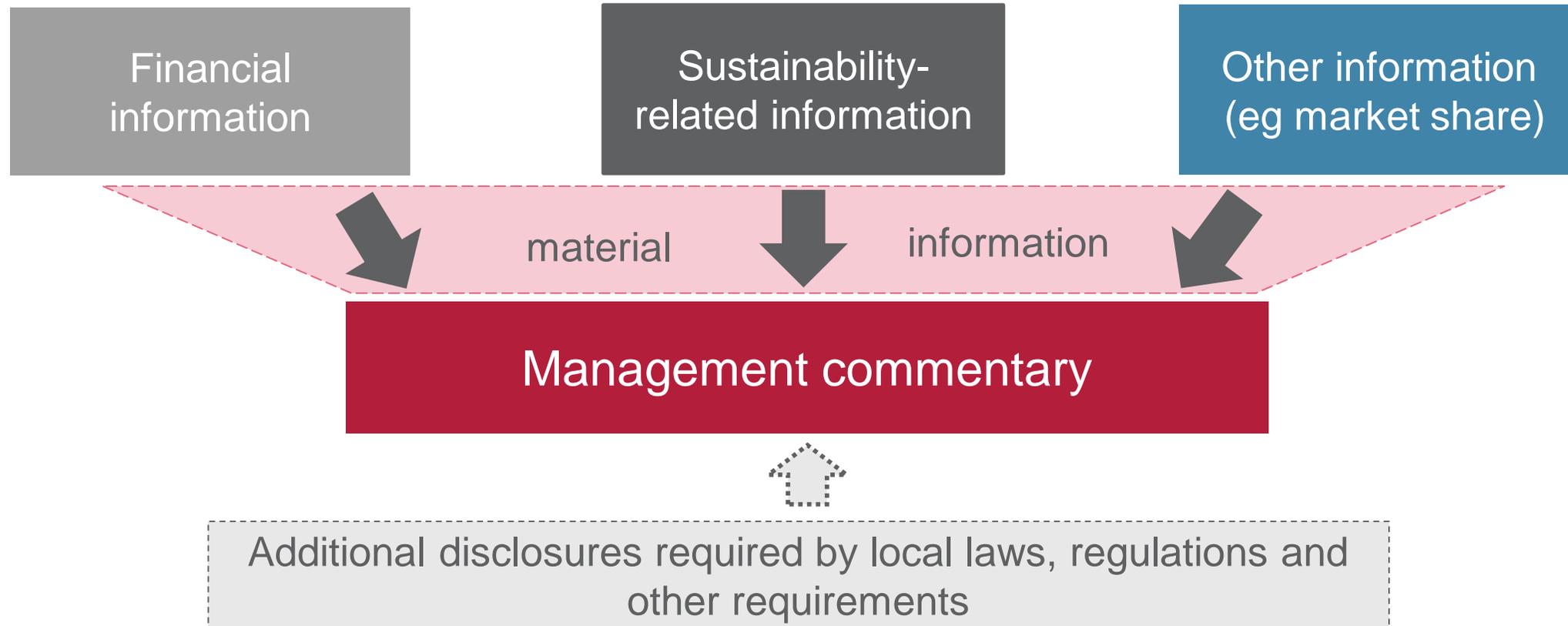
Gaps in current reporting practice

- Too much generic information
- Lack of focus on matters important to the company’s prospects
- Short-term focus
- Fragmentation
- Lack of balance

What is the IASB aiming to achieve?

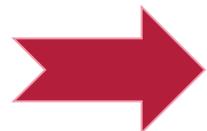


Focal point for connectivity



Can provide a reporting channel for information to be required by the proposed new International Sustainability Standards Board

Who would apply the new framework?



Local **lawmakers or regulators** may decide to require compliance



Companies may choose to comply even if not required



A company's financial statements can comply with IFRS Standards even if:

- they are not accompanied by management commentary
- management commentary does not comply with the Practice Statement



Statement of compliance

Unqualified

- Complies with all requirements

Qualified

- Complies with some, but not all, requirements
 - must identify departures and reasons for them



Proposals in the Exposure Draft

Objectives-based approach

The objective of management commentary

Disclosure objectives for areas of content

Headline objective

Assessment objectives

Specific objectives

Selecting and presenting information

Long-term prospects, intangibles and ESG

Areas of content

- Business model
- Strategy
- Resources and relationships
- Risks
- External environment
- Financial performance and financial position

Focus on key matters

Disclosure objectives: Business model example

Disclosure objectives

Business model

A headline objective

Enable investors and creditors to understand:

- How the company's business model creates value and generates cash flows

Assessment objectives

why?

Provide a sufficient basis for investors and creditors to assess:

- How effective the company's business model is
- How scalable and adaptable it is
- How resilient and durable it is

Specific objectives

what?

Enable investors and creditors to understand:

- The range, nature and scale of the company's operations
- The cycle of creating value and generating cash flows
- Environmental and social impacts of the company's activities
- Progress in managing the company's business model



[Chapter 11 of the Exposure Draft](#) summarises disclosure objectives for all areas of content

Materiality and focus on key matters

Proposed tools to help preparers identify material information

Key matters

Fundamental to the company's ability to create value and generate cash flows, including in the long term

Likely to be **monitored and managed** by management

Likely to be **pervasive** and relate to more than one area of content



Much (but not all) of the information material to investors and creditors will relate to key matters

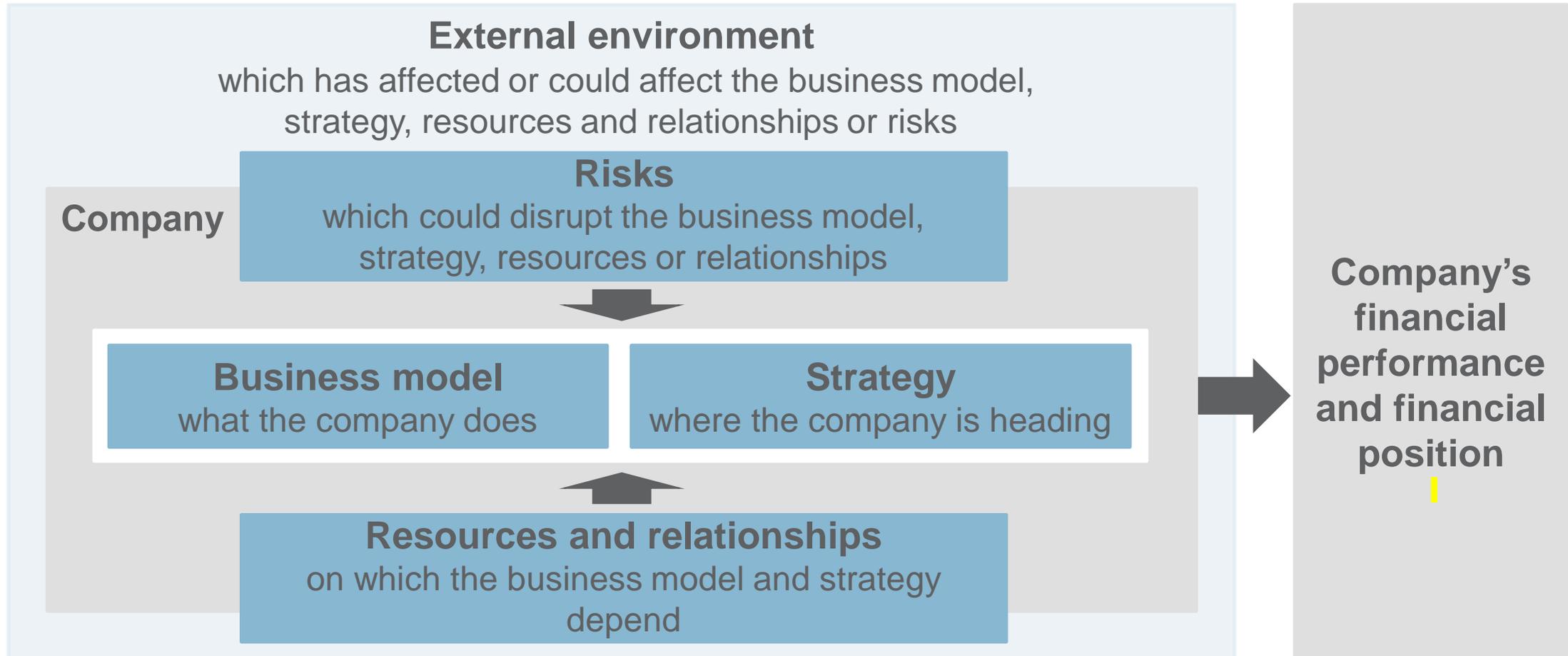
Other

- disclosure objectives and examples of information that might be material
- indications that information might be material
- guidance on aggregation
- guidance on uncertain future events

Relationships between areas of content



Financial, sustainability and other material information about the company



Long-term prospects, intangibles and ESG

Affect companies differently → need to be discussed across management commentary



Dedicated appendix

- **Overview** of requirements and guidance to consider in providing information about:
 - matters that could affect the company's long-term prospects
 - intangible resources and relationships
 - environmental and social matters
- **Examples of application** in described fact patterns

Information is reported if **material** to investors and creditors



Other sustainability frameworks:

- can help identify information that might be material
- other information specified by those frameworks can be also included if it does not obscure material information

Attributes of useful information

Completeness

Balance

Accuracy

**Clarity and
conciseness**

Comparability

Verifiability



Coherence

Based on the *Conceptual Framework*

Simplified terminology

Some additional guidance

- Within management commentary
- Across the company's reports

Metrics

Company-specific

- Material information likely to include metrics that management uses to:
 - **monitor key matters**
 - **measure progress** in managing those matters
- Depend on the company's activities and the industry in which it operates

The Exposure Draft proposes

Examples of metrics for each area of content

For business model metrics may relate to:

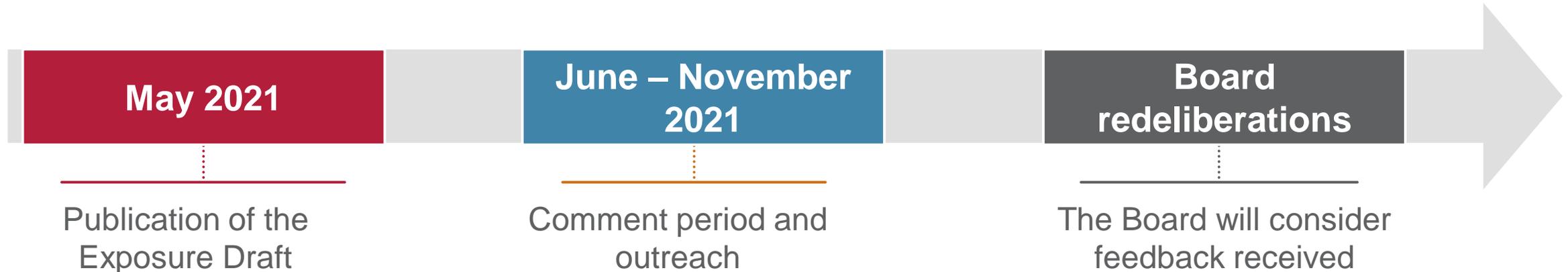
- the scale of the company's operations
- the inputs involved in those operations
- environmental or social impacts of the company's activities
- effects of impacts on the company

Requirements for metrics

Relate to:

- clarity and accuracy
- comparability
- coherence

Next steps



We invite you to participate in the outreach and to submit your comments on the proposals by **23 November 2021**



- Project information <https://www.ifrs.org/projects/work-plan/management-commentary/>
- The Exposure Draft can be found [here](#)
- The snapshot summarising the proposals in the Exposure Draft can be found [here](#)

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