

October 2018

IFRS® Foundation

World Standard-setters Conference





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Issued IFRS® Standards 2018

Reflecting changes not yet required

This is the only *official* printed edition of the text of the International Accounting Standards Board's authoritative pronouncements as issued at 1 January 2018.

What's new in this edition?

- IFRS 17 *Insurance Contracts*;
- amendments to two Standards: IFRS 9 *Financial Instruments* and IAS 28 *Investments in Associates and Joint Ventures*;
- *Annual Improvements to IFRS Standards 2015–2017 Cycle* (contains amendments to IFRS 3, IFRS 11, IAS 12, IAS 23);
- IFRIC 23 *Uncertainty over Income Tax Treatments*; and
- IFRS Practice Statement 2 *Making Materiality Judgements*.

Publication Date: March 2018

ISBN: 978-1-911040-75-0 SET

Product Code: 1992

Price: £78 plus shipping

Format: Print and PDF

Annotated Issued IFRS® Standards 2018

Reflecting changes not yet required

This new edition of the IFRS Standards also includes extensive cross-references to guide readers through each standard, other annotations supplement the understanding and application of the Standards. Both the *Issued IFRS Standards* and the *Annotated Issued IFRS Standards* are presented in three parts:

- Part A: contains the *Issued Standards* and the *Conceptual Framework for Financial Reporting*;
- Part B: contains the accompanying documents such as the *Illustrative Examples* and the *Implementation Guidance* together with IFRS® *Practice Statements*; and
- Part C: contains the *Bases for Conclusions* that accompany the Standards.

Publication Date: Published in Print in September 2018

ISBN: 978-1-911040-94-1 SET

Product Code: 2018

Price: £105 plus shipping

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World Standard-setters Conference

Monday 1 and Tuesday 2 October 2018
The Grange City Hotel, Tower Hill (London)

Monday 1 October 2018

Programme day 1

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

08:15 **Registration**
Tea/Coffee

09:00 **Opening remarks**

09:10 **Welcome address**

- **Hans Hoogervorst**, IASB Chair

09.20 **IASB technical update**

- **Nili Shah**, Executive Technical Director, IASB
- **Henry Rees**, Director of Implementation and Adoption Activities, IASB
- **Peter Clark**, Technical Director, IASB
- **Kumar Dasgupta**, Technical Director, IASB

11.00 **Tea/coffee**

11.30 **The need for a Conceptual Framework**

- **Tom Scott**, IASB Board Member
- **Andrew Lennard**, Research Director, UK Financial Reporting Council

12:30 **Lunch**

13.30 **Overview of the Conceptual Framework**

- **Rachel Knubley**, Associate Director, IASB
- **Anne McGeachin**, Technical Principal, IASB
- **Jelena Voilo**, Technical Manager, IASB

14.30 **Conceptual Framework – Group sessions**

IASB Member	IASB staff support
Françoise Flores	Jelena Voilo
Jianqiao Lu	Anne McGeachin
Tom Scott	Rachel Knubley
Chungwoo Suh	Peter Clark
Mary Tokar	Joan Brown

16.30 **Tea/coffee**



World Standard-setters Conference

Monday 1 and Tuesday 2 October 2018
The Grange City Hotel, Tower Hill (London)

16:50 Breakout sessions

1. Business Combinations Under Common Control

- **Françoise Flores**, IASB Board Member
- **Yulia Feygina**, Technical Principal, IASB

2. Better Communications—focus on Primary Financial Statements & Disclosures

- **Gary Kabureck**, IASB Board Member
- **Aida Vatrenjak**, Senior Technical Manager, IASB
- **Kathryn Donkersley**, Senior Technical Manager, IASB
- **Siobhan Hammond**, Assistant Technical Manager, IASB

3. Financial Instruments with Characteristics of Equity—Discussion Paper

- **Amaro Gomes**, IASB Board Member
- **Kumar Dasgupta**, Technical Director, IASB
- **Uni Choi**, Technical Manager, IASB
- **Angie Ah Kun**, Technical Manager, IASB

4. Goodwill and Impairment

- **Takatsugu Ochi**, IASB Board Member
- **Peter Clark**, Technical Director, IASB
- **Woung Hee Lee**, Visiting Fellow, IASB
- **Tim Craig**, Technical Principal, IASB

5. IFRS Interpretations Committee update and implementation of new Standards strategy

- **Sue Lloyd**, IASB Vice-Chair
- **Patrina Buchanan**, Associate Director, IASB

18:15 Drinks reception followed by dinner

- speech by **Michel Prada**, Chair of the Trustees, offering his observations on two decades spent pursuing the goal of global accounting standards.



World Standard-setters Conference

Monday 1 and Tuesday 2 October 2018
The Grange City Hotel, Tower Hill (London)

Tuesday 2 October 2018

Programme day 2

- 08:00 **Optional drop-in and meet the Translations Adoption Copyright Team**
- **Anna Hemmant**, Adoption Support Manager, IFRS Foundation
 - **Mari Carmen Civera**, Adoption Support Manager, IFRS Foundation
 - **Leilani Macdonald**, Advisor, IFRS Foundation
 - **Clare McGuinness**, Project Manager, IFRS Foundation
- 09:00 **Welcome back**
- 09:05 **Panel Discussion—Management Commentary**
- **Nick Anderson**, IASB Board Member
 - **Andreas Barckow**, President, Accounting Standards Committee of Germany
 - **Kris Peach**, Chair, Australian Accounting Standards Board
 - **Ryoko Ueda**, Director, Mizuho International
- 10:05 **Breakout sessions (repeated)**
1. **Business Combinations Under Common Control**
 - **Françoise Flores**, IASB Board Member
 - **Yulia Feygina**, Technical Principal, IASB
 2. **Better Communications—focus on Primary Financial Statements & Disclosures**
 - **Gary Kabureck**, IASB Board Member
 - **Aida Vatrenjak**, Senior Technical Manager, IASB
 - **Kathryn Donkersley**, Senior Technical Manager, IASB
 - **Siobhan Hammond**, Assistant Technical Manager, IASB
 3. **Financial Instruments with Characteristics of Equity—Discussion Paper**
 - **Amaro Gomes**, IASB Board Member
 - **Kumar Dasgupta**, Technical Director, IASB
 - **Uni Choi**, Technical Manager, IASB
 - **Angie Ah Kun**, Technical Manager, IASB
 4. **Goodwill and Impairment**
 - **Takatsugu Ochi**, IASB Board Member
 - **Peter Clark**, Technical Director, IASB
 - **Woung Hee Lee**, Visiting Fellow, IASB
 - **Tim Craig**, Technical Principal, IASB
 5. **IFRS Interpretations Committee update and implementation of new Standards strategy**
 - **Sue Lloyd**, IASB Vice-Chair
 - **Patrina Buchanan**, Associate Director, IASB
- 11:30 **Tea/coffee**
- 12:00 **Conceptual Framework Feedback Session**
Tom Scott, IASB Board Member
- **Anne McGeachin**, Technical Principal, IASB
- 13:00 **Lunch—end of World Standard-setters Conference**
-
- 14.00 **International Forum of Accounting Standard Setters (IFASS) meeting commences**



World Standard-setters Conference

Monday 1 and Tuesday 2 October 2018

Opening remarks

Mary Tokar
Board Member
IASB



World Standard-setters Conference

Monday 1 and Tuesday 2 October 2018

NOTES



World Standard-setters Conference

Monday 1 and Tuesday 2 October 2018

Welcome address

Hans Hoogervorst
IASB Chair



World Standard-setters Conference

Monday 1 and Tuesday 2 October 2018

NOTES



World Standard-setters Conference

Monday 1 and Tuesday 2 October 2018

IASB technical update

Nili Shah

Executive Technical Director

IASB

Henry Rees

Director of Implementation and Adoption Activities

IASB

Peter Clark

Technical Director

IASB

Kumar Dasgupta

Technical Director

IASB

IASB Technical Update

Agenda ref: WSS2

Nili Shah, Executive Technical Director, IASB
Peter Clark, Technical Director, IASB
Kumar Dasgupta, Technical Director, IASB
Henry Rees, Director of Implementation and Adoption Activities, IASB

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World
Standard-setters
Conference
2018

#IFRS_WSS



Overview

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- 2017–2018 activities & achievements
- Better Communication in Financial Reporting
- Active projects
- Supporting implementation
- The *IFRS for SMEs* Standard
- Technology Initiative



2017–2018 activities & achievements



2018 publications

4

Final documents	Consultation documents
<ul style="list-style-type: none"> • <i>Conceptual Framework for Financial Reporting</i> <p>→ Upcoming</p> <ul style="list-style-type: none"> • Definition of a Business (IFRS 3) • Definition of Material (IAS 1 and IAS 8) 	<ul style="list-style-type: none"> • <i>Financial Instruments with Characteristics of Equity</i> (Discussion Paper: comments due 7 January 2019) • Costs Considered in Assessing whether a Contract is Onerous (Exposure Draft: Q4 2018) • Proposed IFRS Taxonomy Update—Common Practice (IFRS13) (September 2018)



Conceptual Framework for Financial Reporting

5

What is it?



Underpins
developing and applying
IFRS Standards



Priority
project identified in the
Agenda Consultations

What changed?



Updated
concepts that will result in
better IFRS Standards

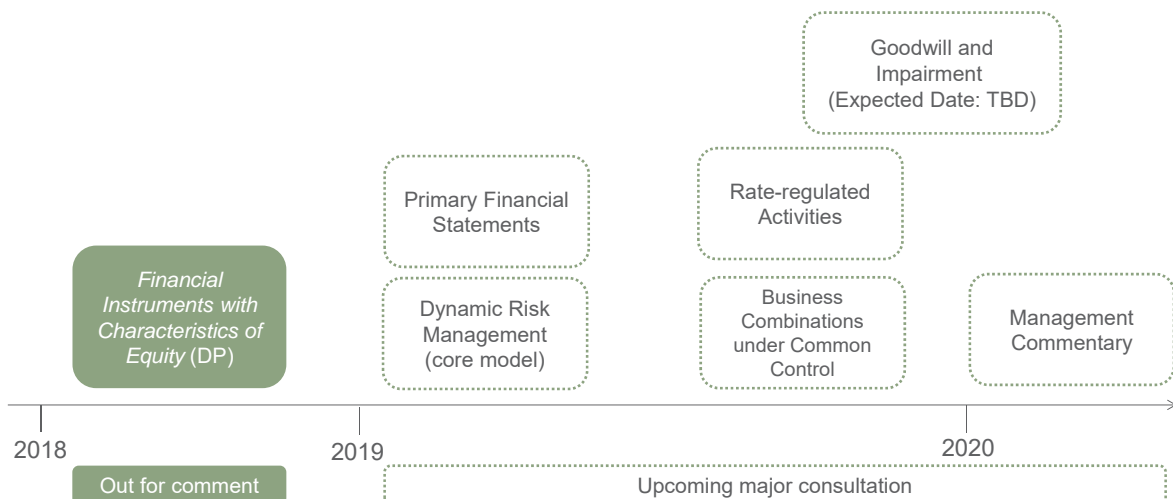


Issued March 2018



Upcoming major consultations

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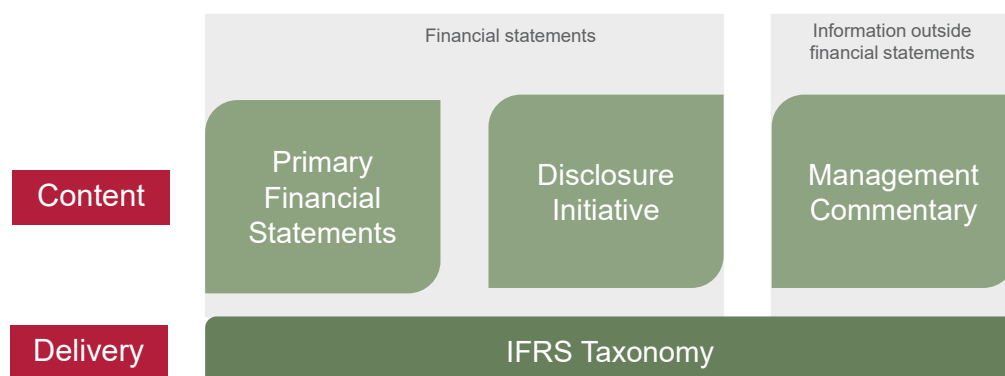
Better Communication in Financial Reporting



Central theme of our work

8

Better Communication in Financial Reporting



Primary Financial Statements—in scope

9

Statement(s) of financial performance

EBIT subtotal

'Income/expenses from investments' category

Guidance on presentation of management performance measure

Considering better ways to communicate OCI

Removing options for presentation of income and expenses eg presentation of profit of associates/JVs

Statement of cash flows

Eliminating classification options (interest/dividends)

(Not) aligning the operating section between statement of cash flows and statement(s) of financial performance

Specifying the starting point for the indirect method

Developing templates for the Primary Financial Statements

Achieving greater disaggregation including minimum line items



Primary Financial Statements—out of scope

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Statement of financial position

No planned change, except for templates and greater disaggregation

Statement of changes in equity

But FICE project looks at some issues



Disclosure Initiative—the problem

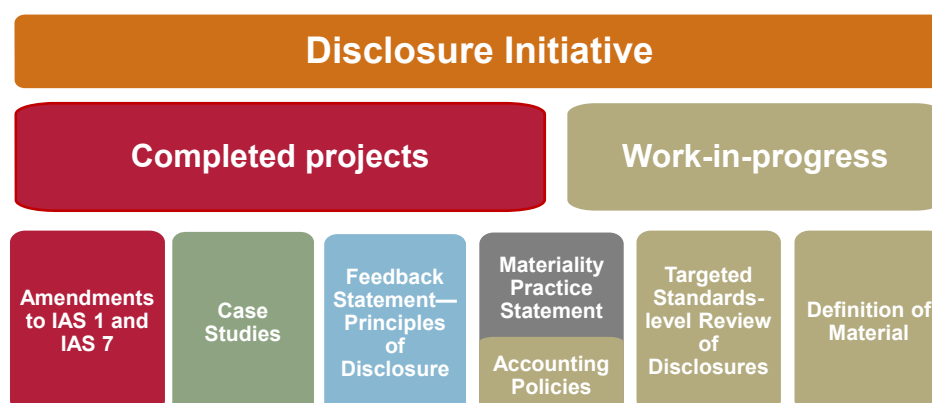
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- The Board has identified three main concerns about disclosures in financial statements:
 - not enough relevant information
 - too much irrelevant information
 - ineffective communication



Disclosure Initiative—projects

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Help at hand—disclosure case studies

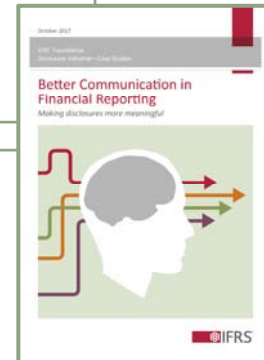
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Purpose

- demonstrate that **better communication is already possible**
- inspire others to improve communication

Content

- focuses on the **seven principles of effective communication** from the Principles of Disclosure Discussion Paper
- shows how companies disclosed information before and after enhancing communication in their financial statements
- **describes** how companies improved the way they communicate (**the process**)



Principles of Disclosure

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Objective

- identification of disclosure issues

Outcomes

- new project—*Targeted Standards-Level Review of Disclosures*
- develop guidance to help entities decide which *accounting policies* to disclose
- move presentation topics to *Primary Financial Statements*

Next Step

- publish feedback statement



Targeted Standards—level Review of Disclosures

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Objective

- help stakeholders improve the usefulness of disclosures for primary users
- not to change the volume of disclosure requirements, although this may be a consequence

Guidance for the Board

- the Board will develop the guidance through public discussion
- the Board has selected *IAS 19 Employee Benefits* and *IFRS 13 Fair Value Measurement* to test the draft guidance
- formal stakeholder feedback will be obtained when the guidance is subsequently used as part of standard-setting



Help at hand—Making Materiality Judgements

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Purpose

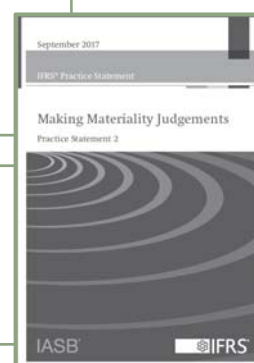
- provide guidance to companies on **making materiality judgements** when preparing financial statements using IFRS Standards

Content

- **'one-stop shop'** for all the requirements on materiality in IFRS Standards
- additional **practical guidance and examples**

Next Step

- guidance on which accounting policies to disclose



Management Commentary

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Management commentary—
a narrative report that provides broader financial value relevant information useful to primary users of financial statements



The IFRS Taxonomy

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

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

makes IFRS disclosures **more accessible to users** of structured electronic data

facilitates communication between preparers and users



The IFRS Taxonomy—areas of focus

19

Common reporting practice

IFRS 13 *Fair Value Measurement*

research XBRL filings to identify additional common practice elements

Implementation support

update to materials, such as *Using the IFRS Taxonomy—A preparer's guide*

implementation guidance for specific elements

Entity-specific disclosures

working with XBRL International to improve accessibility of entity-specific disclosures in a structured report

The impact of new or amended IFRS Standards on the IFRS Taxonomy in the next 12 months is expected to be limited



Active projects



Active projects

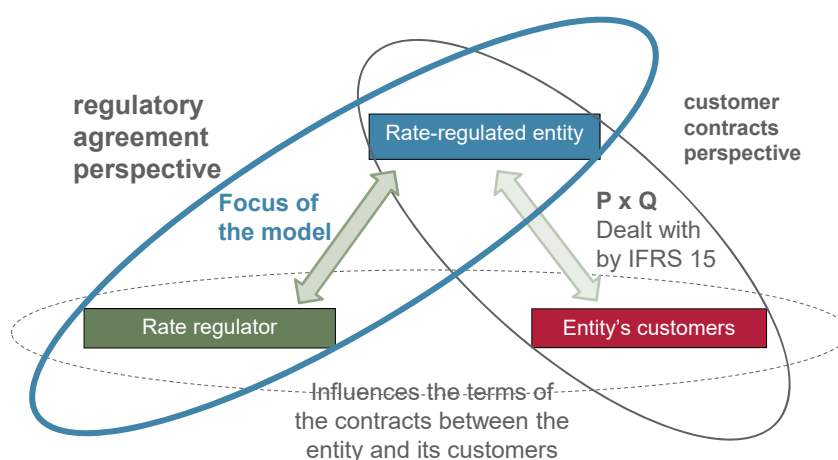
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Project	Target	Reference
Better Communication	see previous slides	Page 7-19
Rate-regulated Activities	DP or ED H2 2019	Page 22-23
Business Combinations under Common Control	DP H2 2019	Page 24-25
Goodwill and Impairment	DP or ED	Page 26
Financial Instruments with Characteristics of Equity (FICE)	DP Feedback H1 2019	Page 28-31
Dynamic Risk Management (DRM)	Core Model H1 2019	Page 32-36
Interbank Offered Rate (IBOR)	Decide Project Direction Q4 2018	Page 37

Rate-regulated Activities—the regulatory agreement

22

- 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

23

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
- 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

Board discussions throughout 2018

Output
Discussion Paper or Exposure Draft in 2019



Business Combinations under Common Control

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Business Combinations under Common Control (BCUCC) are excluded from the scope of IFRS 3 *Business Combinations*



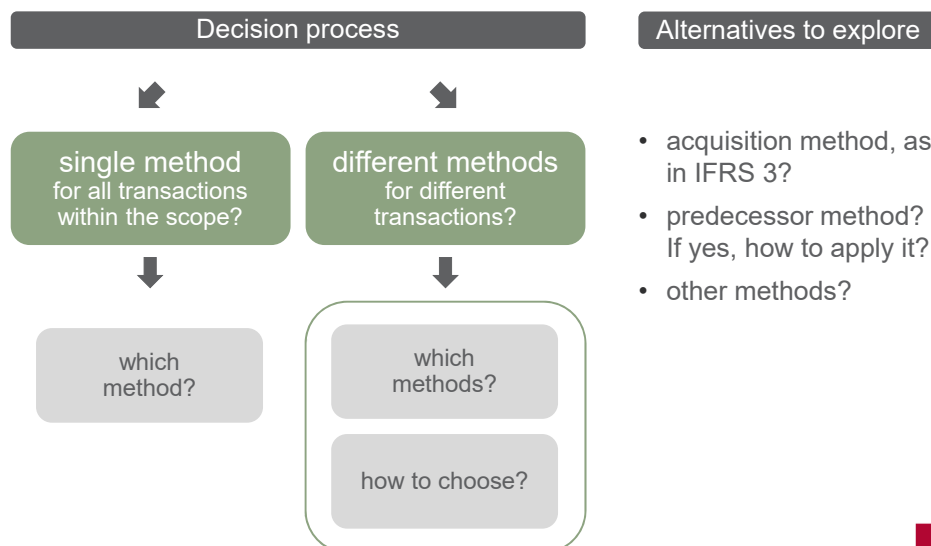
In practice, companies account for BCUCC using:

acquisition method
as set out in IFRS 3

predecessor method
but there is diversity in practice in
how the method is applied

concerns about the diversity in practice raised by
various interested parties, notably security regulators





Goodwill and Impairment

✓ Three objectives the Board decided to pursue for addressing the interrelated problems identified in the research phase of this project:

Objective A	identifying disclosures to enable investors to assess: <ul style="list-style-type: none"> • management’s rationale for the business combination • if the post-acquisition performance of the business combination meets expectations set at the acquisition date
Objective B	simplifying the accounting for goodwill by: <ul style="list-style-type: none"> • permitting an indicator-only approach as to whether an impairment test is required • exploring whether to reintroduce amortisation of goodwill
Objective C	improving the calculation of value in use by permitting: <ul style="list-style-type: none"> • cash flow projections that may include future enhancements to the asset • the use of post-tax inputs in the calculation of value in use



Financial instruments



Financial Instruments with Characteristics of Equity (FICE)

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Challenges

- IAS 32 works well for most financial instruments, but challenges applying it to complex financial instruments
- limited information available to investors about equity instruments
- no clear rationale for classification

Response

- articulate classification principles—clear rationale
- limit changes to IAS 32
- propose additional information through presentation and disclosure

FICE—the Board’s preferred approach to classification (1)

29

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

Can the issuer be required to pay cash or to hand over another financial asset before liquidation?

Timing feature

Has the issuer promised a return to the instrument’s holder regardless of the issuer’s own performance or share price?

Amount feature

Otherwise, it is an equity instrument

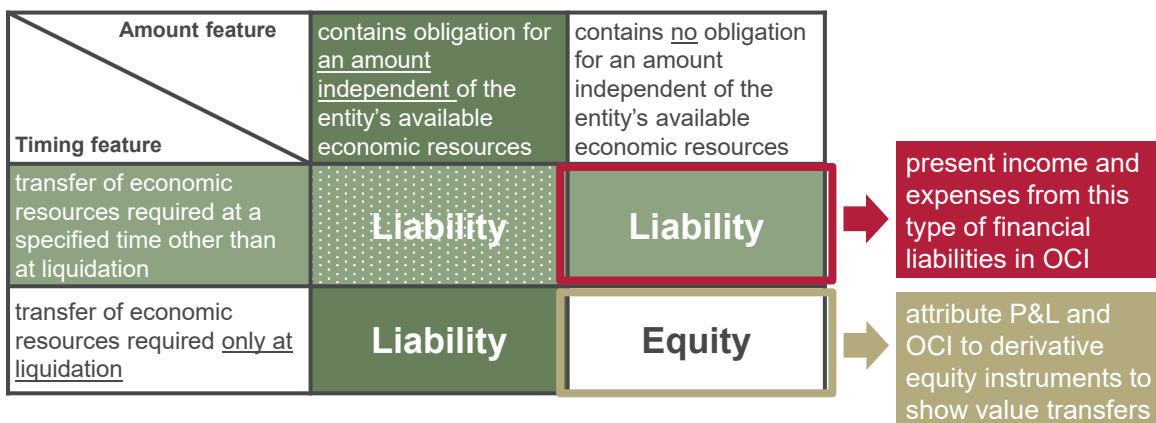


FICE—the Board’s preferred approach to classification (2)

30

	Amount feature		
Timing feature		contains obligation for <u>an amount independent</u> of the entity’s available economic resources	contains <u>no</u> obligation for an amount independent of the entity’s available economic resources
transfer of economic resources required at a specified time other than at liquidation		Liability	Liability
transfer of economic resources required <u>only at liquidation</u>		Liability	Equity





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 DRM model

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Current stage (July 2018)

- develop the 'core areas' that will shape the fundamentals of the DRM model:
 - asset profile
 - target profile
 - derivatives used for DRM purposes
 - performance assessment → current stage

Next stage

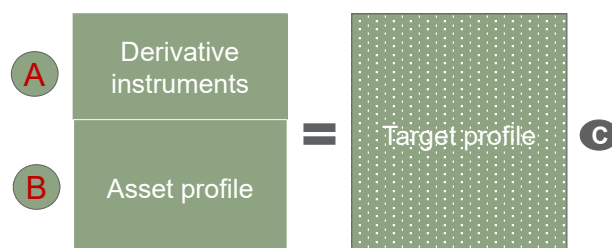
- seek feedback on the 'core version' of the model before developing the 'non-core areas'. These include:
 - financial assets at FVOCI
 - equity as a source of funding



Outline of the DRM model

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Assuming perfect alignment:



- Asset profile (B) measured at amortised cost (per IFRS 9)
- Changes in fair value of derivative instruments (A) are recognised in OCI and reclassified to P&L over the time horizon of the target profile
- P&L reflects the target profile



DRM—Asset profile

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Definition

- financial assets managed on a portfolio basis for interest rate risk

Tentative Board Decision (February 2018)

- formal designation and documentation required
- portfolios must share similar risk characteristics, separate portfolios are required for:
 - different currencies
 - existence of prepayment features
- must comprise financial assets measured at amortised cost under IFRS 9
- designation of future transactions is permitted as long as they are highly probable



DRM—Target profile

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Definition

- defined by the entity's risk management strategy, which is influenced by an entity's financial liabilities (including demand deposits)
- target profile represents management's objective for a given asset profile

Tentative Board Decision (March & April 2018)

- formal designation and documentation is required
- portfolios must share similar risk characteristics, separate portfolios required for:
 - different currencies
 - core demand deposits
- must comprise financial liabilities measured at amortised cost under IFRS 9
- designation of future transactions is permitted as long as they are highly probable
- notional amount of asset profile and target profile must be equal



Interbank Offered Rate (IBOR)

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Challenge

- market developments question the long-term viability of interest rate benchmarks, such as LIBOR

Objective

- monitor market developments and determine whether there are any implications for the existing accounting requirements; if so decide whether the Board should take action

Board's decision

- the discontinuance of IBOR could impact across financial markets and stakeholders are starting to ask about financial reporting implications
- at its June 2018 meeting, the Board decided to add a research project to its active research agenda



Research pipeline and post-implementation reviews



Research pipeline

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Projects starting in coming months	Remaining pipeline projects (to start in 2019-2020)
<ul style="list-style-type: none"> • Extractive Activities • Pension Benefits that Depend on Asset Returns • Provisions • Variable and Contingent Consideration • SMEs that are subsidiaries 	<ul style="list-style-type: none"> • Equity Method • Pollutant Pricing Mechanisms • High Inflation: Scope of IAS 29

Research pipeline

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Project	Comments
Extractive Activities	Important globally and particularly in some jurisdictions. A permanent solution is needed to fill a gap
Pension Benefits that Depend on Asset Returns	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
Provisions	Initial research on IAS 37 is largely complete, plan to update for revised <i>Conceptual Framework</i>
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
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

Research pipeline

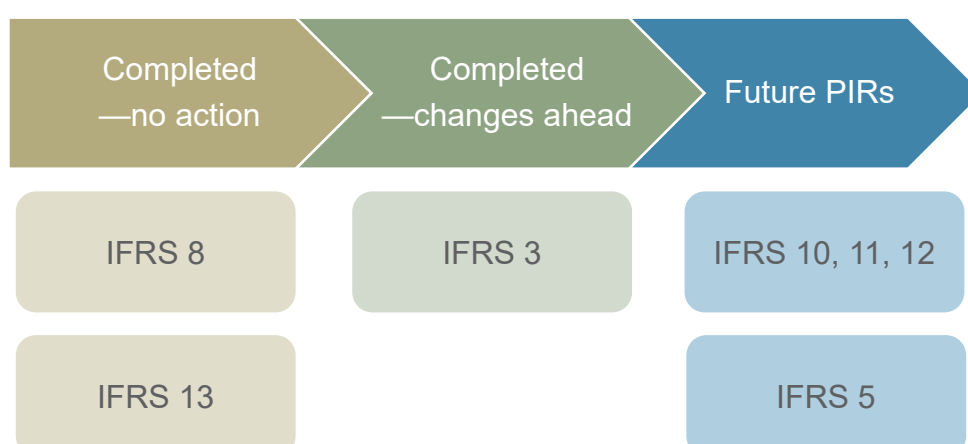
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Project	Comments
Equity Method	A number of queries over time. Topic to be investigated as part of PIR of IFRS 11 <i>Joint Arrangements</i>
Pollutant Pricing Mechanisms	An analysis of the common economic characteristics of the various mechanisms will be needed
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



Post-implementation reviews

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Supporting Implementation



Why we support implementation

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Objective in supporting the Standards

We...

help stakeholders obtain a common understanding of the requirements - ie what they are aiming for



In order to...

support consistent application of IFRS Standards



Because it...

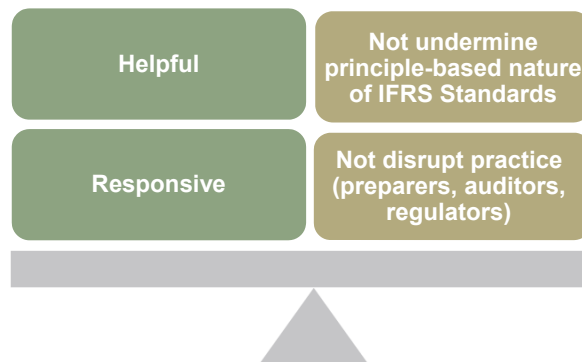
protects IFRS Standards as a single set of global Standards for the benefit of users



The challenge

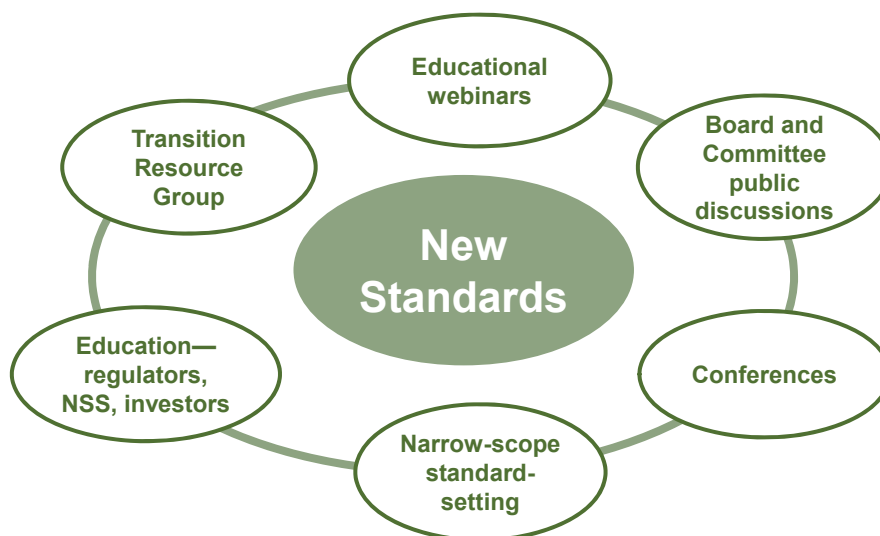
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- In supporting implementation and application of the Standards, the challenge for a standard-setter is to balance:



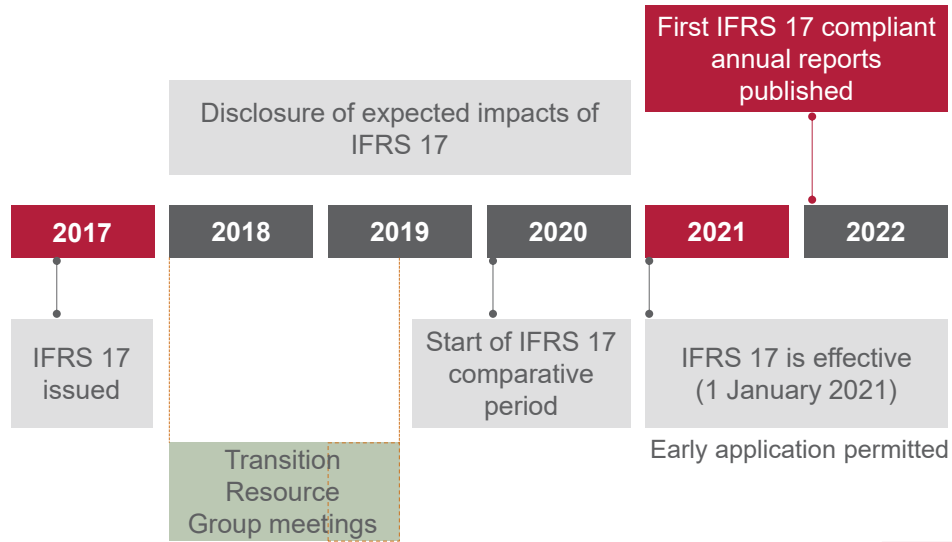
Support for new Standards

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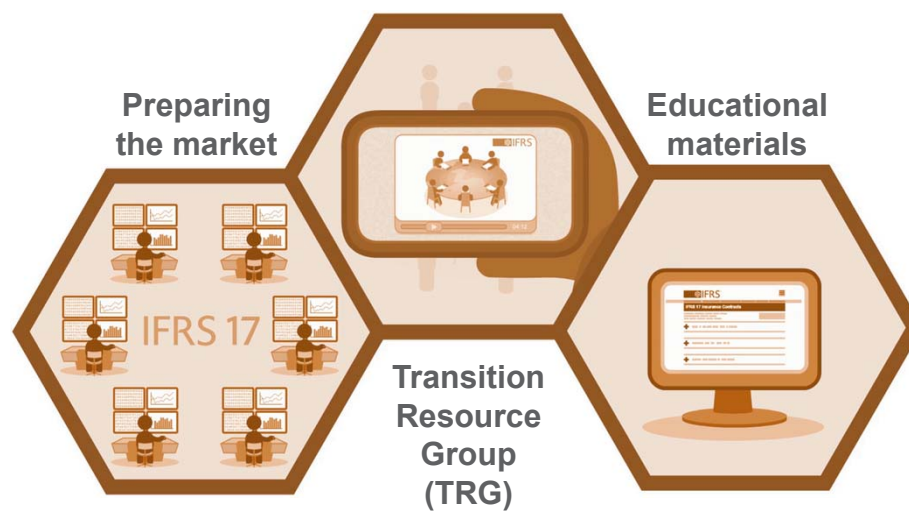
IFRS 17 timeline

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IASB support for IFRS 17 implementation

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Purpose of the IFRS 17 TRG

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Public forum for discussion of submitted questions

Helps companies to implement IFRS 17

Helps the Board to identify if more support is needed

3 meetings to date

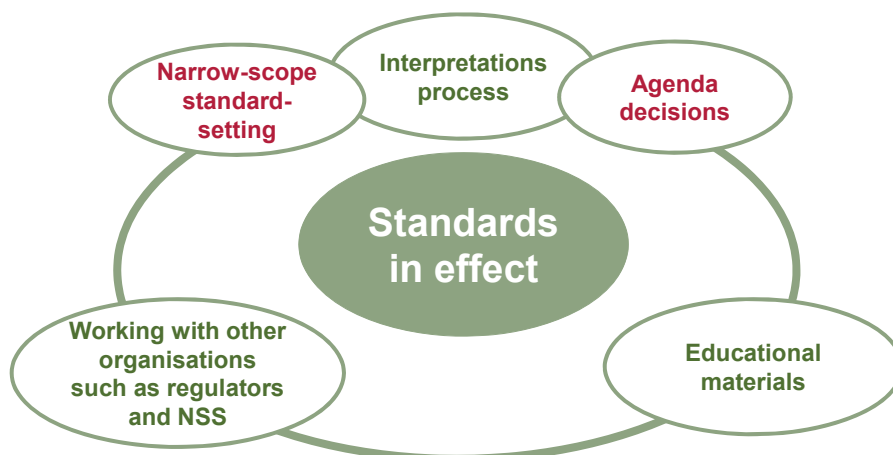
Webcasts, papers and summaries available for each meeting

Next meeting December 2018

IFRS

Support for Standards in effect

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IFRS

Overview of 2018 activities (to date)

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5 Committee meetings held in 2018 (to-date); one further meeting to be held in November 2018.



2017—2018 Amendments & Interpretations

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Topic	Effective date
IFRIC 23 Uncertainty over Income Tax Treatments	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: Previously Held Interests in a Joint Operation • Amendments to IAS 12: Income Tax Consequences of Payments on Instruments Classified as Equity • Amendments to IAS 23: Borrowing costs eligible for capitalisation 	1 January 2019



Maintenance Projects

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Project	Next milestone	Expected date
Definition of a Business (Amendments to IFRS 3)	IFRS Amendment	Imminent
Costs Considered in Assessing whether a Contract is Onerous (Amendments to IAS 37)	Exposure Draft	Q4 2018
Accounting Policies and Accounting Estimates (Amendments to IAS 8)	Decide project direction	October 2018
Accounting Policy Changes (Amendments to IAS 8)	Exposure Draft Feedback	Q4 2018
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	IFRS Amendment	TBD
Availability of a Refund (Amendments to IFRIC 14)	IFRS Amendment	TBD
Annual Improvements (next cycle)	Exposure Draft	TBD
<ul style="list-style-type: none"> • Fees in the '10 percent' test for Derecognition (Amendments to IFRS 9) • Lease Incentives (Amendment to Illustrative Example 13 accompanying IFRS 16) • Subsidiary as a First-time Adopter (Amendments to IFRS 1) • Package of annual improvements (Amendments to IFRS 17) • Taxation in Fair Value Measurements (Amendments to IAS 41) 		
Classification of Liabilities as Current or Non-current	Decide Project Direction	TBD

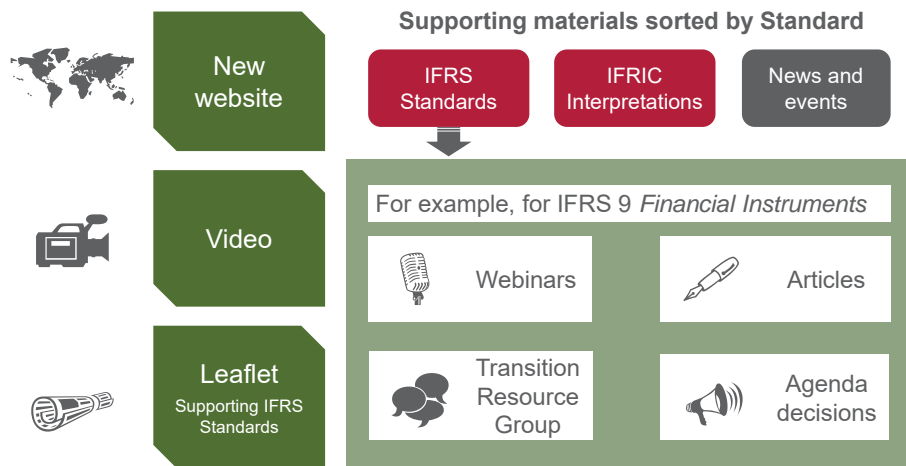


Supporting resources



Resources available on our website

55



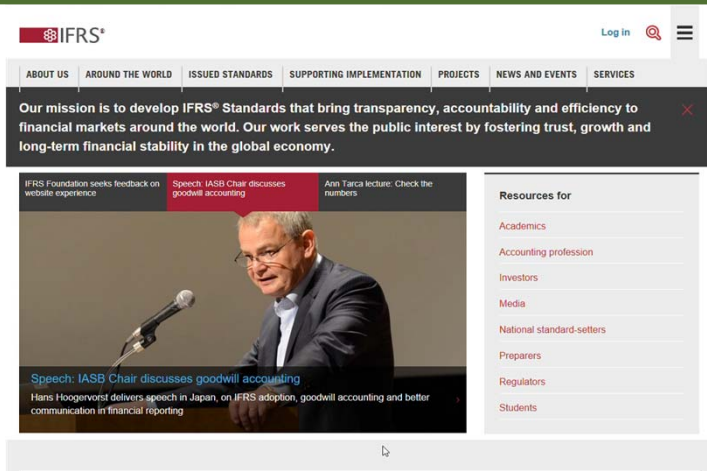
www.ifrs.org/supporting-implementation/supporting-materials-by-ifrs-standard/ifrs-9/



Finding agenda decisions—Path 1

56

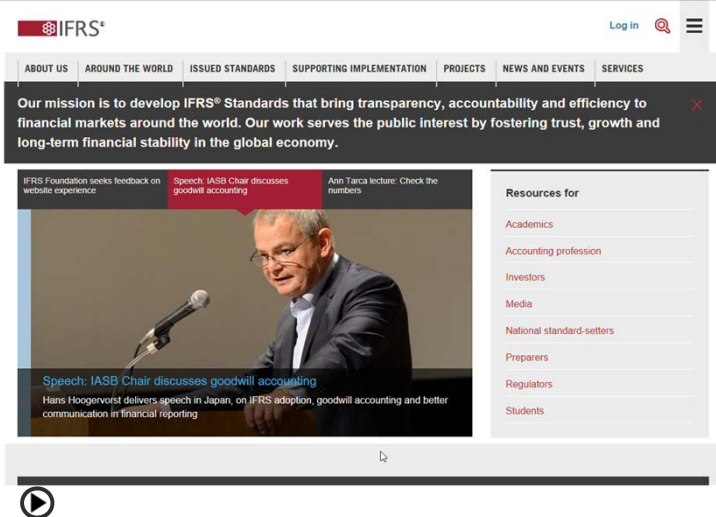
IFRS Home > Supporting Implementation >
How the IFRS Interpretations Committee helps implementation > All Agenda Decisions



Finding agenda decisions—Path 2

57

IFRS Home > Supporting Implementation > Supporting materials by IFRS Standard and IFRIC Interpretations > 'IFRS Standards' tab



The Annotated IFRS® Standards

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The Annotated IFRS® Standards—
Standards Issued 1 January 2018
(The Annotated Red Book)



The Annotated IFRS® Standards—
Required 1 January 2018
(The Annotated Blue Book)



The *IFRS for SMEs* Standard



The *IFRS for SMEs* Standard

60

Current

- *IFRS for SMEs* published July 2009
- amendments May 2015 based on first comprehensive review
 - few significant issues were identified
 - a limited number of targeted improvements made

Next Stage

- comprehensive review starting 2019
- SMEs that are subsidiaries



Other *IFRS for SMEs* Implementation Support

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Implementation Support

- implementation questions can be submitted at any time
 - referred to SME Implementation Group (SMEIG) if likely to meet criteria in paragraph 15 of SMEIG Terms of Reference and Operating Procedures; or
 - considered when updating education materials



The *IFRS for SMEs* Standard—training materials

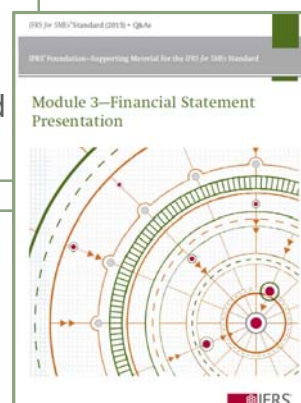
62

Purpose

- one module for each section of the Standard
- designed to support anyone learning about, applying, or reading financial statements prepared using, the *IFRS for SMEs* Standard.

Each module includes

- the Standard requirements
- significant estimates and other judgements
- comparison with full IFRS Standards
- comprehensive examples and activities



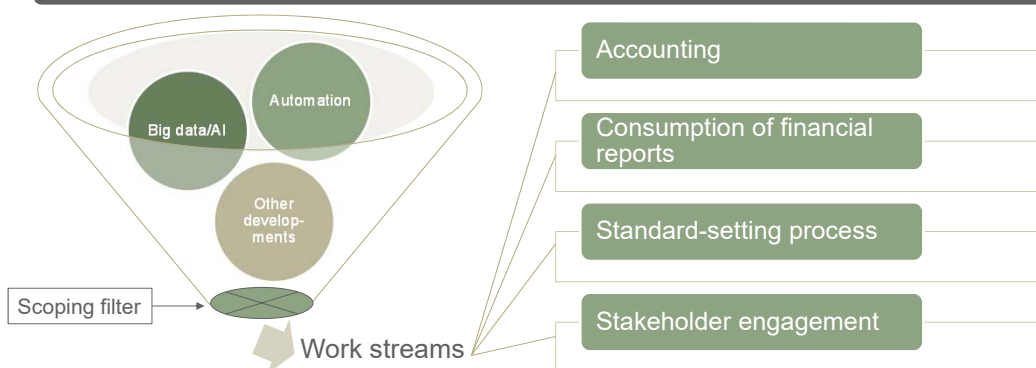
Technology Initiative



IFRS Foundation Technology Initiative

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1. Scoping



2. Strategy development

3. Execution



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The need for a Conceptual Framework

Tom Scott

Board Member

IASB

Andrew Lennard

Research Director

UK Financial Reporting Council

Conceptual Framework: nature and purpose

Agenda ref: WSS3

Tom Scott, Board Member, IASB
Andrew Lennard, Director of Research, FRC (UK)

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What if no Conceptual Framework?



What if no Conceptual Framework?

3

Higher variability between and lower quality of standards over time because:

- Standard-setters/stakeholders would base judgement on personal beliefs and experiences
- No consistency between issues and over time; standards will reflect an ever-changing set of beliefs and experiences
- Expedient response may be to rewrite the standard to address the new issue or circumstance, leading to inconsistent standards
- It will be difficult for standard-setters to respond to self-interested stakeholders who advocate a particular approach to a standard

• the collective set of beliefs, experiences and incentives that underlie each standard will differ from standard to standard

• the standards will likely be biased

• the inconsistent standards from this process will appear to be unrelated and arbitrary rules

Guarantees rule-based system



No Conceptual Framework – past UK experience

4

- Standard-setting started by setting boundaries to the use of equity accounting, with little reflection on what the resulting information meant, or purported to mean
- Deferred tax (SSAP15): balance sheet number (arguably) was informative, but P&L charge was not
- Pensions (SSAP 24): balance sheet number was meaningless but P&L charge (arguably) was sensible



Nature and purpose of a Conceptual Framework



Nature and purpose of a Conceptual Framework (CF)

6

- Conceptual Framework Project (FASB 1976): a CF is a **constitution**, a coherent system of interrelated objectives and fundamentals that can lead to consistent standards and that prescribes the nature, function, and limits of financial accounting and financial statements
 - A constant thread of reason, a basis for solution, to guide standard-setters
- The IFRS Foundation Constitution has as its first objective:
 - “To develop in the public interest, a single set of high quality, understandable, enforceable, and globally accepted financial reporting standards **based upon clearly articulated principles.**”
 - The clearly articulated principles should be found in the CF



Conceptual Framework, a Constitution?

7

Constitution can be described as:

- Capturing a natural or supreme law or capturing a foundational political consensus, that in turn:
 - Prescribes the basis for governance in a society or organisation
 - Establishes the basic or fundamental law from which all other laws are derived
- The broad dual roles for a constitution are:
 - Specifying the institutions and processes of decision-making
 - Found in Due Process Handbook, not in the Conceptual Framework
 - The prescription of procedure is written in the Due Process Handbook
 - Influencing the substantive content of the laws and norms
 - Found in the Conceptual Framework
 - Guides from first principles while setting boundaries for legitimate alternatives
 - Sets the basis and bounds for standard setting and accounting policy choice



Conceptual Framework: principles and rules

8

- **Principles**
 - exist at a higher, more fundamental level than rules
 - lead rather than prescribe
 - rely on human judgment and reasoning in their application
- **Rules**
 - are both prescribed and prescribe
 - focus on regulating behavior
 - result in a compliance mentality



A principled system of financial reporting requires

9

- A critical role for “the conceptual framework” to resolving accounting issues and defining common fundamental principles
 - for standard-setters
 - for practitioners
- Ideally all standards should consistently embed the common fundamental principles
- The use of standards that prescribe general levels of presentation or disclosure in preference to detailed prescriptions in each topical standard
- More concise standards with less prescription and detail in the individual standards.
- A common basis for accounting education



Historical versus ideal: chronological development

10

Historical

- Practice evolved across separate national environments
- National standards developed
 - Some sharing across jurisdictions
- Conceptual Frameworks are written – pulling concepts from existing standards; some standards are inconsistent with CFs
- International standards developed along with an international conceptual framework
- Iterative process of mutual influence among the CF, standards, and practice with the CF's principles becoming more complete and rigorous over time

Ideal

- Develop fundamental principles in a CF
- Consistent standards flow from CF
 - Standards consistently embed the common fundamental principles
- Practice reflects standards with the principles in the CF forming an overarching basis
 - Management policy choices reflect CF principles when set in the absence of a specific standard





How does it help?



How does it help?

12

- CF requires standard-setting to be a rigorous process
 - Establishes fundamental principles
 - Establishes bounds for legitimate argument
 - Limits opportunistic lobbying
- CF enhances consistency across standards
 - Standards reflecting CF principles will be more consistent than those that reflect the unconstrained views of specific standard-setters at any point in time
 - Consistent standards are easier to understand and interpret
 - Consistent standards limit structuring transactions so that they can fall under a more 'favourable' standard
- CF enhances quality
 - CF provides direction for improvements to existing standards
 - Consistent application of the CF in setting standards leads to coherent standards that collectively should be more relevant and representationally faithful



Questions the CF makes you answer

13

- Is it an asset (liability) – as defined?
- Does it meet the recognition criteria?
- What is the measurement basis that is most relevant and representationally faithful
 - in both income/expenses and statement of financial position?
 - is it also comparable, verifiable, and understandable?
- How are changes in the amount of an asset (liability) best presented and disclosed?



Conclusion



Summary: purpose of the IFRS Conceptual Framework

15

- Provide guidance to standard-setters on considerations relevant to selecting accounting methods and disclosures
- Assist preparers in selecting an accounting policy in the absence of a specific standard (or a related standard applied analogously)
- Enhance the dialogue between standard-setter and stakeholders:
 - Provide a common vocabulary and understanding
 - Help educate accountants

Presentation on our current set of improvements to follow



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Overview of the Conceptual Framework

Rachel Knubley

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Jelena Voilo

Technical Manager

IASB

Overview of the *Conceptual Framework*

Agenda ref: WSS4

Rachel Knubley, Associate Director, IASB
Anne McGeachin, Technical Principal, IASB
Jelena Voilo, Technical Manager, IASB

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Any questions?

2

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- Submit your questions



Agenda

3

- Introduction to the 2018 *Conceptual Framework*
- The objective and qualitative characteristics
- The elements of financial statements and recognition
- Measurement
- Presentation and disclosure, including profit or loss and other comprehensive income
- Q&A

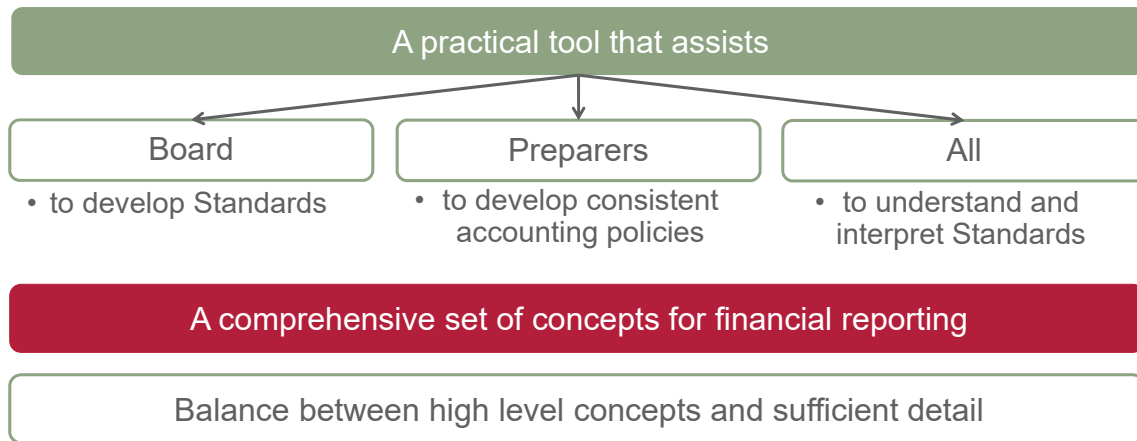


Introduction to the 2018 *Conceptual Framework*



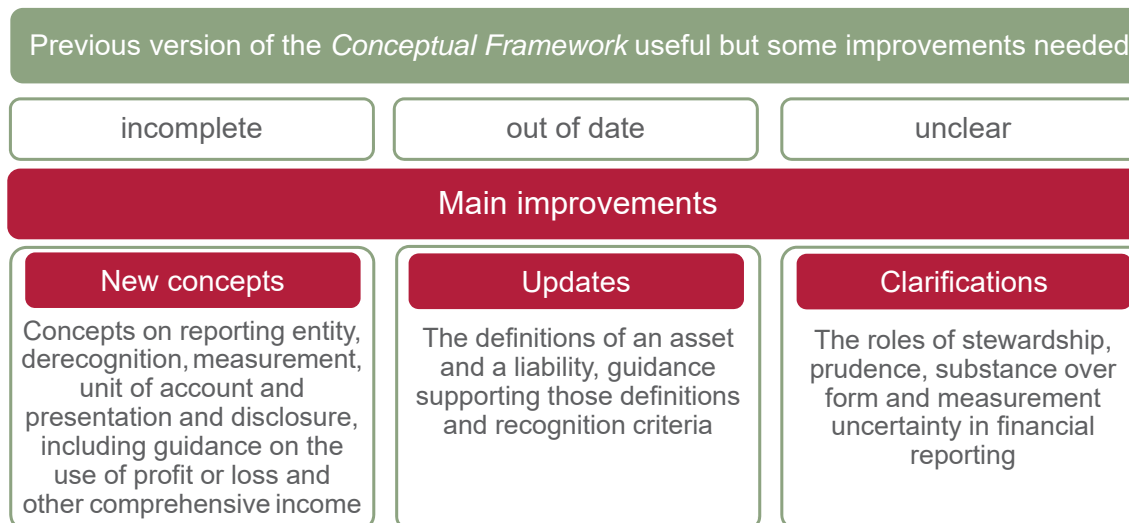
What is the *Conceptual Framework*?

5



Highlights of the 2018 *Conceptual Framework*

6



Effects of the 2018 revision

7

Board/IFRS Interpretations Committee

- Underpins the Board's decisions in setting Standards but the Board **can depart from aspects** of the *Conceptual Framework* to **meet the objective** of financial reporting
- Standards are interpreted in the context of the 2018 *Conceptual Framework*
- **Effective immediately**

Preparers

- Directly affects only those who develop accounting policies using the *Conceptual Framework* when no applicable Standard applies
 - See ***Amendments to References to the Conceptual Framework in IFRS Standards***
 - **Effective 1 January 2020**
- Indirectly affects preparers when future Standards become effective

Not a Standard and does not override Standards



The objective and qualitative characteristics



Objective of general purpose financial reporting

9

Provide financial information **useful** to primary users of financial reports in making decisions about providing resources to the entity

buy, hold or sell

provide or settle loans

vote and influence management

clarified

Assess the prospects for **future net cash inflows**

Assess **management's stewardship** of the entity's resources

clarified

To make those assessments users need information about

economic resources, claims and changes in them

how efficiently/effectively management discharges its responsibilities



Primary users of financial reports

10

Existing and potential

investors
lenders
other creditors

Financial reports:

- focus on **common information needs**
- can include additional information that is most useful to a particular subset of primary users
- not directed at other parties, for example, regulators or members of the public



Qualitative characteristics

11

Fundamental qualitative characteristics

Relevance

- Capable of making a difference to the decisions made by users
- Predictive or confirmatory value

Faithful representation

clarified

- Represents the substance of the economic phenomena
- Complete, neutral and free from error

Enhancing qualitative characteristics

Comparability

Verifiability

Timeliness

Understandability

Cost constraint

 IFRS

Clarifying aspects of faithful representation

12

neutrality

Prudence

- Exercise of caution under conditions of uncertainty
- Does not allow for overstatement or understatement of assets, liabilities, income or expenses
- Standards may contain asymmetric requirements if this is necessary to achieve the objective of financial reporting

clarified

free from error

Measurement uncertainty

- Arises when monetary amounts cannot be observed directly
- Estimates are an essential part of preparing financial information
- Does not prevent information from being useful but if high may affect whether a sufficiently faithful representation can be achieved

clarified

Substance over form

- In many circumstances, economic substance of the underlying economic phenomenon is the same as the legal form
- If not, need to represent the substance to provide a faithful representation

clarified

 IFRS

Trade-off

clarified

13

A trade-off between the fundamental qualitative characteristics may need to be made in order to meet the objective of financial reporting



 IFRS

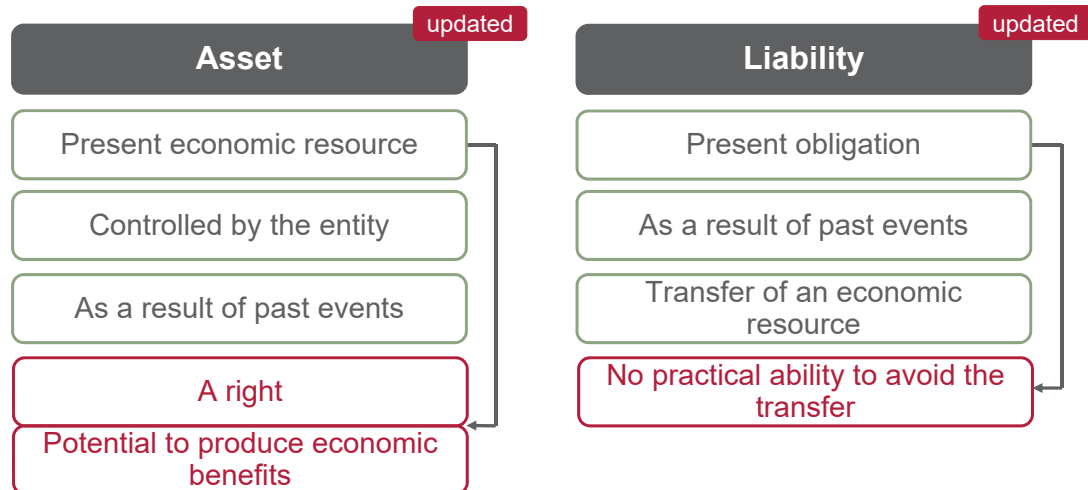
The elements of financial statements and recognition



 IFRS

Elements of financial statements – assets and liabilities

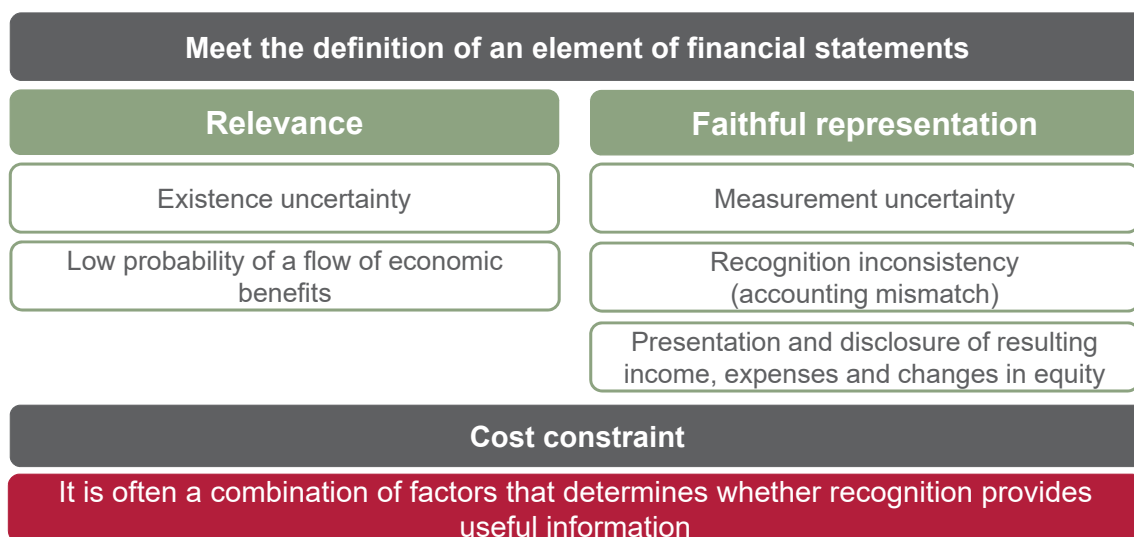
15



IFRS

Recognition criteria updated

16



IFRS

Elements of financial statements – equity, income and expenses

17

Equity

The residual interest in the assets of the entity after deducting all its liabilities

Financial Instruments with Characteristics of Equity research project explores how to distinguish liabilities from equity

Income

Increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims

Expenses

Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims

Information about income and expenses is just as important as information about assets and liabilities



Measurement



Measurement bases

new

19

Mixed measurement model

Historical cost

includes

Amortised cost

Derived from transaction or other event that gave rise to the asset or liability

Information about margins

Current value

Fair value

Value in use

Fulfilment value

Current cost

Updated to reflect conditions on the measurement date

Information about changes in prices and other factors



Selecting a measurement basis

new

20

Relevance

Characteristics of the asset or liability

Contribution to future cash flows

Faithful representation

Measurement inconsistency (accounting mismatch)

Measurement uncertainty

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

Enhancing qualitative characteristics and cost constraint





Presentation and disclosure

Presentation and disclosure – objectives and principles

new

22

To consider when developing presentation/disclosure requirements in Standards

Balance between:

- giving entities the **flexibility** to provide useful information
- requiring information that is **comparable**

Presentation/ disclosure **objectives** to help entities to:

- identify useful information
- decide how to communicate it in the most effective manner

Effective communication **principles**:

- entity-specific information is more useful than 'boilerplate'
- duplication of information makes financial statements less understandable

Profit or loss and OCI

new

23

Statement of profit or loss

- **Primary**, but not the only, source of information about performance
- Profit or loss is a required (sub)total
- In principle, all income and expenses are included in the statement of profit or loss

Other comprehensive income

- **Exceptional circumstances**
- Only changes in current values of assets and liabilities
- In principle, OCI items are recycled

Classification into profit or loss and OCI and recycling

Relevance

Faithful representation

Only the Board can make decisions on OCI and recycling



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Small group discussions

Conceptual Framework

Group sessions facilitated by IASB Board members and staff

IASB Board Members:

Françoise Flores

Jianqiao Lu

Tom Scott

Chungwoo Suh

Mary Tokar

IASB Technical Staff:

Joan Brown

Peter Clark

Rachel Knubley

Anne McGeachin

Jelen Voilo



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Breakout sessions

Business Combinations Under Common Control

Françoise Flores
Board Member
IASB

Yulia Feygina
Technical Principal
IASB

Business Combinations under Common Control

Agenda ref: WSS6

Françoise Flores, Board Member, IASB
Yulia Feygina, Technical Principal, IASB

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Agenda

2

- Background and scope of the project
- Measurement approaches for business combinations under common control
- Ways forward for transactions affecting non-controlling shareholders (NCI)
 - exploring current value approaches



Background and scope of the project



Why this project?

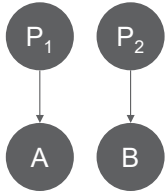
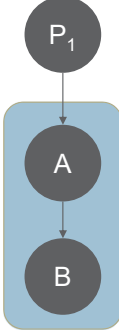
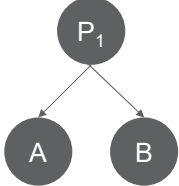
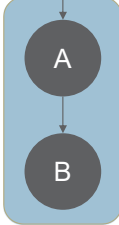
4

Select the appropriate answer(s)...

- Lack of specific guidance on how to account for BCUCC
- Diversity in practice in how entities account for BCUCC
- BCUCC is identified as a priority project in the recent 2011 and 2015 Agenda Consultations

The issue: diversity in practice

5

Before	After	Observations
<p>Scenario 1</p> <ul style="list-style-type: none"> Entity A and Entity B are controlled by different parties; Entity B is a business. 	<p>Entity A acquires Entity B</p> 	<p>Scenario 1</p> <ul style="list-style-type: none"> The transaction is a business combination IFRS 3 <i>Business Combinations</i> requires the acquisition method Entity A reflects identifiable assets and liabilities of Entity B at fair value
<p>Scenario 2</p> <ul style="list-style-type: none"> Entity A and Entity B are controlled by the same party; Entity B is a business. 		<p>Scenario 2</p> <ul style="list-style-type: none"> The transaction is a business combination under common control IFRS Standards do not specify how to account for such transactions which leads to diversity in practice Entity A reflects identifiable net assets of Entity B at fair value or at predecessor carrying amounts



Scope of the project

6

focuses on transfers of **Business**
(as defined in IFRS 3)
under common control

includes **more** transactions
than
just **BCUCC**

addresses financial reporting
by the **receiving entity**

considers
**application
questions**

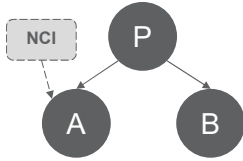


Example 1—Basic

7

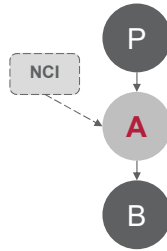
Before

Entity A and Entity B are controlled by Entity P.
Entity A and Entity B are businesses.



Transaction

Entity A acquires Entity B.



Observations

Accounting by **Entity A** is ...

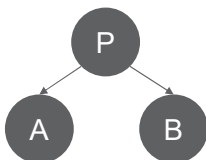


Example 2—Newco

8

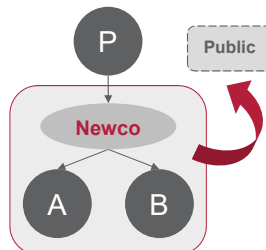
Before

Entity A and Entity B are controlled by Entity P.
Both Entity A and Entity B are businesses.



Transaction

Entity P forms a Newco and transfers Entity A and Entity B to that Newco.



Observations

Accounting by **Newco** is ...

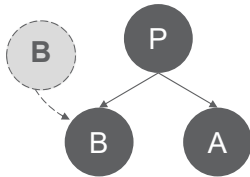


Example 3—Transitory control

9

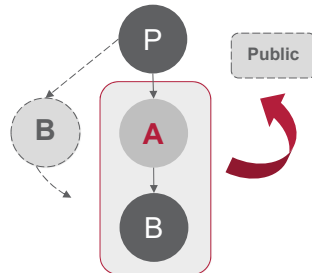
Before

Entity A is controlled by Entity P.
Entity P acquires Entity B from external parties.
Both Entity A and Entity B are businesses.



Transaction

Entity A acquires Entity B from Entity P.



Observations

Accounting by **Entity A** is ...

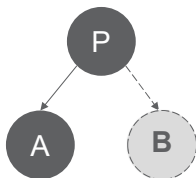


Example 4—Associates

10

Before

Entity P controls Entity A.
Entity P has a significant influence over Entity B.



Transaction

Entity P transferred Entity B to Entity A.



Observations

Accounting by **Entity A** is ...

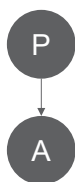


Example 5—One business

11

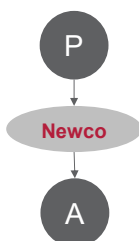
Before

Entity A is controlled by Entity P.
Entity A is a business.



Transaction

Entity P forms a Newco and transfers Entity A to that Newco.



Observations

Accounting by **Newco** is ...



Scope of the project—recap

12

Accounting for transactions under common control that involve a transfer of one or more businesses from the perspective of the receiving entity, regardless of whether:

- the receiving entity can be identified as the ‘acquirer’, if IFRS 3 were applied to the transaction;
- the transaction is conditional on a loss of control over the combining parties, for example as a result of a future sale or an IPO;
- the transaction is either preceded by an external acquisition or followed by an external sale of one or more of the combining parties, or both.



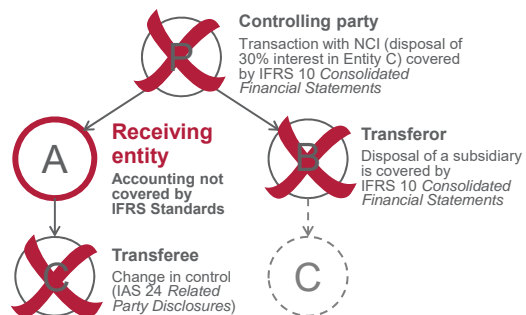


Measurement approaches

Who we are focusing on

The project focuses on the **primary users** of the **receiving entity's** financial statements.

- **controlling party(ies);**
- **non-controlling interest;**
- **potential investors** in a prospective **IPO;**
- **lenders and other creditors.**



Entity A acquires Entity C from Entity B. Entities A, B and C are all controlled by Entity P. Entity C is a business.

Information needs of primary users

15

Primary users of the receiving entity's financial statements

Non-controlling shareholders

Indefinite interest in the receiving entity.
Transaction may affect the value of their existing interest.
Exposed to residual equity risks.

Lenders and creditors

Finite interest in the receiving entity.
Transaction may affect the value of their existing interest.
Exposed to credit and liquidity risks.

Controlling party

Controls all combining entities before and after the transaction.
Does not solely rely on the receiving entity's financial statements to meet its information needs.

Prospective capital providers

No existing interest in any of the combining entities at the time of the transaction.

Information needs and cost-benefit analysis can be different for different primary users



Possible approaches for BCUCC

16

How should the receiving entity measure acquired assets and liabilities in a BCUCC?

Conceptual Framework

Historical cost

Receiving entity will allocate the consideration across the acquired assets and liabilities (eg based on their relative fair values). No goodwill is recognised.

Current value

Receiving entity will reflect acquired assets and liabilities at their current values (eg at fair values). Goodwill is measured as a residual.

Predecessor carrying amounts

Receiving entity will reflect acquired assets and liabilities at their predecessor carrying amounts (eg the carrying amounts reflected in the transferee's financial statements).

Existing practice

Consistent with the acquisition method required by IFRS 3 for business combinations



Illustrative scenario

17

Let's consider information about a business combination under common control provided by the measurement bases identified on slide 9 in the receiving entity's financial statements.

The scenarios considered are:

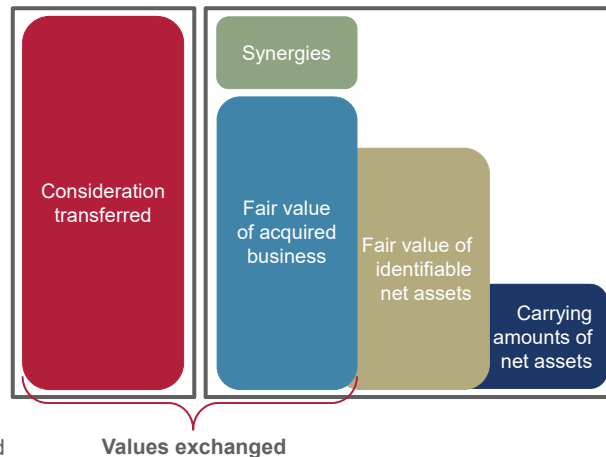
- Equal values are exchanged;
- Higher value is given up;
- Higher value is received.

In all scenarios the following are kept constant:

- Any synergies arising from the combination;
- Fair value of the acquired business;
- Fair value of the acquired identifiable net assets; and
- Pre-combination carrying amounts of the acquired net assets.

Different scenarios result from changing consideration transferred.

For simplicity, assume the consideration is paid in cash.



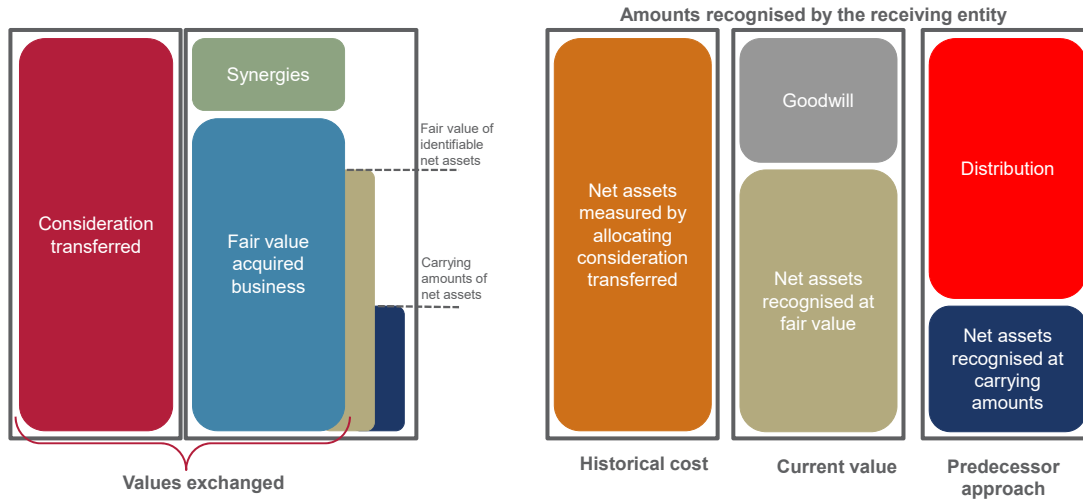
Health warning

18

- The staff acknowledge that a price in a business combination results from negotiations and **falls within a range** between the minimum price the seller will accept and the maximum price the buyer will pay. However, in principle, consideration transferred includes a payment for the acquired business and for combination synergies.
- The following **illustrations are simplified** and are designed to demonstrate whether and how different scenarios will be reflected under various approaches. The illustrations are not intended to suggest how often each scenario might happen and how different the amounts might be. They merely illustrate the mechanics. Finally, the illustrations assume that the items can be measured.

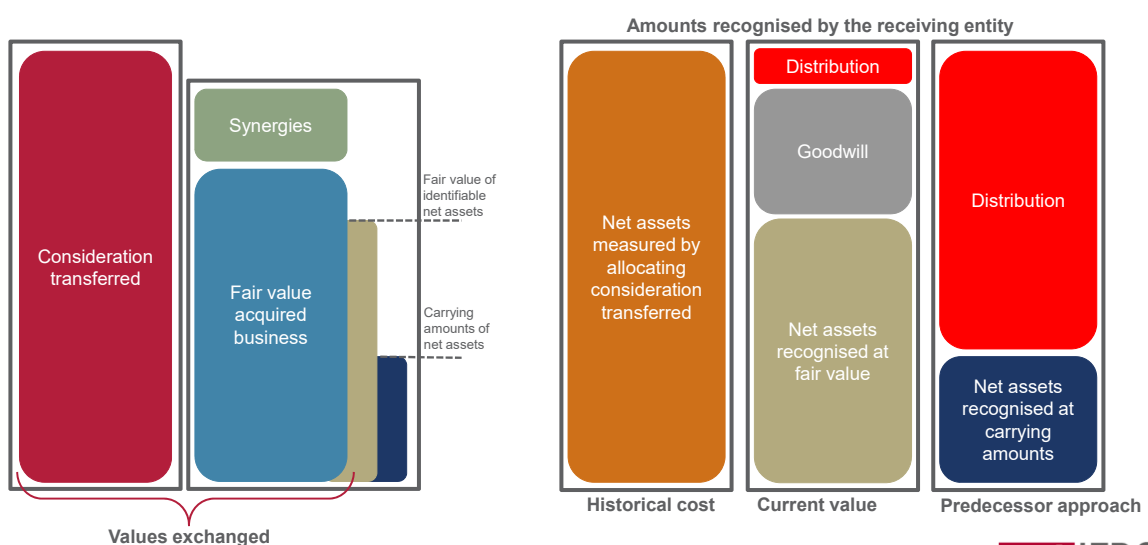
If equal values are exchanged

19



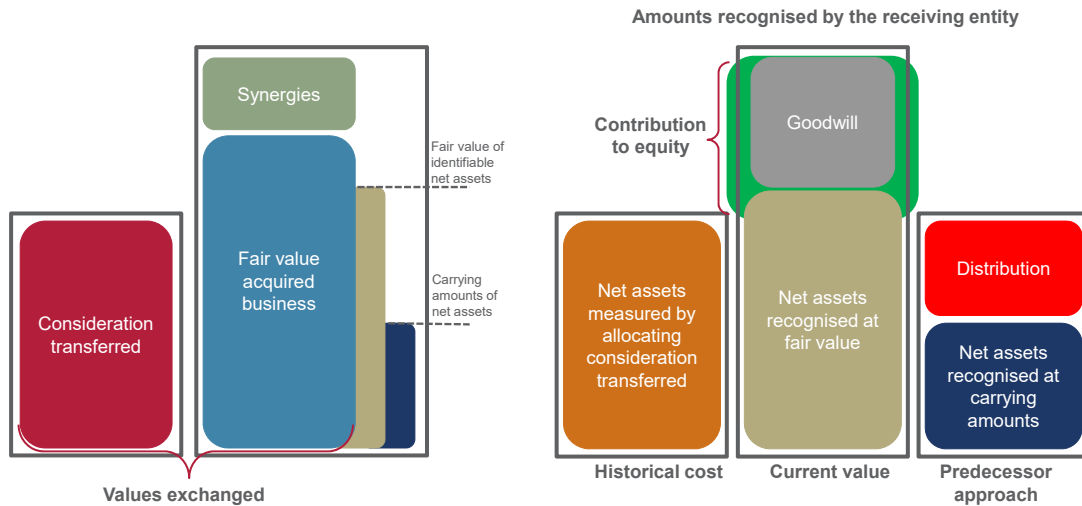
If a higher value is given up

20



If a higher value is received* (1/2)

21

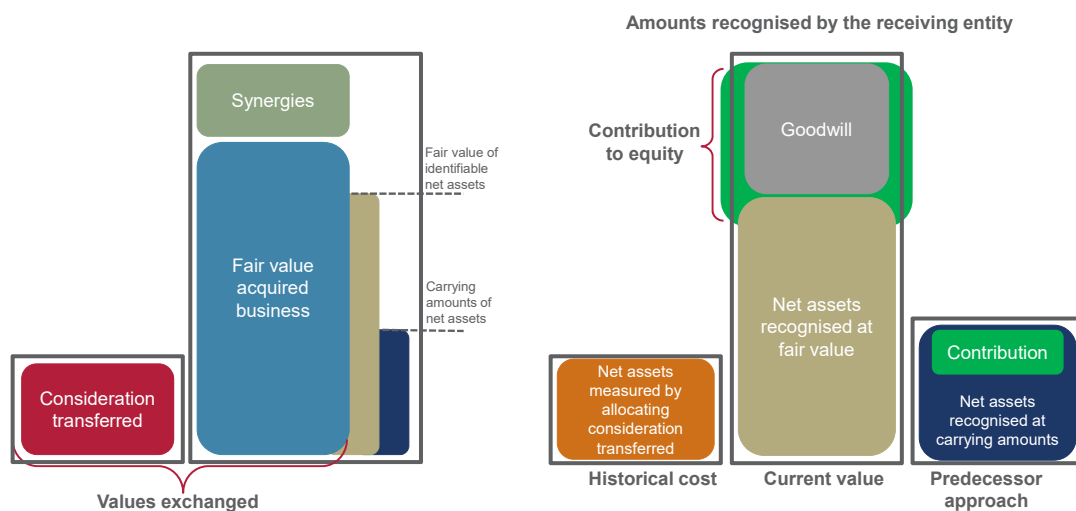


* Fair value of identifiable net assets > consideration transferred
Carrying amount of net assets < consideration transferred



If a higher value is received* (2/2)

22



* Fair value of identifiable net assets > consideration transferred
Carrying amount of net assets > consideration transferred



Question 1

23

Q

In your view, which measurement basis would provide the most **useful** information to **existing non-controlling shareholders** of the receiving entity?

- (a) Historical cost
- (b) Current value
- (c) Predecessor carrying amounts

Question 2

24

Q

In your view, which measurement basis would provide the most **useful** information to **existing lenders and creditors** of the receiving entity?

- (a) Historical cost
- (b) Current value
- (c) Predecessor carrying amounts

Question 3

25

Q

In your view, which measurement basis would provide the most **useful** information to **the controlling party** of the receiving entity?

- (a) Historical cost
- (b) Current value
- (c) Predecessor carrying amounts

Question 4

26

Q

In your view, which measurement basis would provide the most **useful** information to **prospective capital providers** of the receiving entity?

- (a) Historical cost
- (b) Current value
- (c) Predecessor carrying amounts

Ways forward for transactions affecting NCI



Approaches being developed

The Board discussed potential approaches for transactions that affect NCI.

Using acquisition method as a basis

Transactions within the scope of the BCUCC project

Primary users
Cost constraint

eg acquisition with NCI in the receiving entity

A current value approach for BCUCC involving NCI

29

Acquisition method

+

Additional disclosures

+

Recognise a contribution if it is a bargain purchase (not gain)

+

Recognise a distribution if there is an excess consideration (not goodwill)

The Board decided to pursue an approach that uses the **acquisition method** as the basis and to consider whether and how that approach may need to be modified for BCUCC.

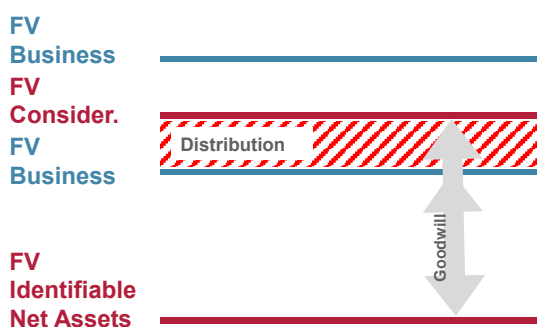
Ceiling approach

Revised ceiling approach

IFRS

Ceiling approach

30



Assess fair value of the consideration transferred against the fair value of the acquired business.

Goodwill is the excess of the consideration transferred over the fair value of the acquired identifiable net assets, 'capped' at the fair value of the acquired business.

Excess consideration over the fair value of the acquired business is recognised as a distribution from equity.

Gain is never recognised. Bargain purchase is recognised as contribution to equity.

IFRS

Revised Ceiling approach

31

Apply the mechanics of IAS 36 re: *impairment of goodwill*

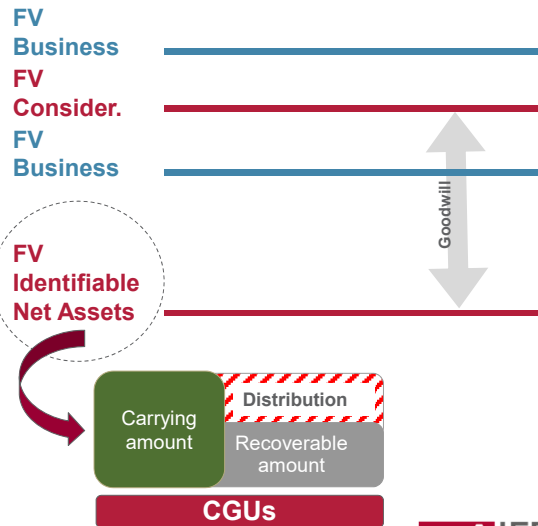
Provisional goodwill is allocated to CGU(s) and tested to confirm the provisional amount and identify any distribution from equity

Any excess of the carrying amount over the recoverable amount of the CGU(s) is recognised as a **distribution from equity**

- Goodwill is calculated as the excess of the fair value of the consideration over the fair value of the acquired identifiable net assets but is capped
- Gain is never **recognised**

IFRS 3

IAS 36



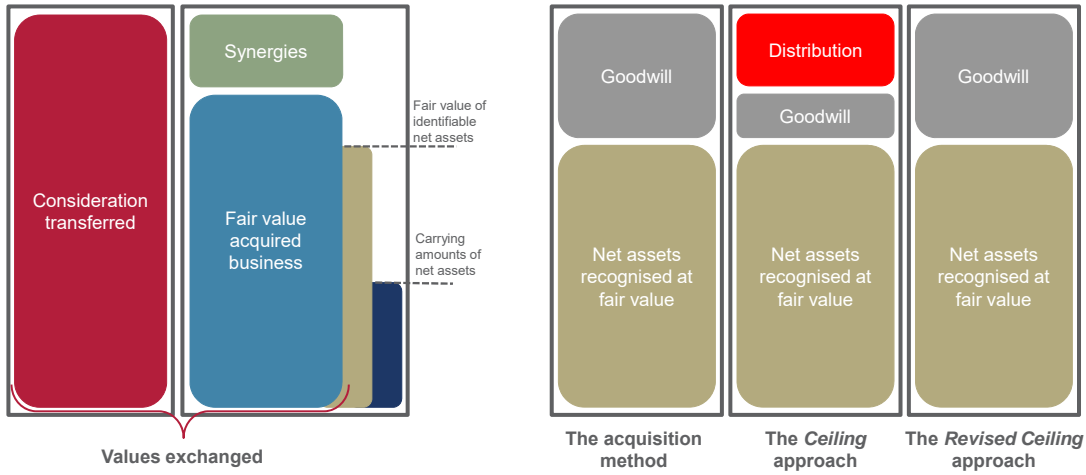
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Exploring current value approaches

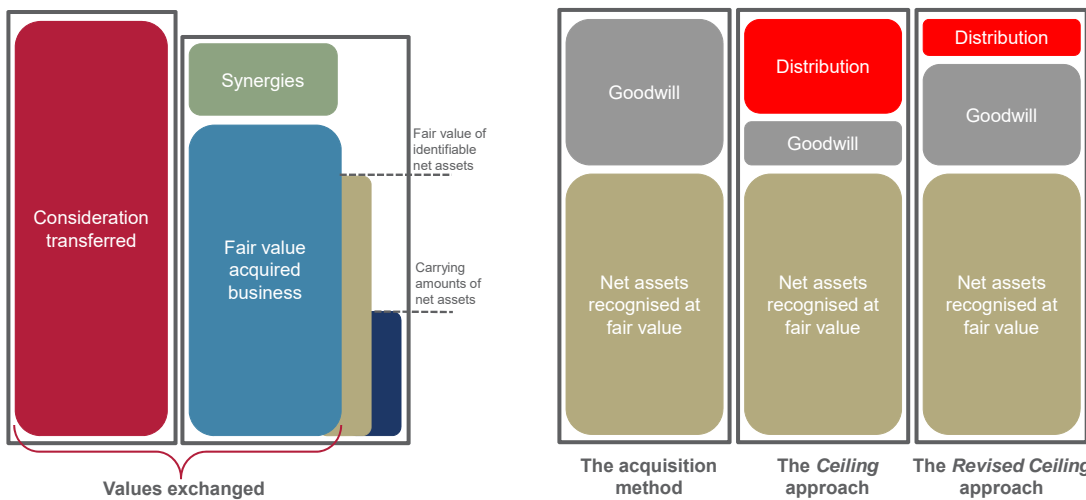


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Equal values exchanged

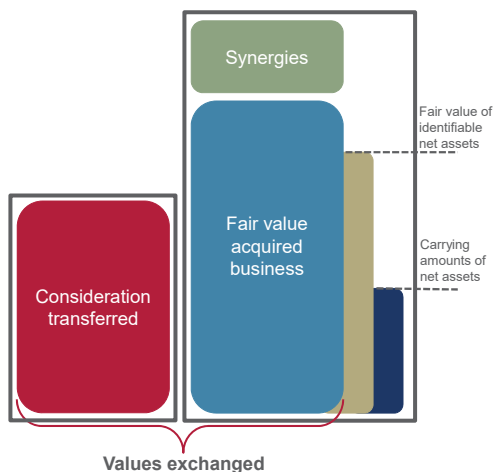


Higher value given up

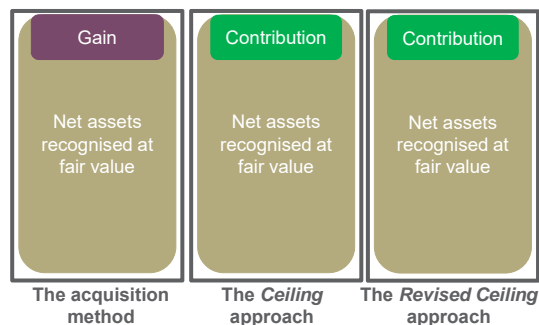


Higher value received – Case 1

35

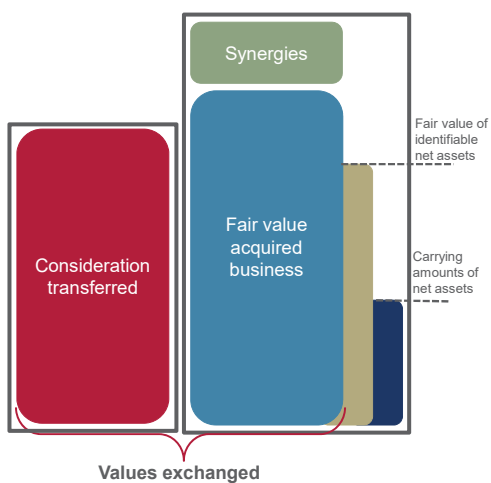


The fair value of the consideration transferred is below the fair value of the acquired business and acquired identifiable net assets.

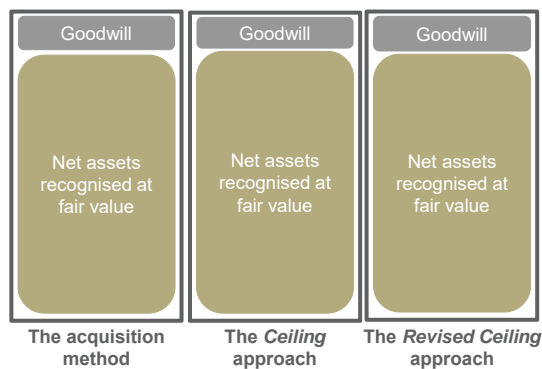


Higher value received – Case 2

36



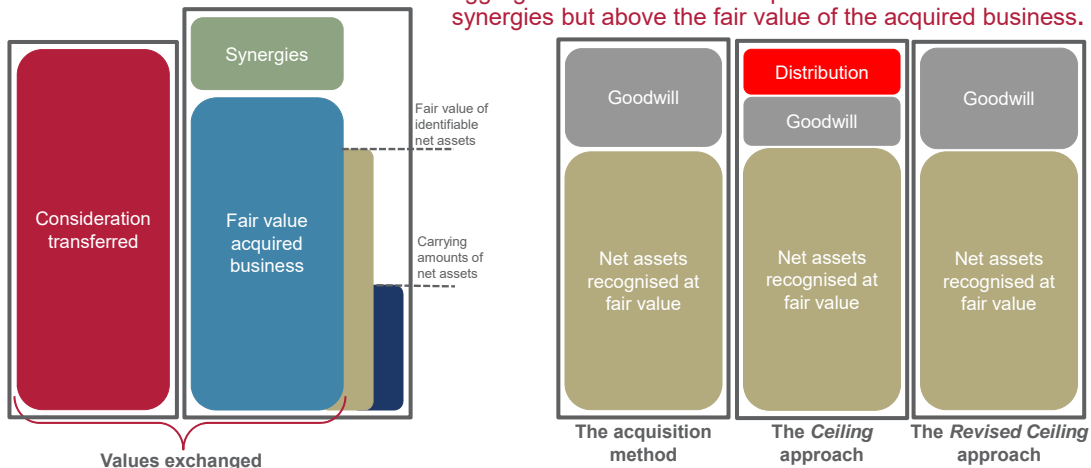
The fair value of the consideration transferred is below the fair value of the acquired business but above the fair value of the acquired identifiable net assets.



Higher value received – Case 3

37

The fair value of the consideration transferred is below the aggregate fair value of the acquired business and combination synergies but above the fair value of the acquired business.



Question 7

38

Q

In your view, should a current value approach be applied whenever **NCI** are present with the receiving entity?

- (a) Yes—in all cases.
- (b) Yes—in some but not all cases (eg depending on the nature and size of the NCI).
- (c) No—a different measurement approach should be applied.
- (d) No—other reason/s.

Question 8

39

Q

What **potential modifications** to the acquisition method do you think would result in the most useful information about a business combination under common control involving NCI?

Select all that applies.

- (a) No modification. Apply acquisition method as set out in IFRS 3.
- (b) Require additional disclosures.
- (c) Recognise contribution if there is a 'bargain purchase'.
- (d) Introduce a 'cap' on recognition of goodwill.



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World Standard-setters Conference

Monday 1 and Tuesday 2 October 2018

Breakout sessions

Better Communications—
focus on Primary Financial Statements & Disclosures

Gary Kabureck
Board Member
IASB

Aida Vatrenjak
Senior Technical Manager
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Kathryn Donkersley
Senior Technical Manager
IASB

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Assistant Technical Manager
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Better Communication in Financial Reporting

Part A: Disclosure Initiative

Agenda ref: WSS7A

Gary Kabureck, Board Member, IASB
Kathryn Donkersley, Senior Technical Manager, IASB
Siobhan Hammond, Assistant Technical Manager, IASB

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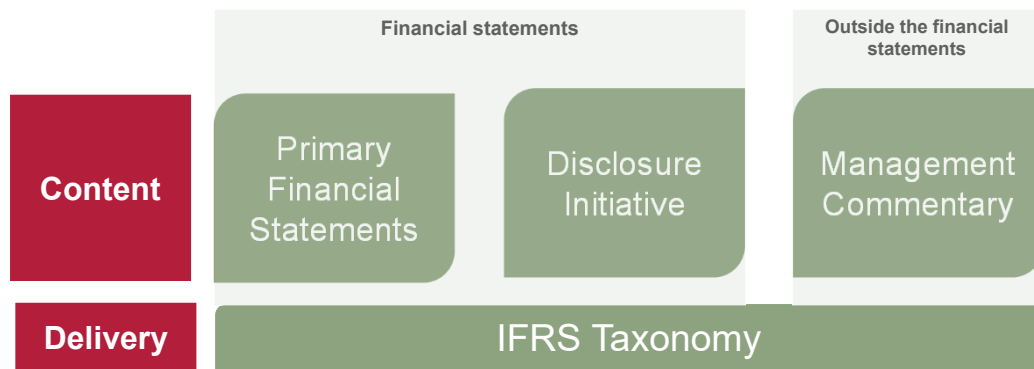
Overview



Central theme of the Board's work

3

Better Communication in Financial Reporting



Disclosure Initiative—the disclosure problem

4

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





Completed projects

Disclosure Initiative—completed projects

6

- Materiality Practice Statement
- Amendments to IAS 1 to remove barriers to application of judgment
- Amendments to IAS 7 to improve disclosure of liabilities from financing activities

Materiality Practice Statement

7

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

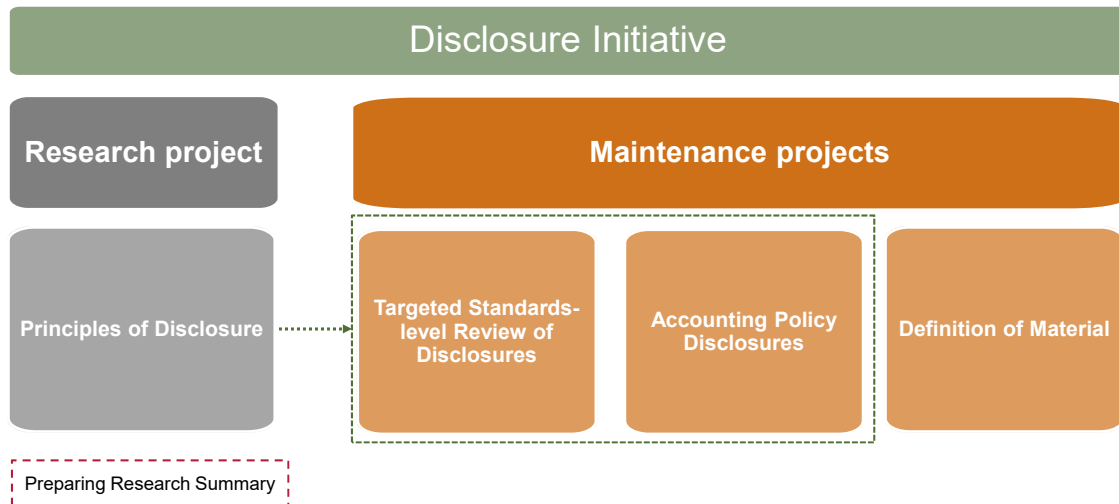


Active projects



Disclosure Initiative—active projects

9



Principles of Disclosure—next steps

10

March 2017 *Disclosure Initiative—Principles of Disclosure* Discussion Paper

Board's response

- 1 To help address the main disclosure problem, added a project to undertake a **targeted Standards-level review of disclosure requirements** (slides 8-12)
- 2 To help entities apply materiality judgments to accounting policy disclosure, added a project to develop guidance and examples
- 3 To respond to feedback received about electronic reporting, relevant considerations will be included in the Guidance for the Board to use when developing and drafting disclosure objectives and requirements (slides 10-11)
- 4 Consider issues relating to the broader implications of technology on financial reporting within the IFRS Foundation's Technology Initiative



Principles of Disclosure—next steps

11

Decided **not to pursue further** the following topics in the Principles of Disclosure project:

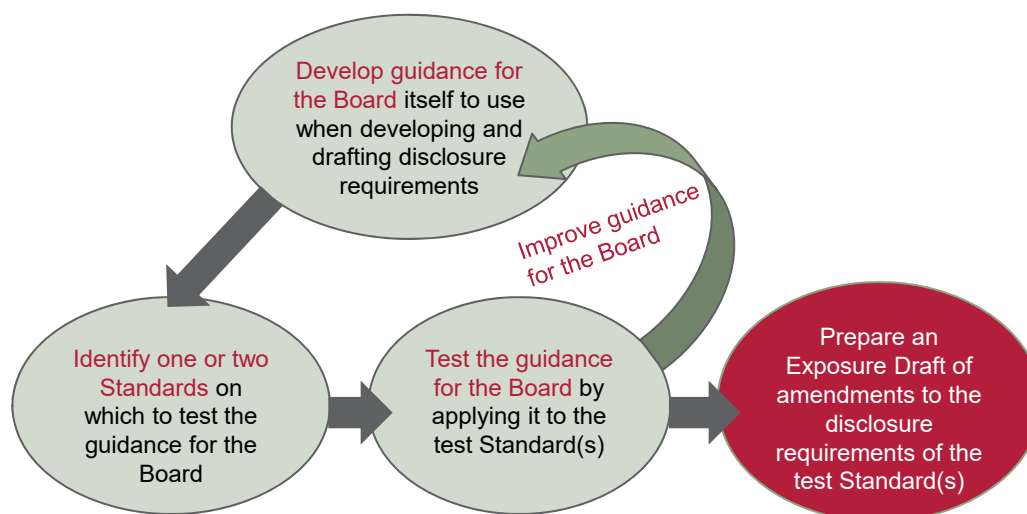
Topics to be discussed in the Primary Financial Statements project	Topics unlikely to contribute significantly to addressing the disclosure problem	Location of information
<ul style="list-style-type: none"> • roles of the primary financial statements and the notes • presentation of EBIT and EBITDA • presentation of unusual or infrequently occurring items • fair presentation of performance measures 	<ul style="list-style-type: none"> • use of formatting in the financial statements • location of accounting policy disclosures • location of disclosure objectives and requirements in IFRS Standards • use of 'present' and 'disclose' in IFRS Standards* 	<ul style="list-style-type: none"> • IFRS information outside the financial statements • Non-IFRS information inside the financial statements

*The feedback on the use of these terms will be considered as part of developing the Guidance for the Board in developing and drafting disclosure requirements



Targeted Standards-level Review of Disclosures

12



Targeted Standards-level Review of Disclosures

13

Guidance for the Board

- Will be developed as a set of Board decisions.
- Formal stakeholder feedback will be obtained when subsequently used as part of standard-setting.

Test the guidance for the Board

- The objective of the targeted standards-level review will be to **improve the disclosure requirements and hence, the usefulness of the disclosures** provided to the primary users of financial statements.
- This test will enable further improvements to the Guidance developed for the Board.
- The objective will **not** be **to change the volume of disclosure requirements**, although this may be a consequence.



Targeted Standards-level Review of Disclosures—**Guidance for the Board**

14

Step 1: How the Board will use disclosure objectives in future

- Base all disclosure requirements on one or more specific disclosure objectives
- Objectives explain **why** the information is useful to primary users and **what** the primary users are expected to do with the information
- Continue to use 'catch-all' disclosure objectives within individual IFRS Standards

Step 2: What process will the Board use to develop the content of the disclosure objectives and requirements

- Better involvement of stakeholders—in particular, primary users and preparers
- Consider disclosure objectives and requirements at all stages of the project
- Leverage the expertise of the IFRS Taxonomy team in the process



Targeted Standards-level Review of Disclosures—**Guidance for the Board**

15

Step 3: How the Board will draft disclosure objectives and requirements

- Use prescriptive language to require entities to comply with disclosure objectives in the Standards
- Use *less* prescriptive language when referring to specific items of information for disclosure
- Maximise the use of consistent language across the disclosure requirements in IFRS Standards
- Leverage existing requirements and guidance, for example avoiding duplication and inconsistency within IFRS Standards
- Rely on IAS 1 description of materiality as pervasive rather than refer to materiality in the disclosure sections of individual IFRS Standards



Targeted Standards-level Review of Disclosures—**Testing Standards**

16

- The Board decided to test the draft Guidance for the Board on:

IAS 19
Employee Benefits

IFRS 13
Fair Value Measurement

- Stakeholders provided feedback that both Standards have all of the following problems:

1 Lack of, or insufficient disclosure objectives

2 Disclosure requirements that are:

Duplicative

Lengthy

Incomplete

Not useful

Costly to produce

Difficult to understand

Overly prescriptive

3 Disclosure requirements that often result in insufficient or boilerplate information in the financial statements



Definition of Material

17

- At its May 2018 meeting, the Board decided to:
 - change the definition of material in IAS 1 *Presentation of Financial Statements* to the definition proposed in the 2017 Exposure Draft:

'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of a specific reporting entity's general purpose financial statements make on the basis of those financial statements'
 - include a clear description and examples to explain the concept of 'obscuring information' in the explanatory paragraphs.
- The Board expects to **publish the final amendment in November 2018**.



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World Standard-setters Conference

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NOTES

Better Communication in Financial Reporting

Part B: Primary Financial Statements

Agenda ref: WSS7B

Gary Kabureck, Board Member, IASB
Aida Vatrenjak, Senior Technical Manager, IASB

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Overview



Central theme of the Board's work

3



Agenda

4

	Slides
Project background & overview	4–9
Tentative Board decisions	10–24
Statement(s) of financial performance	10–19
Statement of cash flows	20–22
Improving disaggregation	23–24
Discussion on templates	25–28
Remaining topics for discussion	29–31



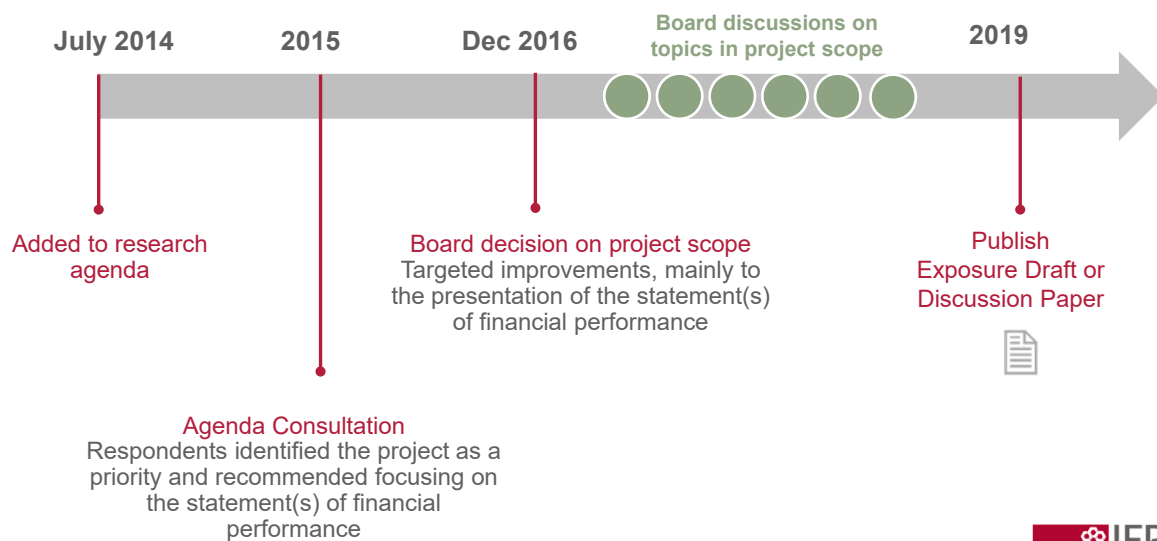


Project background & overview



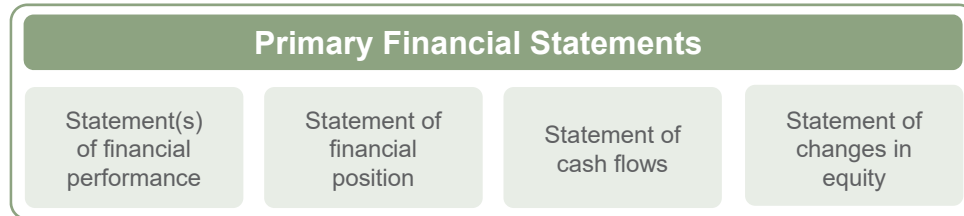
Project timeline

6



Overall project objective

7



Objective of the Primary Financial Statements project

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

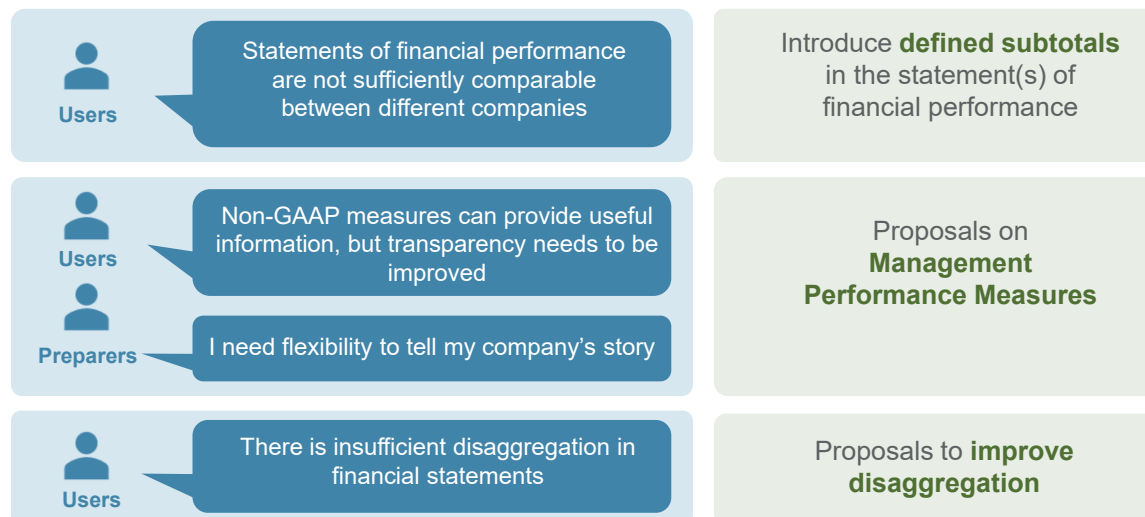


Survey 1
Financial reporting today
Questions to be given out during the breakout session



Stakeholder feedback and key project proposals

9



Scope of the project

10

Statement(s) of financial performance	Statement of cash flows
Subtotals & categories facilitating comparisons between entities: <ul style="list-style-type: none"> • Finance income/expense • Income/expenses from investments • Presentation of associates/JVs 	Eliminating classification options (interest/dividends)
Management performance measures	Consistent starting point for the indirect method
Better ways to communicate OCI	Cash flows related to associates/JVs
Improving disaggregation in financial statements	
Principles of disaggregation in financial statements	
Disaggregation by nature and by function in the statement(s) of financial performance	
Minimum line items in primary financial statements	
Templates for primary financial statements	
All tentative decisions on project apply to non-financial entities only	



Tentative Board decisions: statement(s) of financial performance

Three defined subtotals in the statement of profit or loss

12

1 Profit from consolidated entities, before investing, financing and income tax (business profit)

Excludes share of profit from ALL joint ventures and associates

2 Profit before investing, financing and income tax

- 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 joint ventures and associates

3 Profit before financing and income tax

Excludes finance income and expenses which include:

- expenses on liabilities arising from financing activities (definition based on existing definition of financing activities for the statement of cash flows)
- unwinding of discount on other liabilities (see illustrative example)



**Defined
bottom-up**

Defined subtotals —illustration for general corporates

13

Revenue	10,000
Cost of goods sold	-4,000
Gross profit	6,000
Selling, general and admin costs (SG&A)	-3,000
Business profit (from consolidated entities)	3,000
Share of profit of integral joint ventures and associates	500
Profit before investing, financing and income tax	3,500
Changes in the fair value of financial assets	250
Dividend income	50
Share of profit of non-integral joint ventures and associates	100
Profit before financing and income tax (EBIT)	3,900
Interest income from cash and cash equivalents calculated using effective interest method	80
Other income from cash and cash equivalents and financing activities	20
Expenses from financing activities	-1000
Other finance income	50
Other finance expenses	-350
Profit before tax	2,700

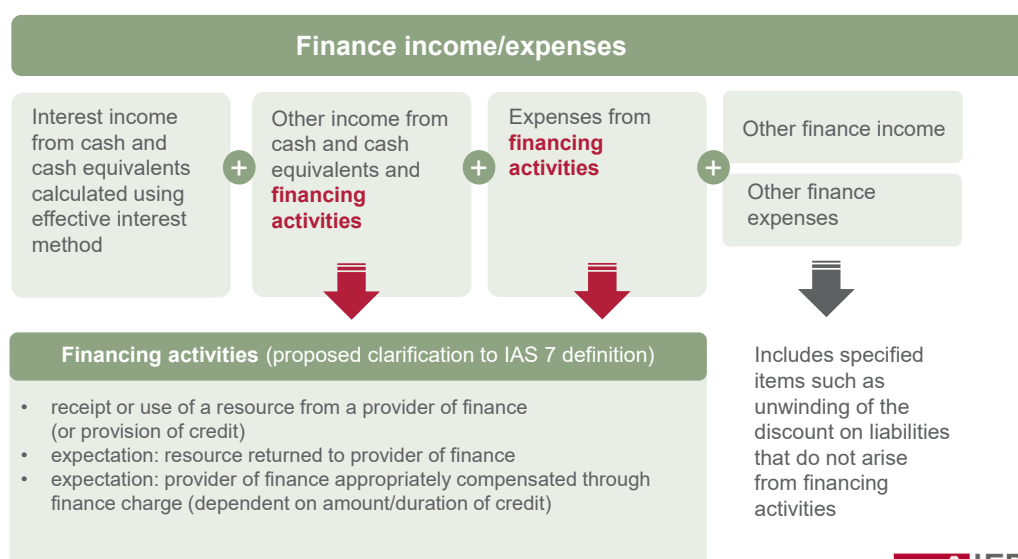
Income/
expenses from
investments

Finance income/
expenses

 IFRS

Subtotals – finance income/expenses

14



 IFRS

Presentation of associates and JVs (1)

15



Preparer A

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

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



User X



User Y

In some industries I want to analyse the results from associates and JVs together with the entity's main business.



Presentation of associates and JVs (2)

16

- The Board tentatively decided to require **separate presentation** of the share of profit or loss of:



Use definition of income/expenses from investments to determine classification:

Does the associate or joint venture generate a return individually and largely independently of other resources held by the entity?





Survey 2

Usefulness of subtotals

Questions to be given out during the breakout session



Management performance measures (1)

18



Preparers

I need flexibility to tell my company's story

Tentative Board decisions

Entities are allowed to present 'Management performance measures' in the **notes**

MPMs **complement** subtotals or totals specified by IFRS Standards

No specific constraints on the calculation of MPMs



Management performance measures (2)

19



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 or total specified by IFRS Standards

Describe why the MPMs provide management's view of performance and **how** they have been **calculated**

Disclose the **effect of tax and non-controlling interests** separately for each reconciling item

Label MPMs in a **clear** and **understandable** way



Management performance measures (3) Example of reconciliation

20

The management performance measure is presented in a **separate reconciliation in the notes**:

Management performance measure reconciliation (extract from notes)

Profit before investing, financing and income tax	3,500
Restructuring expenses for the closure of Factory A	1,000
Litigation settlement related to court case B	400
Management performance measure	4,900





Tentative Board decisions: statement of cash flows

Statement of cash flows

22

- Eliminating **classification options** (interest/dividends):

Cash flows	Classification
Interest incurred on financing activities	Financing cash flows
Interest paid that is capitalised as part of the cost of an asset	Financing cash flows
Dividends paid	Financing cash flows
Dividends received	Investing cash flows
Interest received	Investing cash flows

- **Consistent starting point** for the **indirect method** for reporting operating cash flows: 'profit before investing, financing and income tax'
- **Separate presentation** of cash flows from integral and non-integral **associates and JVs** within investing cash flows

Statement of cash flows – illustration (indirect method)

23

Profit before investing, financing and income tax	X
Adjustments for:	
Depreciation	X
Share of profit from integral associate A	(X)
[...]	
Income taxes paid	(X)
Net cash from operating activities	X
Acquisition of integral joint venture X	(X)
Acquisition of non-integral associate Y	(X)
Dividends received from integral associate A	X
Dividends received from non-integral associate B	X
Purchase of property, plant and equipment	(X)
[...]	
Net cash used in investing activities	(X)
[...]	
Net cash used in financing activities	(X)
Net increase in cash and cash equivalents	X

Consistent starting point for the indirect method for reporting operating cash flows

Separate presentation of cash flows from integral and non-integral associates and joint ventures within investing cash flows

Tentative Board decisions:
improving disaggregation



Disaggregation

25



Users

There is insufficient disaggregation in financial statements

Principles of disaggregation in the financial statements

Consider expanding the list of required minimum line items in the primary financial statements

Proposals to improve disaggregation of expenses by nature / by function

Consider templates for the primary financial statements for a small number of industries



Discussion:
Your experience with financial
statement templates



Industry templates – introduction

27

- The Board discussed the possibility of developing financial statement templates/examples for different industries, going beyond what is in IFRS Standards today
- IAS 1 *Presentation of Financial Statements* is accompanied by illustrative examples:
 - illustrations of primary financial statements
 - generic, non-specific to any industry
 - non-mandatory (accompanying but not part of the IFRS Standards)



Industry templates – advantages/disadvantages

28



Could increase comparability between entities

The current illustrative examples accompanying IAS 1 do not cater for variations in industries as they are too generic.

The templates could provide the basis for the addition of new elements and line items in the IFRS Taxonomy



Could lead to false comparability (ie uniformity) between entities

Could stifle innovation and preclude entities from telling their own story

May discourage entities from presenting entity-specific items separately.

Other parties (eg large audit firms) already provide comprehensive illustrative examples—so developing templates may not be a good use of the Board's resources

Industry templates – questions for discussion

29

- Do you use templates for primary financial statements in your jurisdiction for reporting under local GAAP? If so, please share your experience. What are their advantages and disadvantages?
- Do you think (illustrative) templates developed by the Board could help improve financial reporting in accordance with IFRS Standards? If so, how?



Remaining topics for Board discussion

Remaining topics for Board discussion

31

Disaggregation

Industry-specific illustrative examples/templates

Further guidance on disaggregation, incl. minimum line items

Financial performance

Guidance on the presentation and definition of EBITDA

Disclosure of information about unusual or infrequently occurring items

⚠ Application of proposals to financial entities

⚠ First due process document—Discussion Paper or Exposure Draft?



Application to financial entities

32

- Financial entities have been **excluded so far** (banks, insurance companies, investment entities, some conglomerates)
- The Board started discussing the application of project proposals to financial entities in June 2018 and is expected to start making tentative decisions during September 2018 Board meeting.

⚠ This includes defining the **scope** of the **subtotals** in a way that ensures they are **only required when they result in useful information** (eg an EBIT subtotal is not useful for a bank)





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Breakout sessions

Financial Instruments with Characteristics of Equity—Discussion Paper

Amaro Gomes
Board Member
IASB

Kumar Dasgupta
Technical Director
IASB

Uni Choi
Technical Manager
IASB

Angie Ah Kun
Technical Manager
IASB

Financial Instruments with Characteristics of Equity

Agenda ref: WSS8

Amaro Gomes, Board Member, IASB
Kumar Dasgupta, Technical Director, IASB
Uni Choi, Technical Manager, IASB
Angie Ah Kun, Technical Manager, IASB

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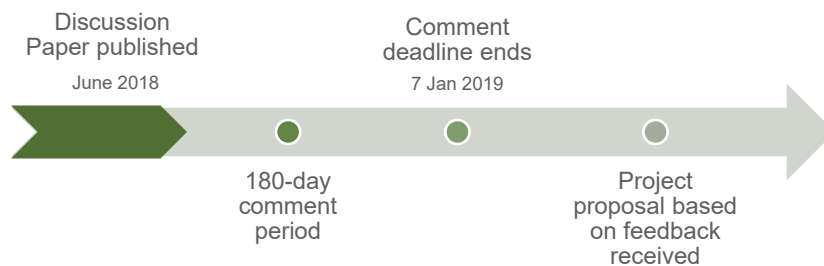
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About the project

2

- Research project
- Project objectives
 - improve the information that entities provide in their financial statements about financial instruments that they have issued
 - address challenges with applying IAS 32 in practice



Project scope

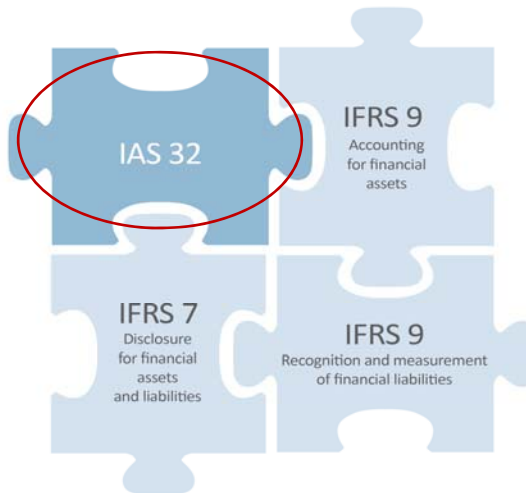
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In scope

- Classification of financial instruments as financial liabilities or equity instruments
 - issuer perspective

Not in scope

- Recognition and measurement requirements in IFRS 9
- Reconsidering disclosure requirements for financial assets and liabilities in IFRS 7



What will be the impact?

4

- The Board is seeking to limit unnecessary changes to classification outcomes of IAS 32.
- Most simple instruments: no change of classification
- More complex instruments:



What would not change?

5

The Board would carry forward some existing requirements largely unaltered. For example:

- the definition of a financial instrument
- the 'puttables exception' in IAS 32
- the conclusions in IFRIC 2
- the way in which classification would (or would not) be affected by economic compulsion and laws and regulation



Section 1 Objective, scope and challenges



What are the causes of the problems?

7

Causes	How are we addressing them?
No clear rationale for the classification requirements	Articulate the principles for the classification with a clear rationale
Growing number of complex financial instruments	Improve the consistency, completeness and clarity of the requirements
Classification can only tell a part of the story	Enhance presentation and disclosure requirements about financial liabilities and equity instruments
Limited information provided for equity instruments	

Question 1

8

Do you agree that challenges that arise when applying IAS 32 are important to users of financial statements and are pervasive enough to require standard-setting activity?

- A. Agree
- B. Disagree
- C. Undecided



Section 2 The Board's preferred approach

Section 3 Classification of non-derivative financial instruments



Classification: the basic idea is...

12

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

Can the issuer be required to pay cash or to hand over another financial asset before liquidation?

Timing feature

Has the issuer promised a return to the instrument's holder regardless of the issuer's own performance or share price?

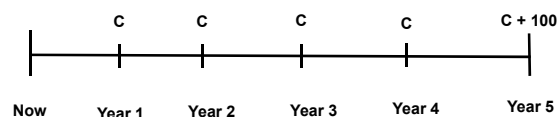
Amount feature

Otherwise, it is an equity instrument

Example 1

11

Receive CU100 today and pay coupon for 5 years and repay the principal amount of CU100 at the end of Year 5.



Should it be classified as liability or equity?

Timing Feature	Any obligation to transfer cash before liquidation?	✓
Amount Feature	Return on instrument independent?	✓

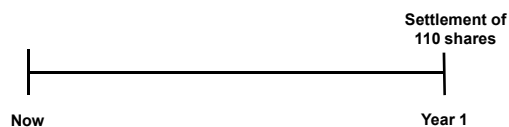
Classified as a financial liability



Example 2

12

Receive CU100 today and agree to issue 110 own shares in 1 year to settle the amount.



Should it be classified as liability or equity?

Timing Feature	Any obligation to transfer cash before liquidation?	✗
Amount Feature	Return on instrument independent?	✗

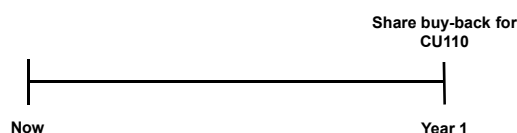
Classified as equity



Example 3

13

Sell 1 share for CU100 today and agree to buyback the share in 1 year for CU110.



Should it be classified as liability or equity?

Timing Feature	Any obligation to transfer cash before liquidation?	✓
Amount Feature	Return on instrument independent?	✓

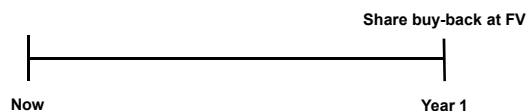
Classified as a financial liability



Example 4

14

Sell 1 share for CU100 today and agree to buyback the share in 1 year at its Fair Value.



Should it be classified as liability or equity?

Timing Feature	Any obligation to transfer cash before liquidation?	✓
Amount Feature	Return on instrument independent?	✗

Classified as a financial liability



Classification outcomes

15

Amount feature \ Timing feature	Contains obligation for <u>an amount independent</u> of the entity's available economic resources	Contains <u>no</u> obligation for an amount independent of the entity's available economic resources
Obligation to transfer of economic resources required at a specified time other than at liquidation	Liability	Liability
Obligation to transfer of economic resources required <u>only at liquidation</u>	Liability	Equity



Question 2

16

The Board's preferred approach classifies a non-derivative financial instrument as a financial liability if it contains the timing and/or the amount feature of a financial liability (see slide 15).

Do you agree that classification should be based on both these features?

- A. Agree
- B. Disagree, the classification should only be based on the timing feature
- C. Disagree, the classification should only be based on the amount feature
- D. Disagree, the classification should be based on some other feature(s)



Section 4

Classification of derivative financial instruments



Classification of derivatives: own equity

18

Application challenges when applying IAS 32

What does 'fixed' mean in the 'fixed-for-fixed' condition?

Why is there inconsistency between classification of foreign currency options?

The Board's preferred approach

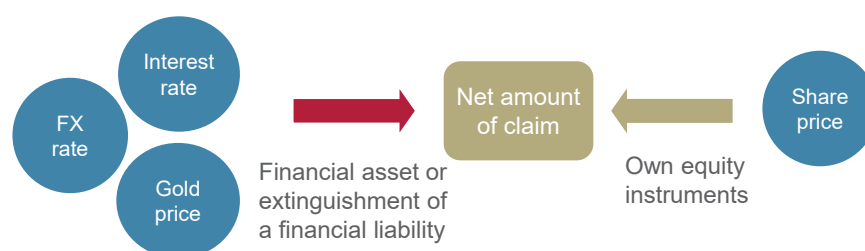
Classification principle that applies consistently to derivatives in their entirety

- Tests whether net amount is affected by any "independent variables" - fixed-for-fixed derivatives will continue to be equity
- Principle would clarify that some variables do not preclude equity classification (eg some anti-dilution provisions)

Classification of derivatives: variables

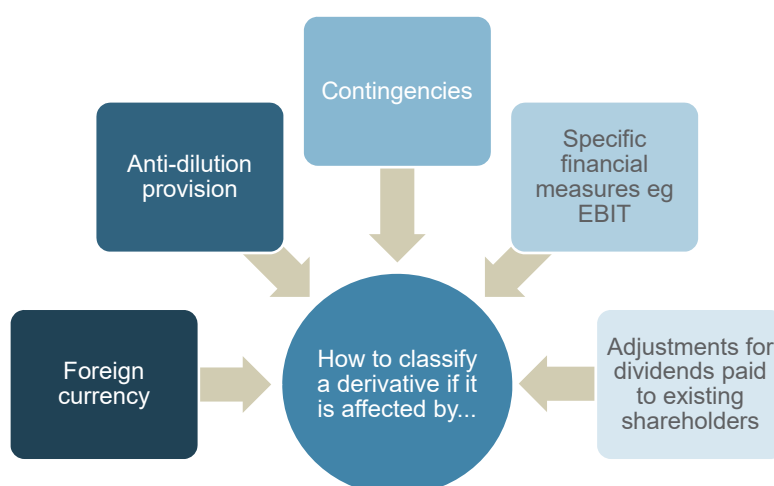
19

- The Board's preferred approach would classify a derivative on own equity as a financial asset or a financial liability if:
 - it is net-cash settled (the 'timing' feature); and/or
 - the net amount of the derivative is affected by a variable that is independent of the entity's available economic resources (the 'amount' feature).



Examples of variables

20

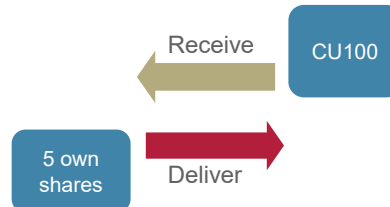


Example 5

21

Written call option

Written call option to sell 5 own shares for CU100 – gross physically settled (ie receive CU100 and deliver 5 own shares)



Would it be classified as a derivative liability or equity?

Timing Feature	Net amount creates an obligation to transfer cash?	X
Amount Feature	Net amount affected by any variable other than own share price?	X

Classified as equity

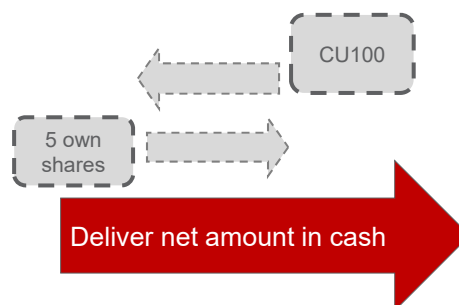


Example 6

22

Written call option

Written call option to sell 5 own shares for CU100 – net cash settled.



Would it be classified as a derivative liability or equity?

Timing Feature	Net amount creates an obligation to transfer cash?	✓
Amount Feature	Net amount affected by any variable other than own share price?	X

Classified as a financial liability

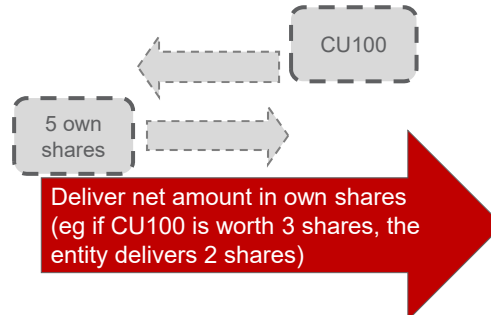


Example 7

23

Written call option

Written call option to sell 5 own shares for CU100 – net share settled.



Would it be classified as a derivative liability or equity?

Timing Feature	Net amount creates an obligation to transfer cash?	✗
Amount Feature	Net amount affected by any variable other than own share price?	✗

Classified as equity

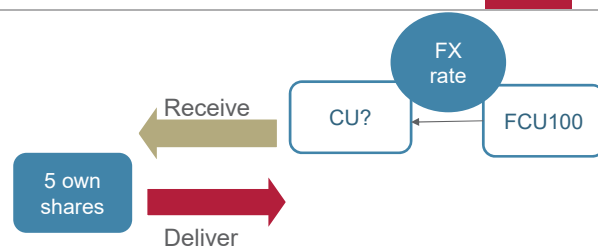
IFRS

Example 8

24

Written call option

Written call option to sell 5 shares for 100 foreign currency units (FCU) – gross physically settled.



Would it be classified as a derivative liability or equity?

Timing Feature	Net amount creates an obligation to transfer cash?	✗
Amount Feature	Net amount affected by any variable other than own share price?	✓

Classified as a financial liability

IFRS

Question 3

25

The Board's preferred approach classifies a derivative on own equity, in its entirety, as a financial asset/liability if it contains either one or both of the features described on slide 19.

Do you agree?

- A. Agree
- B. Disagree, all derivatives on own equity should be classified as derivative assets/liabilities
- C. Disagree, all derivatives on own equity should be broken down into smaller components (e.g. equity component and non-equity component) for classification purposes
- D. Disagree for any other reasons



 IFRS

Section 5 Compound instruments and redemption obligation arrangements

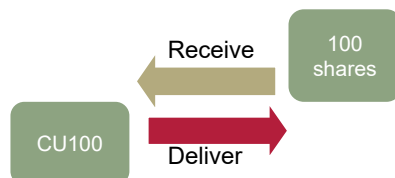


 IFRS

Derivatives that may require extinguishment of own equity instruments

27

- For example, consider a forward contract to purchase 100 own shares in one year's time for a payment of CU100.



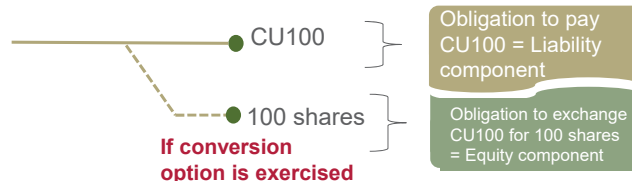
- In effect, the derivative has changed the characteristics of the outstanding 100 shares to an unavoidable obligation to pay a fixed amount of cash.
- The obligation to pay CU100 has both the timing and amount features of a financial liability.

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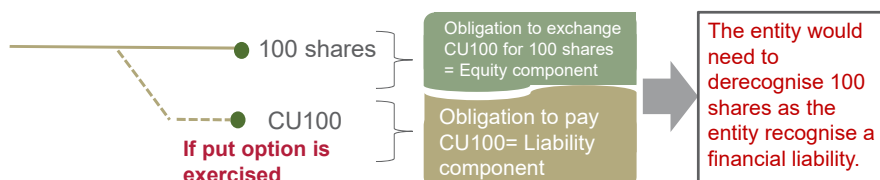
Convertible bonds and written put options

28

Convertible bond
—at maturity, the holder has a choice to either receive CU100 in cash or convert the bond to 100 shares



A written put option on own shares and own shares
— upon exercise of written put the holder has a choice to either keep 100 shares or to exercise the put to receive CU100 in cash and return the shares



IFRS®

Question 4

29

Applying the Board's preferred approach, the classification of convertible bonds and written put options on own shares with similar settlement outcomes (for example, see slide 28) would be consistent.

Do you agree that they should be classified consistently?

- A. Agree
- B. Disagree
- C. Undecided



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Section 6 Presentation



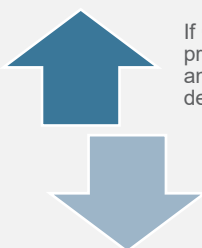
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What is the problem?

31

The return on some financial instruments behaves like the return on an equity instrument but are classified as financial liabilities because it contains an obligation to transfer economic resources prior to liquidation. What is the best way to show the effects of such financial instruments on the issuer's financial position and financial performance?

Instrument X: Company A issues a financial instrument that requires it to make a cash payment in five year's time for the fair value of 100 own shares on the settlement date.



If Company A performs poorly, its share price would decrease. In turn, the amount of cash payable on Instrument X decreases.

As the amount of cash payable on Instrument X decreases, Company A records a gain on that instrument.

IFRS

Presentation - financial liabilities

32

Does the return on the financial liability behave like the return on an equity instrument (ie the amount is not 'independent')?

NO

Income Statement (profit or loss)

Income and expenses from financial liabilities that have debt-like return	X/(X)
Profit	XXX

YES

Statement of other comprehensive income

Income and expenses from financial liabilities that have equity-like return	X/(X)
Other comprehensive income	XXX

Without subsequent reclassification to profit or loss

IFRS

The criteria-based approach

33

Criteria-based approach—apply separate presentation to income and expenses in respect of a financial instrument if the following applies:

Non-derivative financial liabilities	No contractual obligation for an amount independent of the entity's available economic resources
Own equity derivatives	No variable independent of the entity's available economic resources affects the net amount
Foreign currency derivatives on own equity	Meets all of the following criteria: <ul style="list-style-type: none">• the only independent variable affecting the net amount is a currency other than the entity's functional currency.• the foreign currency (FX) exposure is not leveraged.• the FX exposure does not contain an option feature.• The FX denomination is imposed by an external factor.



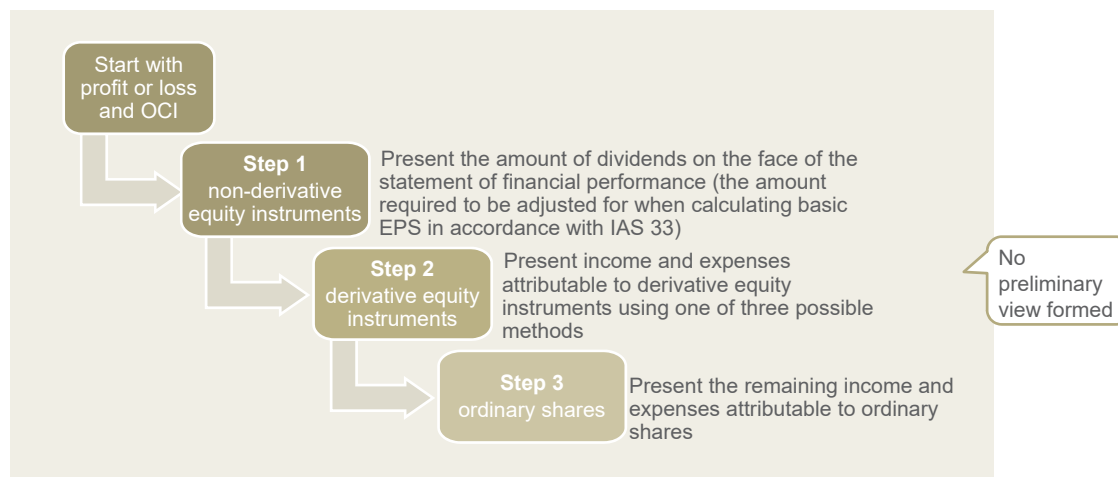
Question 5

34

Do you agree with the Board's preferred approach to presentation of financial liabilities, in particular, the separate presentation of income and expenses from particular financial instruments in OCI, without subsequent recycling?

- A. Agree
- B. Agree with presentation in OCI, disagree with no reclassification to profit or loss
- C. Disagree with presentation in OCI, would prefer a separate line item within profit or loss
- D. Disagree with having separate presentation requirements





Question 6

Do you agree with the Board's preliminary view that it would be useful to users of financial statements to expand the attribution of income and expenses to equity instruments other than ordinary shares?

- A. Agree
- B. Disagree
- C. Undecided



Section 7 Disclosure



Disclosures

38

- The Discussion Paper explores possible requirements to disclose:
 - the priority of claims on liquidation
 - the potential dilution of ordinary shares
 - terms and conditions that are relevant to understanding of the timing or the amount feature

The Board is seeking feedback on the costs and benefits of disclosure of this information

Disclosure - Priority of claims on liquidation

39

- Currently, IFRS disclosure requirements do not specify any specific disclosures resembling the example below.
- In the DP, the Board proposes that disclosures similar to the table below be presented either on the face of the financial statements, or in the notes.

Order of Priority	As of 1 January 20XX In CU million
Senior Secured Loan	X
Junior Secured Loan	X
Subordinated notes	X
Total Liabilities	XX
Non-cumulative preference shares	X
Ordinary shares	X
Total Equity	XX
Total Capitalisation	XXX

Applies to all financial liabilities as well as equity instruments



Disclosure - Potential dilution of ordinary shares

40

- Reconciliation of changes during the period in the number of:
 - ordinary shares outstanding and
 - the maximum number of potential ordinary shares that could be issued

	Ordinary shares outstanding	Maximum number of potential ordinary shares
1 January 20X1	5,000,000	900,000
1 January 20X1 Issue of warrants	-	600,000
1 March 20X1 Issue of ordinary shares for cash	200,000	-
1 September 20X1 Exercise of warrants	400,000	(400,000)
31 December 20X1	5,600,000	1,100,000



Section 8 Contractual terms



Economic compulsion and indirect obligations

42

- Some claims against an entity grant *the entity* the right to choose between alternative settlement outcomes, instead of granting that right to the counterparty or holder, eg reverse convertible bond.
- Preliminary view is that, consistent with IAS 32 today, economic incentives of the entity should not be considered when classifying a claim as either a liability or equity. Classification would be based on rights and obligations established by a contract, including obligations that are established indirectly through the terms of the contract.
- Applying the proposed approach, classify claims such as the callable preferred shares with resets, and cumulative preference shares, as liabilities because of the “independent” amount feature.
 - There is no need to consider economic incentives and compulsion in arriving at the classification conclusion for these types of claims.



World Standard-setters Conference

Monday 1 and Tuesday 2 October 2018

NOTES



World Standard-setters Conference

Monday 1 and Tuesday 2 October 2018

Breakout sessions

Goodwill and Impairment

Takatsugu Ochi
Board Member
IASB

Peter Clark
Technical Director
IASB

Tim Craig
Technical Principal
IASB

Woung Hee Lee
Visiting Fellow
IASB

Goodwill and Impairment

Agenda ref: WSS9

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Woung Hee Lee, wlee@ifrs.org

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World
Standard-setters
Conference
2018

#IFRS_WSS



Agenda

2

1. Background and introduction
2. Key findings from the Board's research project so far
3. Objectives for follow-up work for the research project (*July Board Meeting*)
 - a) identifying better disclosures
 - b) simplifying accounting for goodwill
 - c) improving the calculation of value in use



Background and introduction



Background and introduction

4



2009

Entities started implementing revised version of IFRS 3 *Business Combinations*.

Background and introduction

5



2009

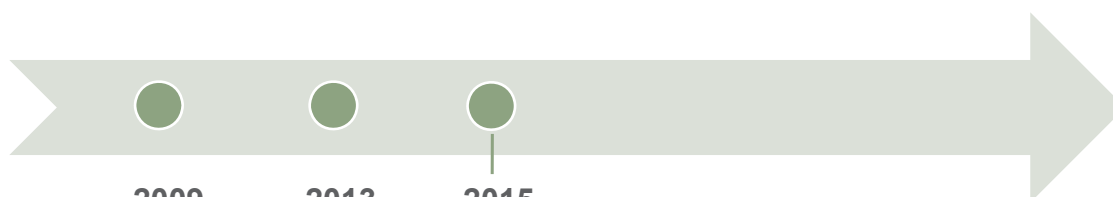
2013

The Board sought stakeholder feedback on specified matters as part of the Post-implementation Review of IFRS 3.



Background and introduction

6



2009

2013

2015

The Board, after examining stakeholder views, set as research objectives:

- whether to change the subsequent accounting for goodwill;
- whether to allow identifiable intangible assets acquired in a business combination to be included within goodwill;
- whether to provide better information about goodwill and impairment through disclosures; and
- whether to change the impairment test in IAS 36 by:
 - ✓ simplifying the test without making it less robust; or
 - ✓ improving the effectiveness of the test.



Background and introduction

7



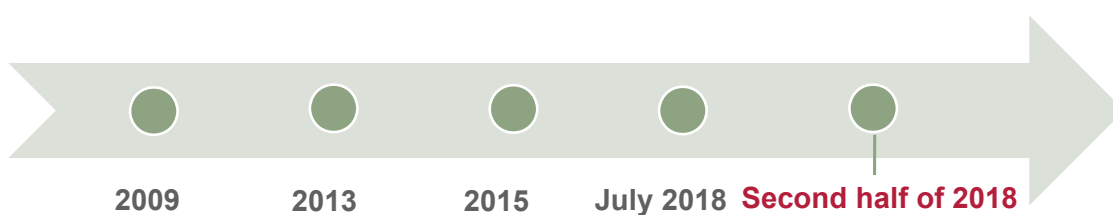
The Board tentatively decided to pursue the following objectives for follow-up:

- a) identifying better disclosures about business combinations;
- b) simplifying the accounting for goodwill; and
- c) improving the calculation of value in use



Background and introduction

8



The Board will continue its discussions on how to achieve the objectives the Board is pursuing for the project and work towards issuing a Discussion Paper.





Key findings from the Board's research project so far

Key findings—accounting for goodwill

10

Whether goodwill is an asset	Whether goodwill should be amortised
<ul style="list-style-type: none"> goodwill mainly consists of 'core goodwill': <ul style="list-style-type: none"> going concern element of acquired business; and expected synergies from acquisition; no new developments question whether core goodwill meets the definition of an asset (eg revisions to the <i>Conceptual Framework for Financial Reporting</i>); goodwill is measured as a residual, but this does not prevent goodwill from being an asset; and immediate write-off of goodwill on initial recognition would undermine the conclusion that goodwill is an asset (Board did not pursue) 	<ul style="list-style-type: none"> no significant new evidence or strong new arguments to support amortisation of goodwill; amortisation would be pragmatic solution that might help in resolving concerns about the amount of goodwill on the balance sheet; amortisation would reduce costs to preparers in accounting for goodwill; amortisation would not provide useful information for users; and amortisation reduces the information usefulness (even if limited) provided by current impairment test

Key findings—identifiable intangible assets

11

- ✓ Investors' mixed views about the information usefulness provided by separate recognition of identifiable intangibles:

Some supported current IFRS 3 requirements

Some questioned certain intangibles (brands and customer relationships) because of concerns about:

- credibility of fair value measurement;
- usefulness of information provided by amortisation of those intangibles; and
- accounting differences (internally generated intangibles vs intangibles acquired in a business combination).

- ✓ no compelling evidence that including some intangible assets in goodwill would save costs; and
- ✓ aligning internally generated and acquired intangible asset accounting would be a fundamental change to intangible asset accounting.

Key findings—impairment testing of goodwill

12

Costs and complexity of performing the impairment test of goodwill

- mainly in relation to determining the recoverable amount of the unit for the test.

Benefits from the impairment testing of goodwill

- does not always provide information about the performance of the acquired business; and
- depending on facts and circumstances, often the information is only confirmatory.

Ineffectiveness of the impairment testing model for goodwill

- acquired goodwill:
 - is tested for impairment as part of a cash-generating unit(s); and
 - can be shielded from impairment by unrecognised headroom* of the existing business of the acquirer (so called shielding effect: see **slide 13 and 14**).
- investigated the 'headroom approach' to improving the effectiveness of the impairment test; and
 - feedback indicated this would add to the cost and complexity of the impairment test.

- **Unrecognised headroom:** Difference between the recoverable amount of a unit and its carrying amount. This difference mainly comprises internally generated goodwill, unrecognised intangible assets, and book value to fair value differences of existing assets.

Key findings—impairment testing of goodwill

13

✓ Shielding effect arising from current impairment testing of goodwill

Goodwill is allocated to cash-generating units (CGUs) expected to benefit from the acquisition

Compare recoverable amount (RA) of the CGUs with their carrying amount (CA) at the current impairment testing date T1 (tested annually)

Goodwill is impaired only if recoverable amount of the CGUs is less than its carrying amount (ie $RA_{T1} < CA_{T1}$)

Shielding of acquired goodwill from impairment can occur particularly where allocated to CGUs with existing assets

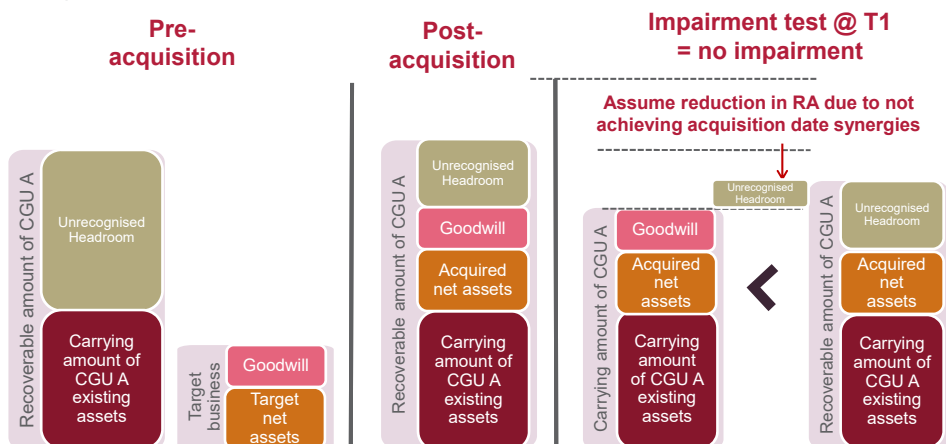


Key findings—impairment testing of goodwill

14

✓ Shielding effect arising from current impairment testing of goodwill

Shielding of acquired goodwill from impairment can occur particularly where allocated to CGUs with existing assets



Key findings—improving disclosures

15

- ✓ Investors view following information as useful information for business combinations, goodwill and impairment:

Business combination	Goodwill and impairment
<ul style="list-style-type: none">• information to help users assess whether an acquisition is a good investment decision; and• information to help users assess whether the acquired business has been performing after acquisition as expected at the acquisition date.	<ul style="list-style-type: none">• information to help users understand the reasons for any premium paid for a business; but• the impairment test provides limited information regarding the performance of the acquired business post-acquisition.



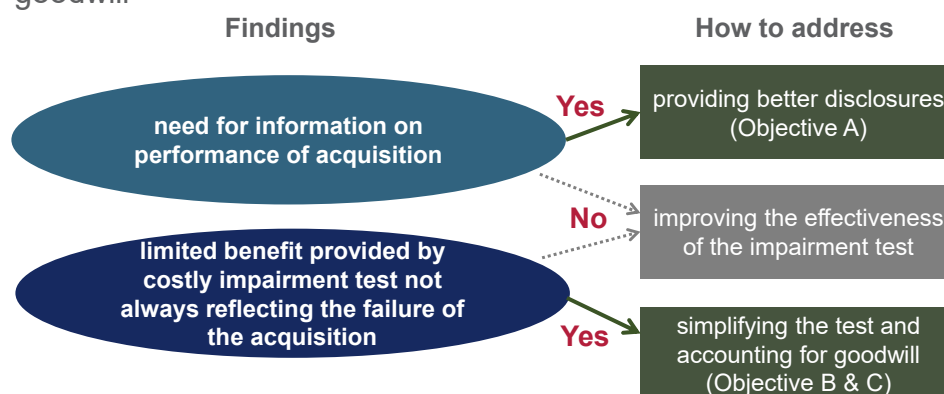
Objectives for follow-up work
for the research project
(July 2018 Board Meeting)



Objectives for follow-up work for the project

17

- ✓ The rationale for the Board's tentative decision to pursue better disclosures; and to simplify the impairment test and the accounting for goodwill



Objectives for follow-up work for the project

18

- ✓ At the July 2018 Board meeting, the Board tentatively decided to pursue the following three objectives for addressing the interrelated problems identified in the research project:

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: <ul style="list-style-type: none"> • permitting an indicator-only approach as to whether an impairment test is required; and • exploring whether to reintroduce amortisation of goodwill.
Objective C	Improving the calculation of value in use by permitting: <ul style="list-style-type: none"> • cash flow projections that may include future enhancements to the asset; and • the use of post-tax inputs in the calculation of value in use.

Objective A—identifying better disclosures

19

- ✓ The staff are considering possible disclosures to provide better information for users about business combinations and goodwill and impairment.
- ✓ Those disclosures can be split into three parts:
 - a. disclosures about whether the acquisition is a good investment decision;
 - b. disclosures about subsequent performance of the acquisition; and
 - c. specific disclosures arising from research that may provide better information for users about goodwill and impairment.
- ✓ The Board could also consider whether to perform a full IFRS 3 disclosure review.



Objective A—identifying better disclosures

20

- ✓ Considering additional **disclosure objectives** about the acquired business:
 - A.1 for business combinations that occur in the current reporting period,**
an entity shall disclose information that helps users to understand:
 - a. the strategic rationale and key drivers of the value of a business combination; and
 - b. the factors identified at the date of acquisition that an entity will use to assess the success of a business combination.
 - A.2 for business combinations that occurred in prior reporting periods,**
an entity shall disclose information that helps users to assess the extent to which past business combinations have been successful, as measured by the success factors identified at the date of acquisition.



Objective A—identifying better disclosures

21

✓ **Objective A.1a** largely met by existing IFRS 3 disclosure requirements with some proposed additional disclosures:

- primary reasons for paying any premium and the value of those elements that support the goodwill recognised on acquisition:
 - not only a qualitative description, but also a quantitative assessment of synergies, etc. together with an assessment of the costs to achieve these synergies;
- separate disclosure of debt and pension obligations assumed on acquisition;
- description of types and classes of intangible assets recognised; and
- valuation techniques and significant inputs to measure the values of the assets acquired and liabilities assumed.



Objective A—identifying better disclosures

22

✓ **Objective A.1b and A.2** will require flexibility. Staff are considering:

- requiring disclosure of information on the performance of a business combination in the manner that the entity's management determine the success of that business combination; and
- disclose the approach(es) used by management to determine the success of a business combination and measurement against the approach(es) in subsequent reporting periods.



Objective A—identifying better disclosures

23

- ✓ **Possible approaches could include:**
 - achievement of acquisition date synergies;
 - achievement of acquisition date financial/operating KPIs;
 - comparison of actual vs forecast cash flows;
 - contribution of the acquisition to annual changes in segment/CGU return on assets; or
 - progress of the acquisition in achieving acquisition date payback period.
- ✓ **Period for which disclosures are provided for will be determined by the entity and the period required to assess the success of the business combination**



Objective A—identifying better disclosures

24

Other disclosures to provide better information about goodwill and impairment

- reasons why an entity has chosen a particular assumption for calculating recoverable amount;
- breakdown of carrying amount of goodwill by past acquisition and rationale why recoverable;
- time period analysis of value in use;
- headroom of CGUs with goodwill allocated;
- indicators that triggered the quantitative impairment test; and
- total net assets, less goodwill.



Questions for WSS members

25

1. Do you have any comments or feedback on the disclosure objectives for business combinations set out on slide 20?
2. Do you have any comments or feedback on the suggestions for how an entity may meet these disclosure objectives as set out on slides 21 to 23?
3. Do you support that the Board should consider reviewing the full IFRS 3 disclosure requirements?



Objective B—simplifying accounting for goodwill

26

✓ Possible relief from the mandatory annual quantitative impairment test

- Requiring impairment testing of goodwill only when there are indicators of possible impairment (Indicator-only approach).

Current requirements:

- for a unit that contains goodwill, the impairment test must be performed annually; and
- for a unit that does not include goodwill, the test is performed only when there is an indication that the unit may be impaired.

Basis of the simplification

- focus of the current test is to assess whether the carrying amount of the unit is recoverable;
- if test does not need to provide information on the performance of the acquisition, simplification is possible; and
- frequency of quantitative impairment test no longer needs to depend on whether the unit contains goodwill – it should not make test less robust.



Objective B—simplifying accounting for goodwill

27

- ✓ **Permitting an indicator-only approach as to whether an impairment test is required:**

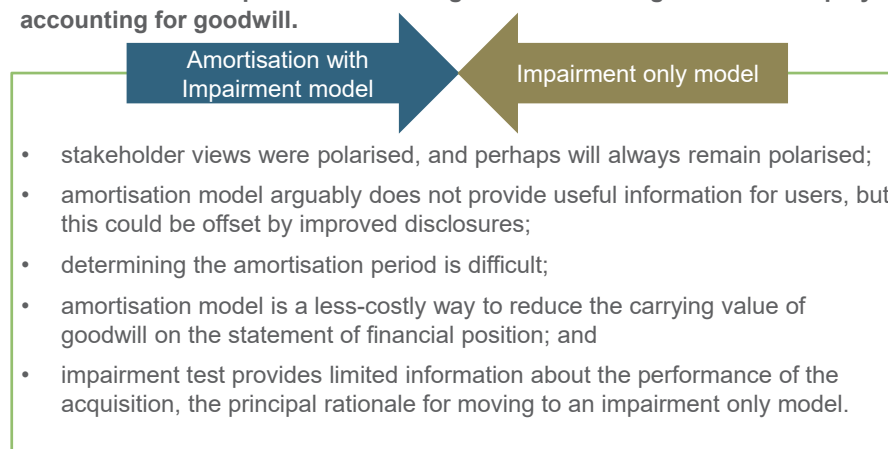
Pros	Cons
<ul style="list-style-type: none">• is consistent with impairment testing for other assets, other than indefinite life intangibles;• reduces the cost and complexity of current test without any information loss; and• reduces disclosure burden (eg disclosing inputs to the quantitative test each year).	<ul style="list-style-type: none">• increases concerns about timely recognition of impairments of goodwill;• furthers management (and auditors) judgement in impairment testing; and• risks loss of good governance mechanism.

Objective B—simplifying accounting for goodwill

28

- ✓ **Exploring whether to reintroduce amortisation of goodwill**

- **The Board could explore reintroducing amortisation of goodwill to simplify the accounting for goodwill.**



Objective B—simplifying accounting for goodwill

29

- ✓ Exploring whether to reintroduce amortisation of goodwill
 - the following potential mechanics involved in amortisation of goodwill would need to be determined:
 - how should the useful life of goodwill be determined and should there be an upper limit on that useful life?
 - how should the amortisation method be determined?
 - in addition, whether goodwill should be treated differently to indefinite life intangible assets would need to be addressed

Objective C—improving the calculation of VIU

30

- ✓ Pursuing targeted changes to the value in use calculation
 - the Board could consider proposing amendments to IAS 36:
 - by removing the requirement to exclude from the calculation of value in use those cash flows arising from a future restructuring or from a future enhancement; and
 - by removing the explicit requirement to use pre-tax inputs in calculating value in use, and to disclose pre-tax discount rates used;
 - these changes are relatively straight forward improvements; and
 - the changes would reduce the costs and complexity of the impairment test in IAS 36.

Questions for WSS members

31

4. Would providing relief from the mandatory annual impairment test (slides 26 and 27) combined with the improvements to the VIU calculation (slide 30) result in a significant reduction in costs of impairment testing?
5. In what circumstances should these changes be considered:
 - a) to support the continuation of an impairment-only approach?
 - b) only if the Board reintroduces amortisation of goodwill?
 - c) in all circumstances, irrespective of whether the Board decides to retain the impairment-only approach or reintroduce amortisation?



Questions for WSS members

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6. If amortisation of goodwill was reintroduced:
 - a) how should the useful life of goodwill be determined?
 - b) what amortisation method should be used for goodwill?
 - c) should indefinite-lived intangible assets also be amortised?





World Standard-setters Conference

Monday 1 and Tuesday 2 October 2018

Breakout sessions

IFRS Interpretations Committee update and
implementation of new Standards strategy

Sue Lloyd
IASB Vice-Chair

Patrina Buchanan
Associate Director
IASB

IFRS Interpretations Committee update and implementation of new Standards strategy

Agenda ref: WSS10

Sue Lloyd, IASB Vice-Chair
Patrina Buchanan, Associate Technical Director

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World
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2018

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Agenda

2

1. Board's support for IFRS Standards

2. Implementation of new Standards Strategy

- IFRS 17

3. IFRS Interpretations Committee Update

- Background
- Recent Agenda Decisions
- Other topics discussed / ongoing discussions
- Narrow-scope standard-setting projects

4. Resources



Before we begin...

3

- To make this session more interactive, we will use live polls via sli.do platform:
 - Go to www.slido.com
 - Enter the event code: **#IFRS_WSS**
 - Select 'IFRS Interpretations Committee update' room
(*'Day 1' for Monday, and 'Day 2' for Tuesday*)
- Let's warm up with the following poll...



Warming up

4

Question:
What is your favourite new Standard?

- A. IFRS 9 *Financial Instruments*
- B. IFRS 15 *Revenue from Contracts with Customers*
- C. IFRS 16 *Leases*
- D. IFRS 17 *Insurance Contracts*



Board's support for IFRS Standards

5

**New
Standards**

Transition
Resource
Groups

Webinars and
other
supporting
materials

Conferences

**Standards
in effect**

IFRS Interpretations Committee

IFRIC Interpretations

Narrow-scope amendments

Agenda decisions



Implementation of new Standards Strategy

IFRS 17 (case study)



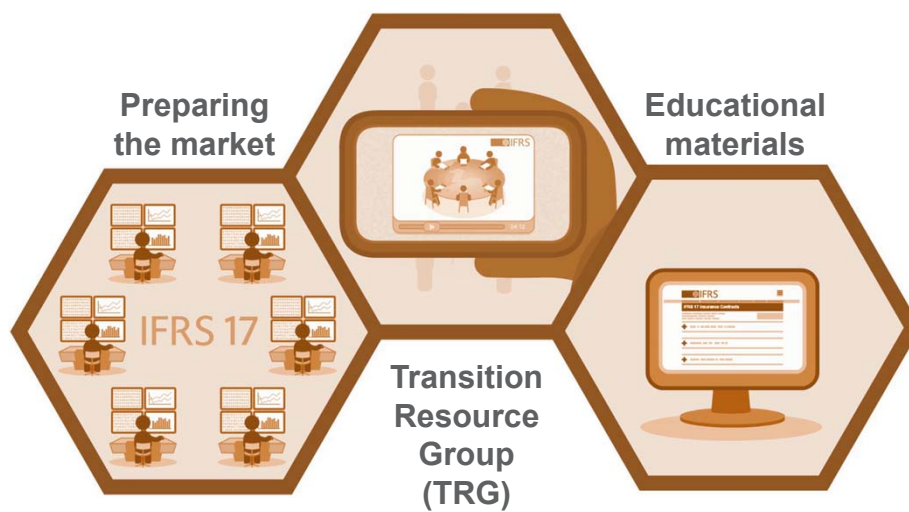
IFRS 17 implementation timeline

Companies disclose the expected impacts of IFRS 17

2017	2018			2019	2020	2021		
Issuance of IFRS 17	IASB support for IFRS 17 implementation					IFRS 17 is effective		
18 May 2017	H2 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	H1 2019	1 January 2020	1 January 2021
	TRG meeting 6 February	TRG meeting 2 May	TRG meeting 26-27 September	TRG meeting 4 December	Potential additional TRG meetings	H2 2019	Comparative period begins	
Expectations	Some companies begin implementation process General questions			Contentious / specific implementation questions		Companies are finalising implementation		
Objective	Monitor and proactively support implementation					Provide period of calm for implementation		

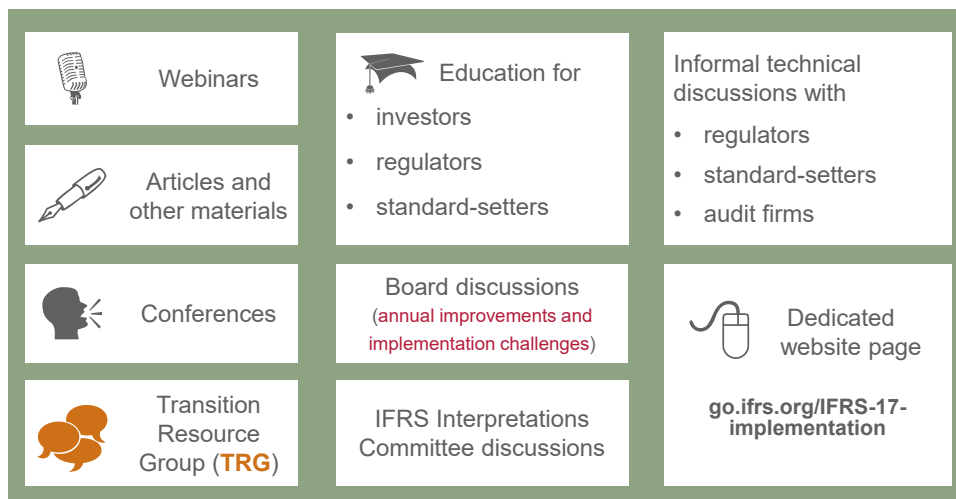


IASB support for IFRS 17 implementation



IASB support for IFRS 17 implementation

9



Purpose of the TRG

10



Public forum for discussion of submitted questions

Helps companies to implement IFRS 17

Helps the Board to identify if more support is needed

3 meetings so far

Webcasts, papers and summaries available for each meeting

Next meeting in December 2018



Test your I(FRS)Q

11

Question:

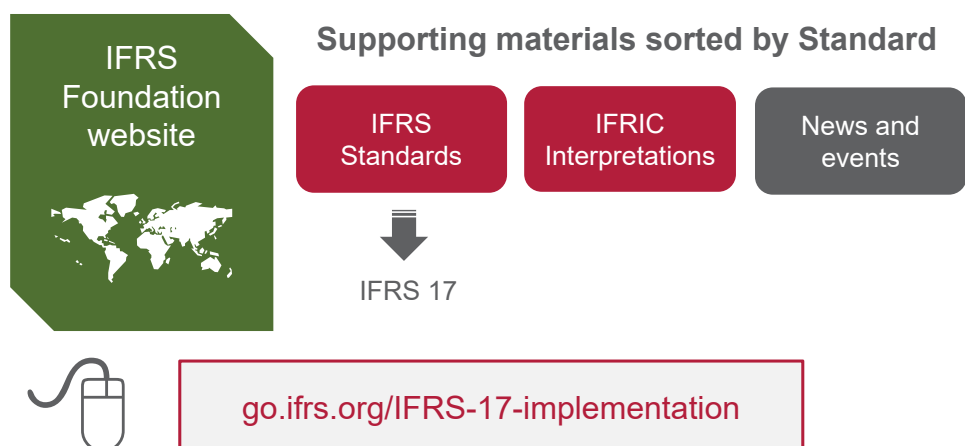
How many questions have been submitted to IFRS 17 TRG to date (September 2018)?

- A. 35
- B. 49
- C. 81
- D. 98



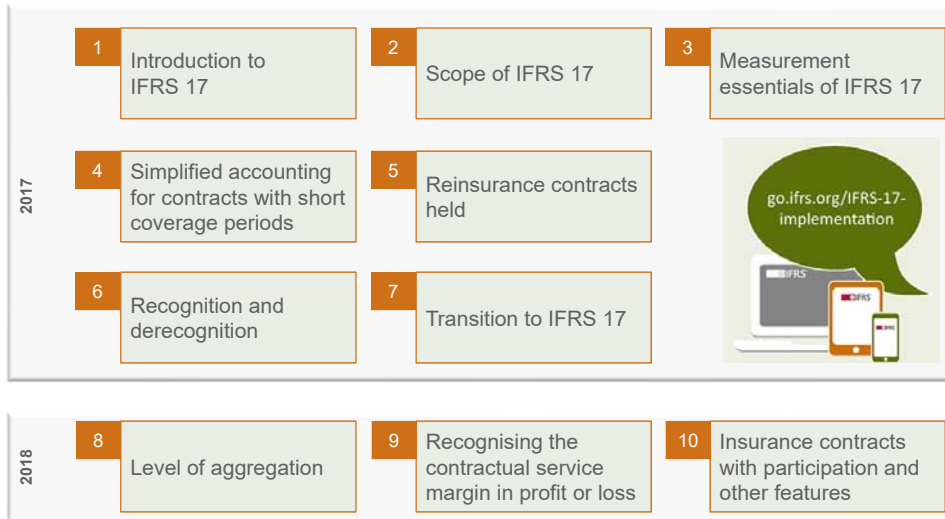
Supporting materials on the website

12



Series of IFRS 17 webinars and webcasts

13



Educational materials June-July 2018

14

Examples

- Premium allocation approach—comparison to existing accounting practice
- Reinsurance contract held—proportionate reinsurance coverage

IFRS 17 pocket guide on reinsurance contracts held

IFRS 17 and mutual entities

1 Background: What is a mutual entity? Slides 3-4

2 Accounting: Could a mutual entity have equity? Slides 11-12

3 Impact on equity

Contracts issued by a mutual entity:

- Contracts that do not provide policyholders with a residual interest in the mutual entity (conventional insurance contracts)
- Contracts that provide policyholders with a residual interest in the mutual entity

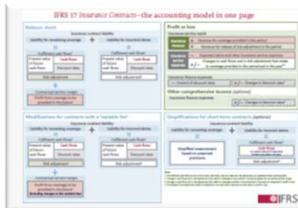


Other supporting materials

15



Video explaining three ways the IFRS Foundation supports implementation of IFRS 17



Summary of the IFRS 17 accounting model in **one page**



Board members **articles**

What investors asks about IFRS 17

IFRS 17—Help is at hand

Transitioning to the new IFRS Standard for insurance contracts

Reducing the gap between insurance and other industries



Supporting materials for investors

16



IFRS 17 for investors

How does IFRS 17 work and what does it mean for investors?

Available on IFRS Foundation website and on IFRS Foundation YouTube channel



The Essentials for investors— translates existing terminology and metrics into the language of IFRS 17



Investor Perspectives: Accounting to reflect economics—why the unit of account matters to investors



What investors think about IFRS 17

17

Between May 2017 and August 2018

c. 100 meetings

44 buy side, 31 sell side, 17 mixed groups, 8 credit rating agencies

c. 500 investors and analysts

41% Europe, 26% Global, 23% Asia Pacific, 5% Africa, 5% North America

Areas of support

- Information about insurers' performance
- Consistency with other industries
- Disclosures
- Transparency

Areas of concern

- Company-specific judgements
- Options

BUT disclosures will help to assess the effects of judgements and options on comparability



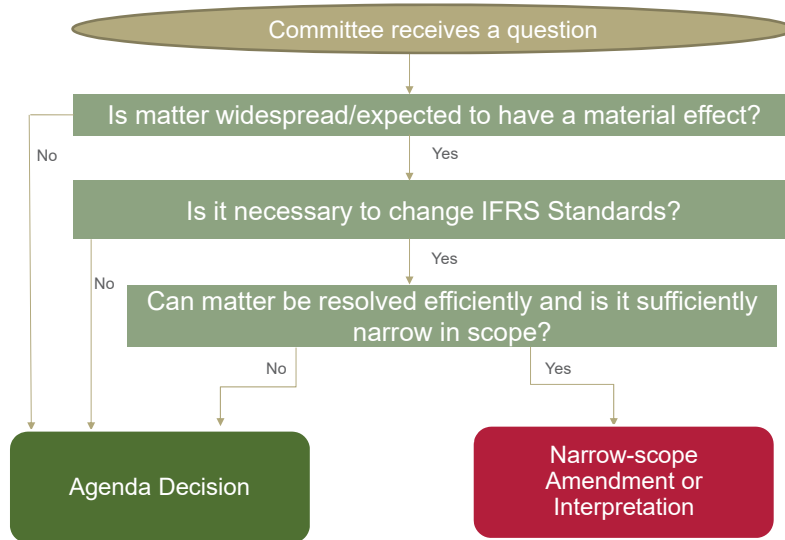
IFRS Interpretations Committee Update

Background



The Interpretations Committee's process

19



Overview of 2018 activities (to date)

20



5 Committee meetings held in 2018 (to-date); one further meeting to be held in November 2018.



Recent Agenda Decisions -a sample



Revenue recognition in real estate contracts

22

Residential real estate industry

Identification of performance obligations

Point in time or over time?

- Are the land and building separate performance obligations?

- Customer control of asset
- Enforceable rights
- Payment for performance completed to date

Presentation of interest revenue

23

IAS 1 requirement to present separately interest revenue calculated using effective interest method

Assets measured at amortised cost

Assets measured at fair value through OCI



Exchange rate: long term lack of exchangeability

24

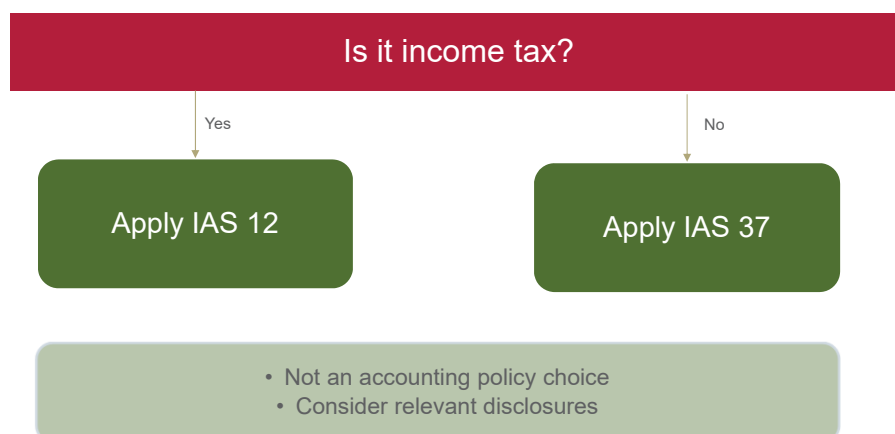
Exchange rate to use to translate a foreign operation (eg in Venezuela) into the presentation currency

Does a company use the official exchange rate in applying IAS 21?
Does the official exchange rate = 'spot exchange rate'?

• Agenda Decision finalised in September 2018.

• Research possible **standard-setting**





Test your I(FRS)Q

Question:

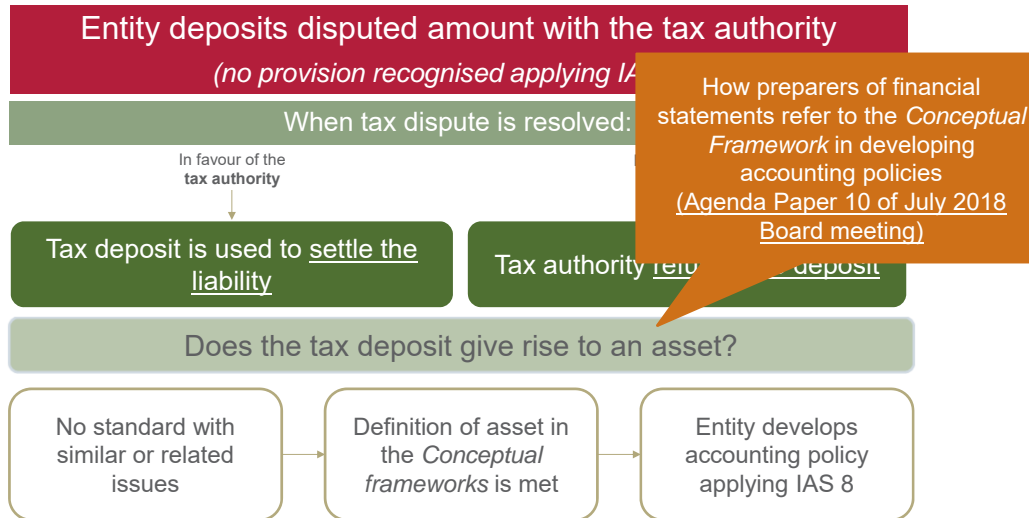
If no IFRS Standard specifically applies to a transaction, other event or condition, which source should an entity refer to, and consider the applicability of, first when developing an accounting policy applying paragraphs 10 and 11 of IAS 8?

- The definitions, recognition criteria and measurement concepts in the *Conceptual Framework*.
- The requirements in IFRS Standards dealing with similar or related issues.
- Most recent pronouncements of other standard-setters, other accounting literature and accepted industry practices.



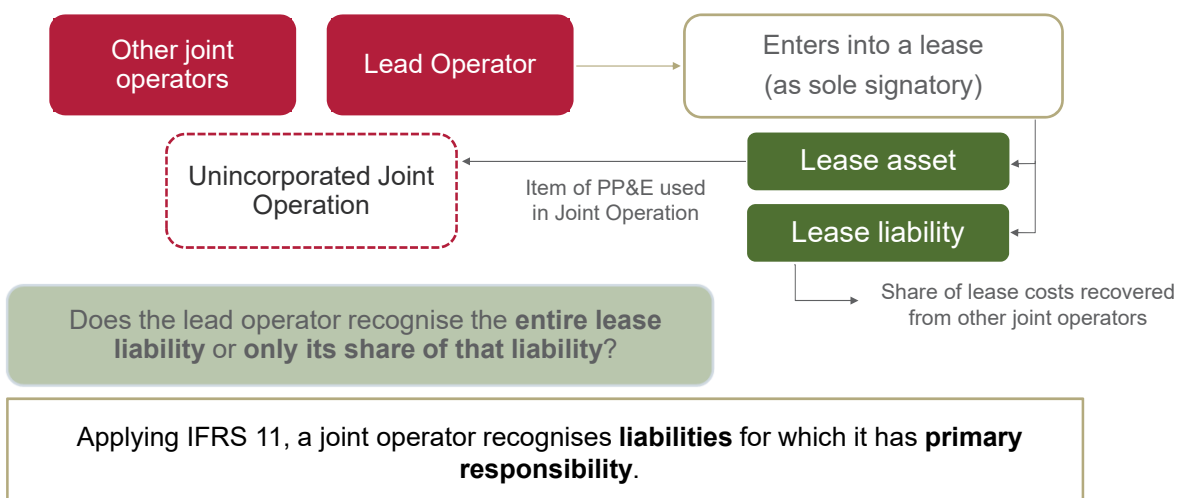
Payments of taxes other than income tax

27



Accounting for lease liabilities in joint operations

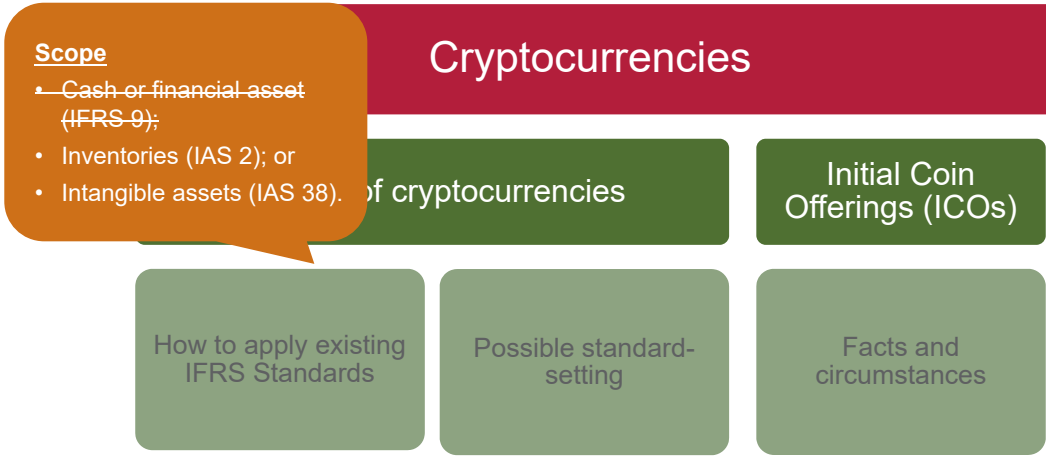
28



Other topics discussed / ongoing discussions



Cryptocurrencies



Cloud computing arrangements

31

Are rights to access software within the scope of IAS 38 or IFRS 16?

IAS 38

Rights by a lessee under licencing agreements are outside the scope of IFRS 16.

Do Software as a Service (SaaS) arrangements create an intangible asset for the customer?

Is it a service contract?

OR

Does the customer control an intangible asset?



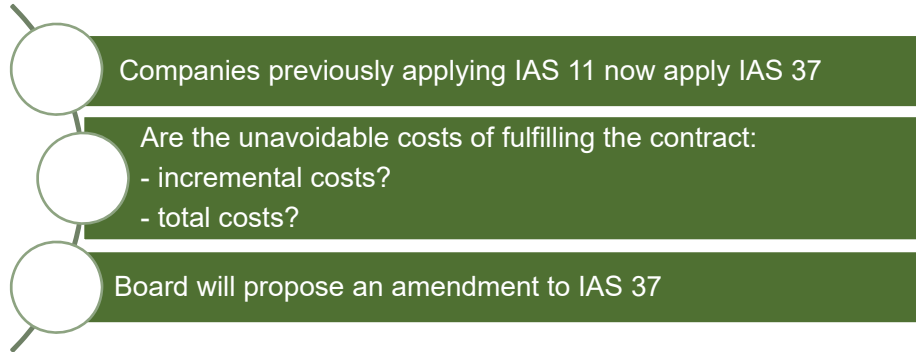
Narrow–scope standard-setting projects



Onerous Contracts

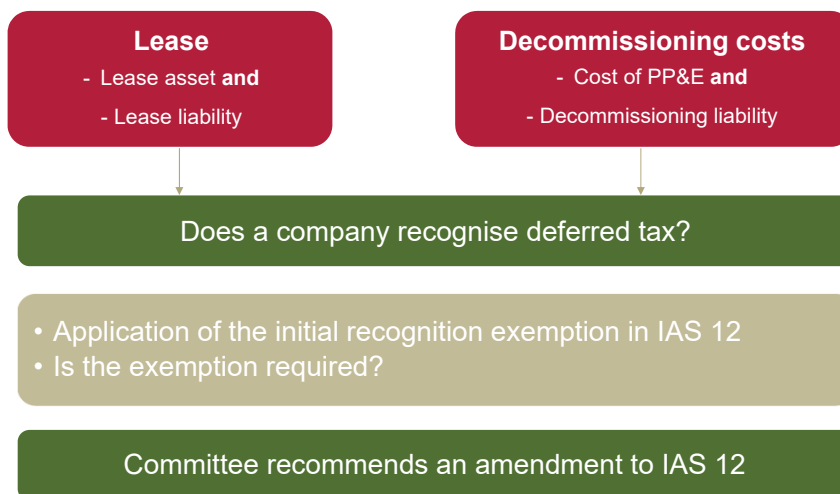
33

Unavoidable costs in IAS 37



Tax base of assets and liabilities

34



Voluntary changes in accounting policy

Resulting from
Agenda Decisions



Retrospective application unless:

- impracticable
- *(proposed) cost exceeds benefits*

Other changes



Retrospective application
unless impracticable

Feedback on the proposed amendments

- Scope of the proposed cost-benefit threshold
 - All voluntary changes or only those resulting from Agenda Decisions?
- Applying the proposed cost-benefit threshold
- Timing of applying changes

Next
steps

Board will consider feedback at a future meeting

Other narrow-scope standard-setting projects

37

IAS 16—Proceeds before intended use

IAS 8—Accounting policies and accounting estimates

Annual Improvements



Questions

38



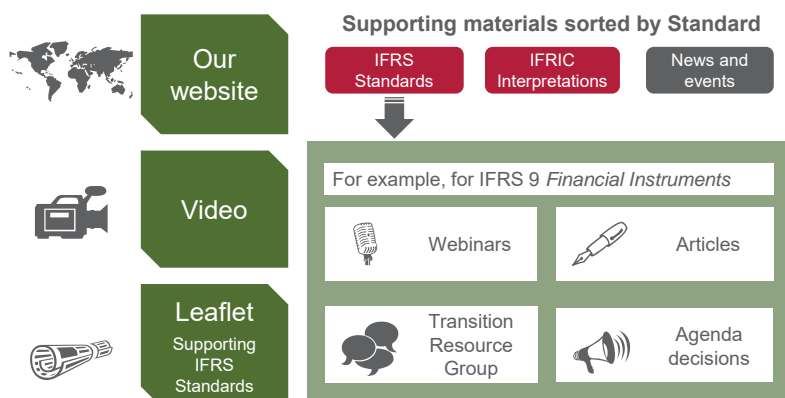


Resources



Resources on our website

40



Committee's work – Get involved

41

The screenshot shows the IFRS website interface. At the top, there is a navigation menu with categories: ABOUT US, AROUND THE WORLD, ISSUED STANDARDS, SUPPORTING IMPLEMENTATION, PROJECTS, NEWS AND EVENTS, and SERVICES. Below the menu, there are several links: Work plan, Current areas of focus, Interpretations Committee open items, Research Programme, Open for comment documents (circled in red), Completed projects, and Better Communication in Financial Reporting. A prominent banner reads "We have moved" with the new address: IFRS Foundation, Columbus Building, 7 Westferry Circus, Canary Wharf, London E14 4HD. Below the banner is a "NEWS" section with four articles dated 22 August 2018 and 16 August 2018. At the bottom, there is an "EVENTS" section and a "DOCUMENTS OPEN FOR COMMENT" section (circled in red) with a link to "Exposure Draft and comment letters – Amending the".



Get involved

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Monday 1 and Tuesday 2 October 2018

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World Standard-setters Conference

Monday 1 and Tuesday 2 October 2018

Optional drop-in and meet the Translations Adoption
Copyright Team

Mari Carmen Civera

Adoption Support Manager

IFRS Foundation

Anna Hemmant

Adoption Support Manager

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Leilani Macdonald

Advisor

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Clare McGuinness

Project Manager

IFRS Foundation



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Welcome back

Mary Tokar
Board Member
IASB



World Standard-setters Conference

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World Standard-setters Conference

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Panel discussion—Management Commentary

Nick Anderson

Board Member

IASB

Andreas Barckow

President

Accounting Standards Committee of Germany

Kris Peach

Chair

Australian Accounting Standards Board

Ryoko Ueda

Director

Mizuho International

Panel discussion— Management Commentary

Agenda ref: WSS11

Nick Anderson, Board Member, IASB

Andreas Barckow, President, Accounting Standards Committee of
Germany

Kris Peach, Chair, Australian Accounting Standards Board

Ryoko Ueda, Director, Mizuho International

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Any questions?

2

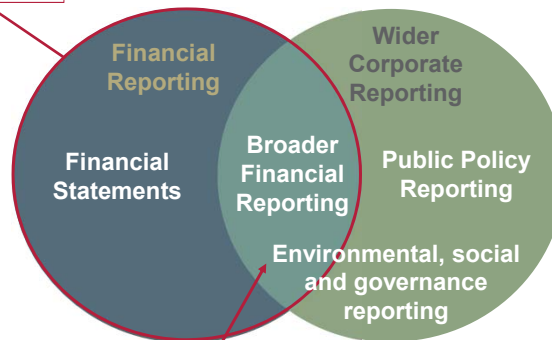
- Go to www.slido.com
- Enter the event code: #IFRS_WSS
- Submit your questions



Scope of the Board's interest

3

The Board's interest lies in financial reporting



Management commentary:

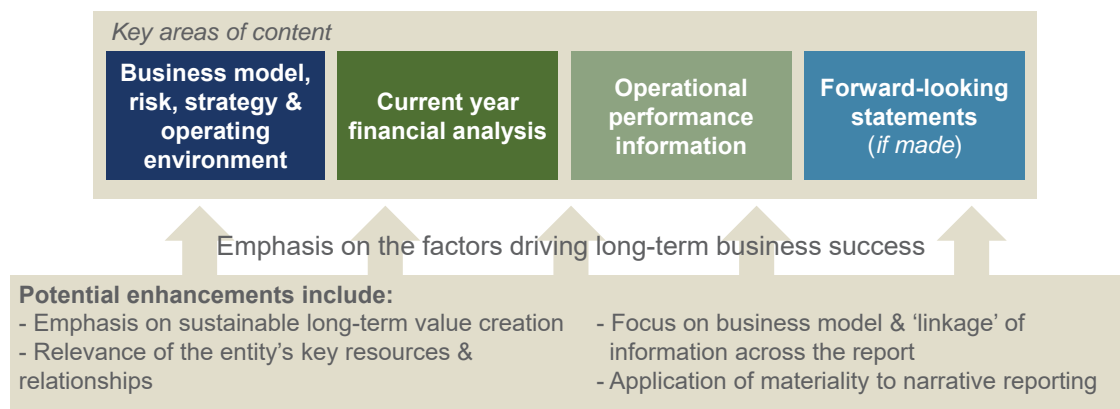
Management commentary is a narrative report aimed at primary users of financial reports that provides context for and additional insight into an entity's financial statements.



What the revised Practice Statement might cover?

4

Management commentary is expected to provide insight into the company's **strategy** for creating shareholder value over time, its **progress** in implementing that strategy, and its **potential impact** on future financial performance not yet captured by the financial statements.



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Conceptual Framework Feedback Session

Tom Scott
Board Member
IASB

Anne McGeachin
Technical Principal
IASB



World Standard-setters Conference

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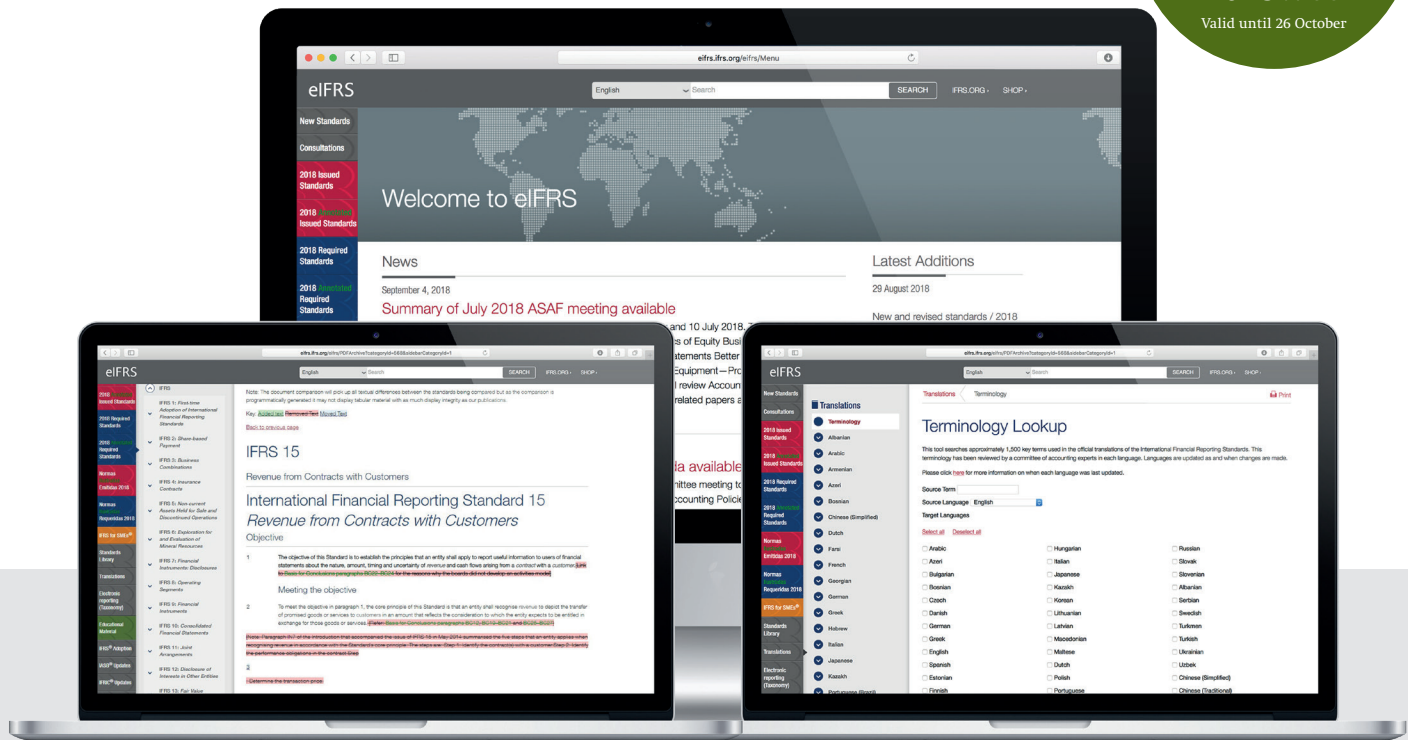
End of World Standard-setters Conference

**Next year's WSS Conference will take place on
Monday 30 September and Tuesday 1 October 2019 at:**

**Hilton London Canary Wharf
South Quay, Marsh Wall
London, E14 9SH**



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