


Emerging Economies Group
March 2019
Agenda paper 9

The work of the IASB

Update on the work of the IASB - February 2019
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The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or IFRS Foundation.



2019 Amendments and consultations

IFRS Amendments expected 2019

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

Classification of Liabilities as Current or Non-current

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

IBOR Reform and its Effects on Financial Reporting

Consultation documents

The Board expects to issue the following consultation documents:

H2 2019

H1 2020

Primary Financial Statements

Management Commentary

Rate-regulated Activities

Business Combinations under
Common Control

Goodwill and Impairment

2019 Comprehensive Review of the
IFRS for SMEs Standard

Maintenance projects—issued and upcoming Exposure Drafts

5

Exposure Draft out for comment

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

Upcoming Exposure Drafts (expected 2019)

Amendments to IFRS 17 *Insurance Contracts*

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

Disclosure Initiative—Accounting Policies

Updating a reference to the Conceptual Framework

Annual Improvements (2018-2020)

Completed projects

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

Discount rates

Improvements to IFRS 8 *Operating Segments*

Disclosure Initiative—Principles of Disclosure

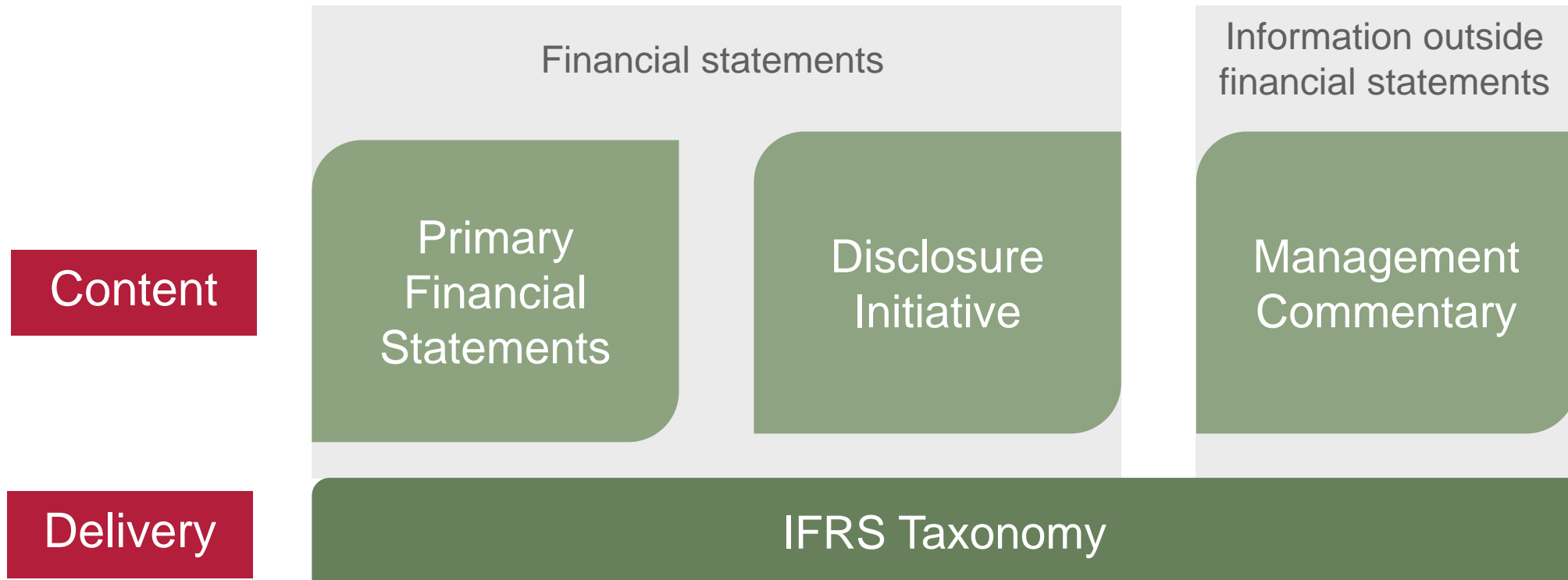
Active projects

Active projects

Project	Next Milestones	When?	Reference
Business Combinations under Common Control	Discussion Paper	H1 2020	Day-2 topic AP 3
Disclosure Initiative—Targeted Standards-level Review of Disclosures	Exposure Draft	2020	<i>Slides 20-25</i>
Extractive Activities	Review Research		Day-2 topic AP 5
Goodwill and Impairment	Discussion Paper	H2 2019	Day-2 topic AP 4
Management Commentary	Exposure Draft	H1 2020	<i>Slides 26-30</i>
Pension Benefits that Depend on Asset Returns	Review Research	H2 2019	<i>Slides 31-32</i>
Primary Financial Statements	Discussion Paper or Exposure Draft	H2 2019	<i>Slides 11-19</i>
Provisions	Review Research	H2 2019	
Rate-regulated Activities	Discussion Paper or Exposure Draft	H2 2019	Day-1 topic
Dynamic Risk Management (DRM)	Core Model	H2 2019	<i>Slides 33-35</i>
Interbank Offered Rate (IBOR) and the Effects on Financial Reporting	Decide Project Direction	Q2 2019	<i>Slides 36-38</i>
Financial Instruments with Characteristics of Equity	Out for comment		

Better Communication in Financial Reporting

Better Communication in Financial Reporting



Primary Financial Statements

Primary Financial Statements (PFS)—Overall project objective

12



Objective of the Primary Financial Statements project

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



Primary Financial Statements

Statement(s) of financial performance

Statement of financial position

Statement of cash flows

Statement of changes in equity

PFS—Stakeholder feedback and key tentative Board decisions



Users

Statements of financial performance are not sufficiently comparable between different companies

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



Users

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

Introduce disclosure of **Management Performance Measures**



Preparers

I need flexibility to tell my company's story

Improve **disaggregation**



Users

There is insufficient disaggregation in financial statements

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

1

Operating profit

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

2

Operating profit and share of profit of integral associates/JVs

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

3

Profit before financing and income tax

Excludes:

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



Defined bottom-up

PFS—Classification of income/expenses for financial entities

Starting point

(Tentative Board decisions for non-financials)

Present all 3 subtotals

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

Financing

All income (expenses) from investments:

Investing

Tentative Board decisions for financial entities

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

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

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

Operating

Financing

OR

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

Operating

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

Allocate income/expenses from investments:

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

Operating

Investing

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

No 'profit before financing & tax' subtotal

Insurance finance expenses (income):

Operating



Preparers

I need flexibility to tell my company's story

Tentative Board decisions

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

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

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

No specific constraints on the calculation of MPMs.



Users

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

Tentative Board decisions

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

PFS—Statement of cash flows

Tentative Board decisions

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

Removal of classification options for interest and dividends



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

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



Users

There is insufficient disaggregation in financial statements

Tentative Board decisions

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

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

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

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

Board still to consider

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

Developing principle-based guidance for identifying unusual or infrequent items

Disclosure Initiative

The disclosure problem & project objective

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



Disclosure Initiative—active projects

Disclosure Initiative

Research project

Maintenance projects

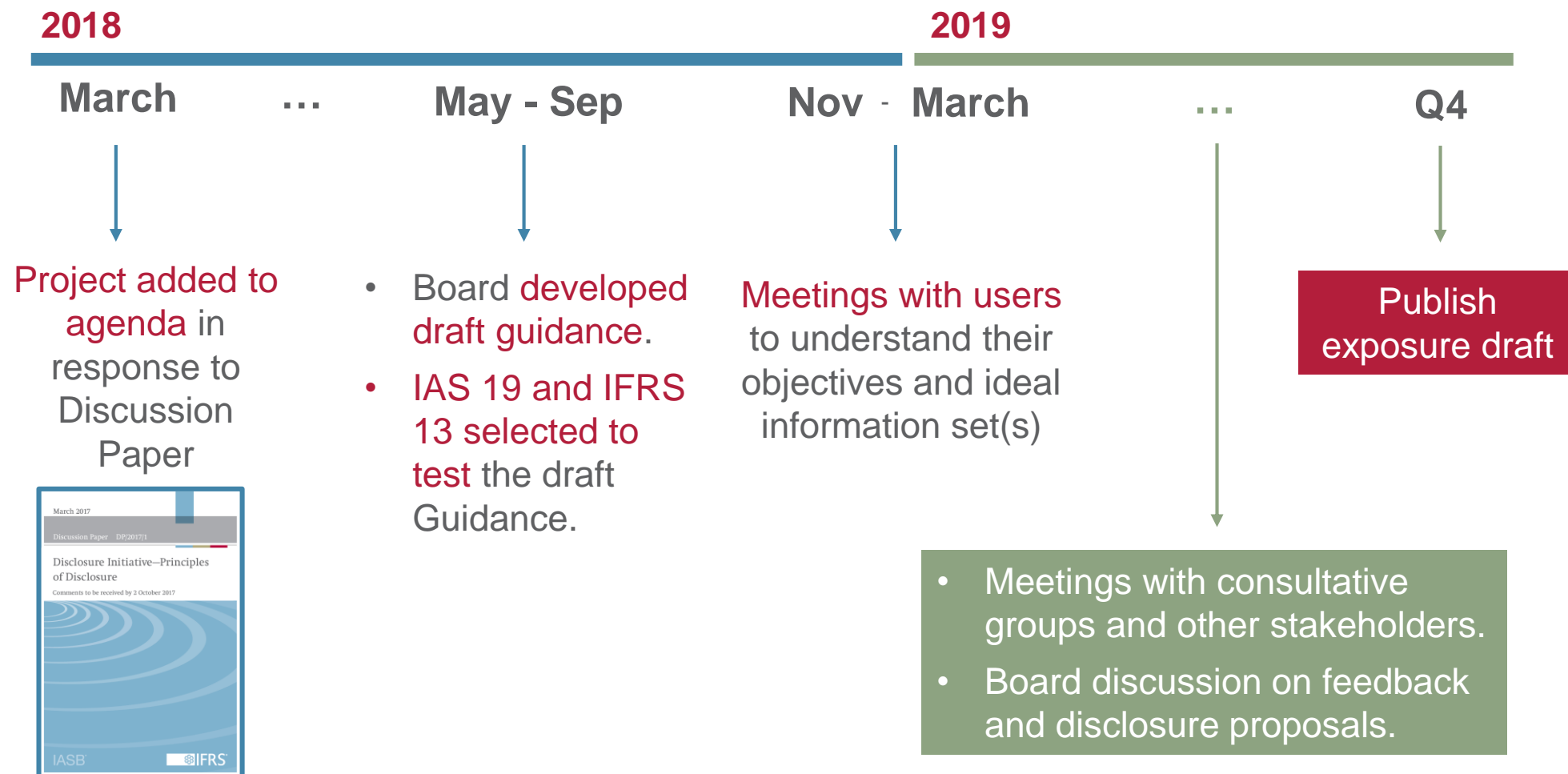
Principles of Disclosure

Targeted Standards-level Review of Disclosures

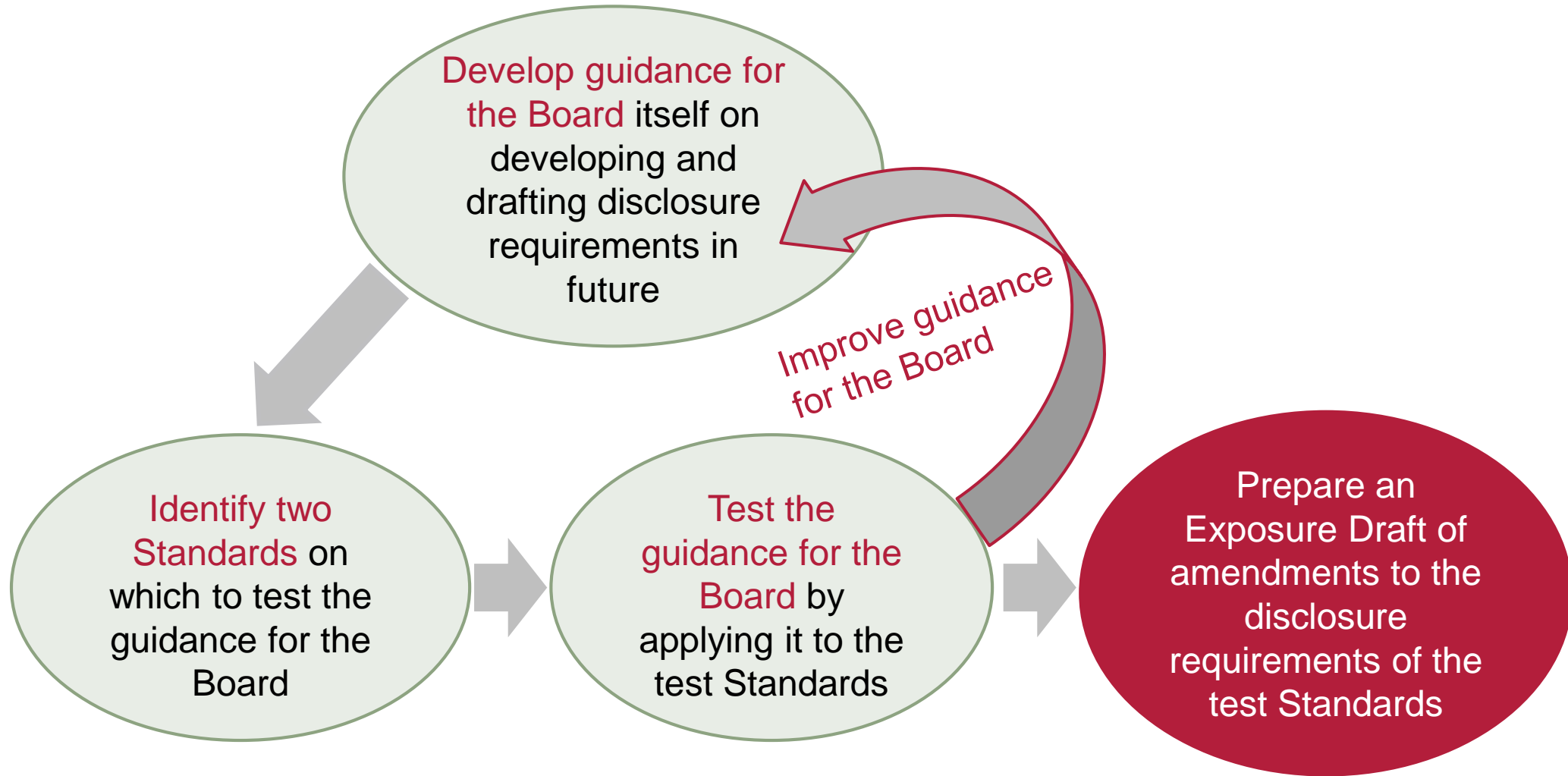
Accounting Policy Disclosures

Preparing Project Summary

Disclosure Initiative— Project timeline



Disclosure Initiative—Targeted Standards-level Review of Disclosures



Objective

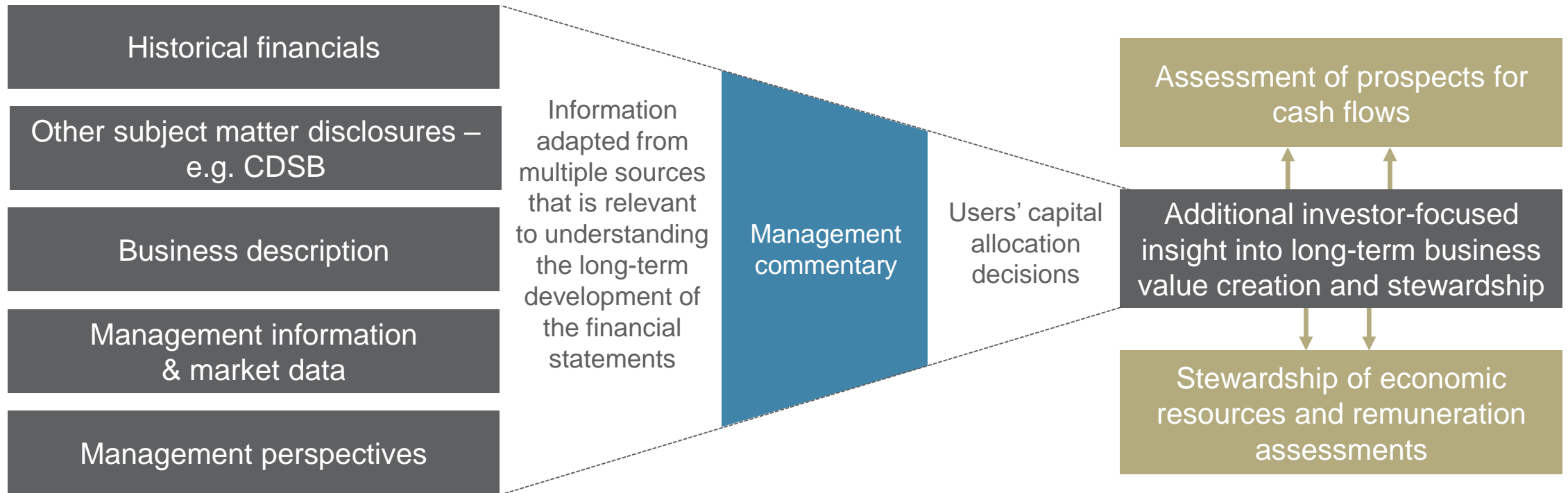
- help stakeholders improve the usefulness of disclosures for the primary users of financial statements
- develop guidance for the Board to use when developing and drafting disclosure objectives and requirements (as a set of Board decisions)
- **not to change the volume of disclosure requirements**,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

Next steps

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

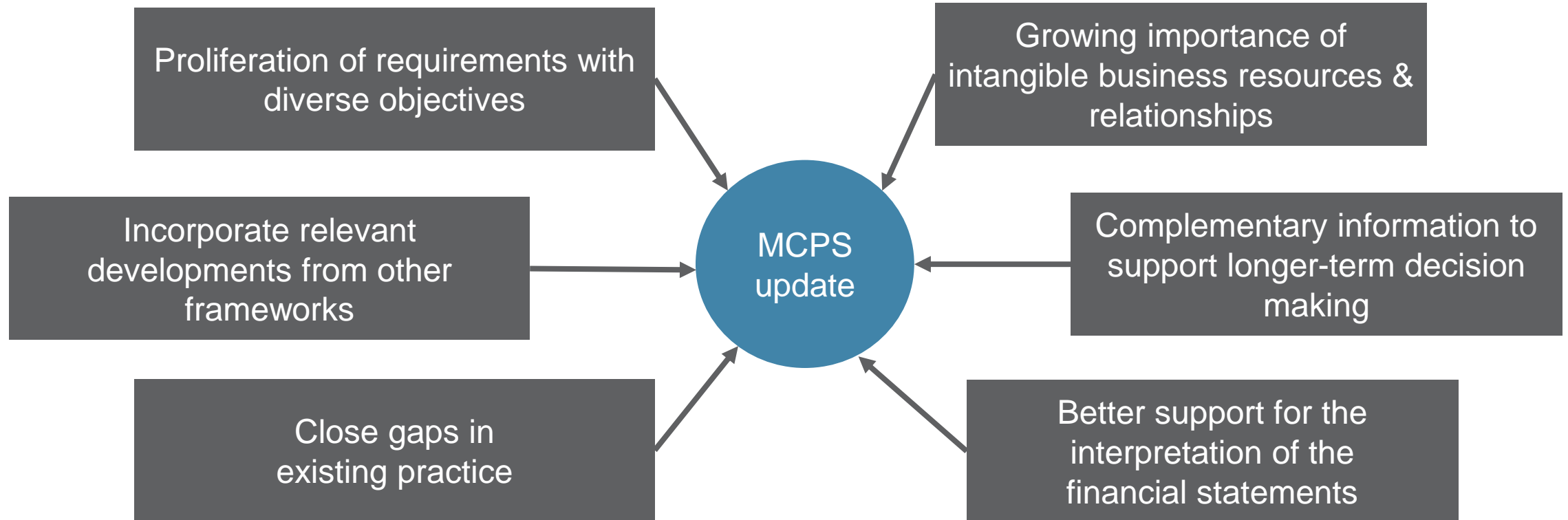
Management Commentary

What is management commentary?



The **Management Commentary Practice Statement (MCPS)** provides a broad, non-binding framework for the presentation of management commentary that relates to financial statements prepared applying IFRS Standards. The MCPS focuses on what's relevant to the unique circumstances of the business. It does not prescribe detailed industry or issue-specific disclosures.

Reasons for updating the Management Commentary Practice Statement



Management Commentary Practice Statement— Staff’s proposed approach to an update

The current Management Commentary Practice Statement:

A principles based non-binding framework for presenting investor-relevant narrative content based on the specific circumstances of the business

This is not expected to change, but the update could support a more rigorous approach to determining which matters to address and the information to provide in the management commentary



Recent developments:

- Innovations from International Integrated Reporting Framework and national narrative reporting frameworks build on MCPS
- Acknowledged gaps in practice, including:
 - inconsistent business model reporting
 - short-term strategic focus
 - continuing challenges in reporting pre-financial indicators
- Growing frustration with investment and management short-termism



Key concepts expected to drive the update:

Value creation puts more emphasis on long term prospects

Business model and strategy provide a focus for building the report

Integration and linkage ensure key issues are followed across the report

Key resources and intangibles further support a long-term focus

Materiality—when to report a matter and the information to provide

It is not envisaged that the update will prescribe detailed industry or subject-matter specific measures

What could a revised Management Commentary Practice Statement cover?

Management commentary

Information relevant to understanding the future development of the financial statements

Business model, risk, strategy and operating environment

Qualitative and quantitative information on:

- the operational position of the business
- the factors affecting its future development

foundation for a performance discussion focused on long-term business success

Current year financial analysis

- Explanation of current year financial performance and position
- Additional / non-GAAP financial analysis

Pre-financial Information

Pre-financial information and explanations that provide insight into:

- business progress
- implications for future financial performance

Covers resources and relationships key to value creation

Forward-looking statements

Explaining statements of forecast and target financial and non-financial expectations (*where made*)

+ Linkage to governance and remuneration disclosures

Insight into the company's **strategy** for creating shareholder value over time, its **progress** in implementing it, and the **potential impact** on future financial performance **not yet captured** by the financial statements

Pension Benefits that Depend on Asset Returns

The challenge

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

Approach being explored

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

Next steps

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

Dynamic Risk Management

Objective

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

Guiding principles

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

Focused on solutions involving both measurement and disclosure

Approach to developing the Dynamic Risk Management model

35

Current stage

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

Next steps

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

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

Identified problem

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

Approach

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

Board's decisions

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

Next steps

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

Research pipeline

Research pipeline—current work

40

Project	Comments
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 from <i>IFRS for SMEs</i> .

Research pipeline—remaining projects to start in the future

41

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	Assess whether the Board should develop a proposal to address any diversity that may exist in accounting for pollutant pricing mechanisms.
High Inflation: Scope of IAS 29	Assess whether it is feasible to extend the scope of IAS 29 to cover economies subject to high, rather than hyper, inflation. No other work is planned on IAS 29.
Variable and Contingent Consideration	Cross-cutting issue raised in agenda consultation and in earlier deliberations of other topics. This work may also lead to follow on work on risk-sharing and collaborative arrangements.

Supporting Implementation



New website
www.ifrs.org



Video



Leaflet
Supporting IFRS
Standards

Supporting materials sorted by Standard

IFRS Standards

IFRIC
Interpretations

News and events



For example, for IFRS 9 *Financial Instruments*



Webinars



Articles



Transition
Resource
Group



Agenda
decisions

IASB support for IFRS 17 implementation



Webinars



Articles and other materials



Conferences



Transition Resource Group (TRG)



Education for

- investors
- regulators
- standard-setters
- preparers



IASB discussions

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

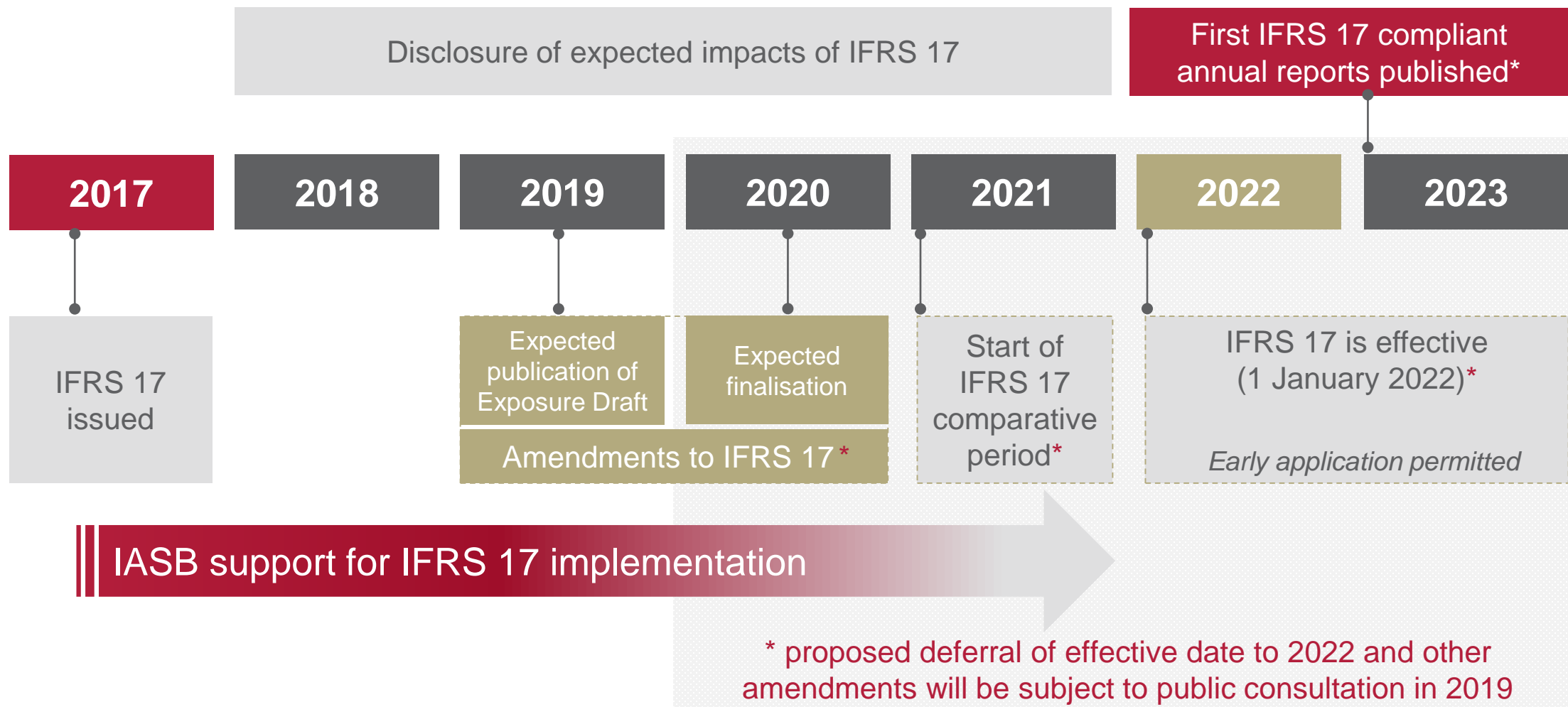


Informal technical discussions with

- regulators
- standard-setters
- audit firms
- preparers

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

IFRS 17 timeline



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

Maintenance projects



6 Committee meetings held in 2018.

Maintenance projects—issued and upcoming Exposure Drafts

49

Board considering feedback on Exposure Drafts

Accounting Policies and
Accounting Estimates

Accounting Policy
Changes

Availability of Refund

Property, Plant and
Equipment: Proceeds
before Intended Use

Exposure Draft (expected 2020)

Targeted
Standards-level
Review of
Disclosures

Upcoming Exposure Drafts (expected 2019)

Amendments to IFRS 17 *Insurance
Contracts*

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

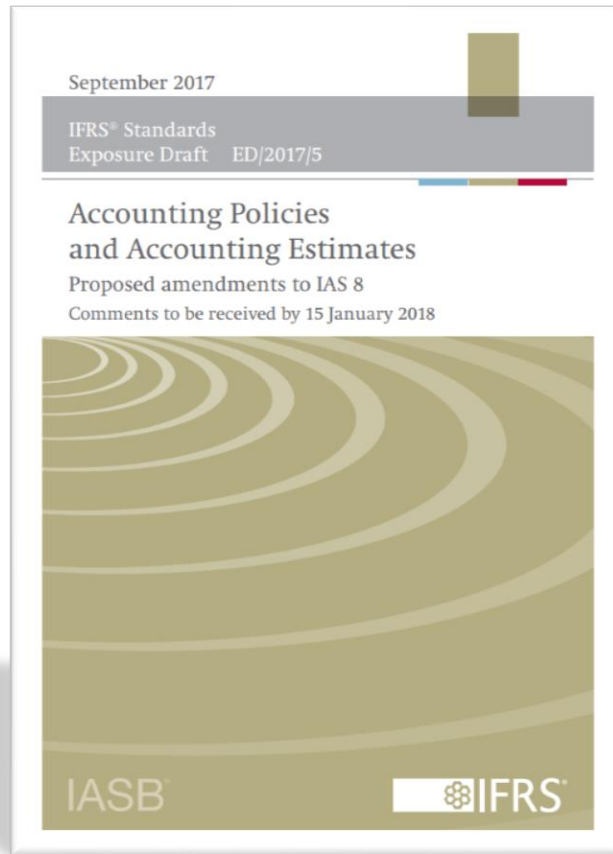
Disclosure Initiative—Accounting
Policies

Updating a reference to the
Conceptual Framework

Annual Improvements (2018-2020)

Accounting Policies and Accounting Estimates— Proposals

50



Proposed amendments would clarify:



How accounting policies and accounting estimates relate to each other



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



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

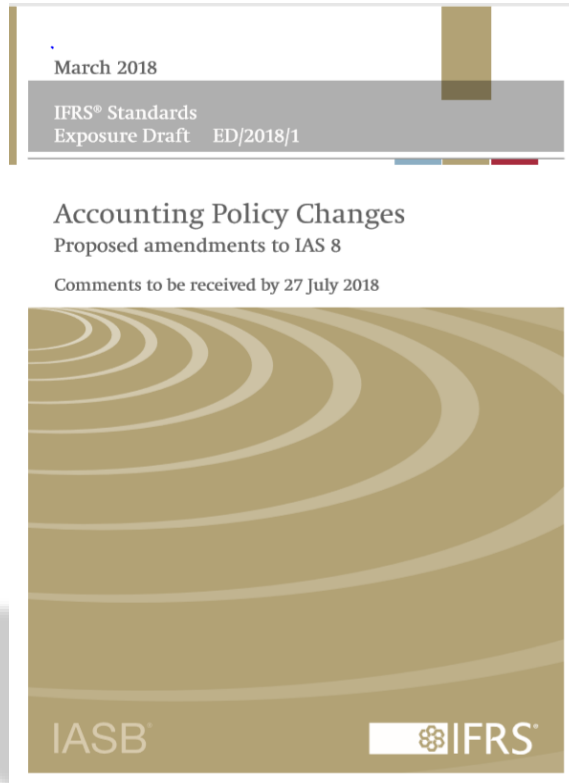
Feedback on the ED

Amendments help clarify the distinction between accounting policies and estimates.

However:

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

Board to discuss
next steps at a
future meeting



Summary of proposed amendments :



A change in accounting policy that results from an agenda decision would be applied retrospectively except to the extent:

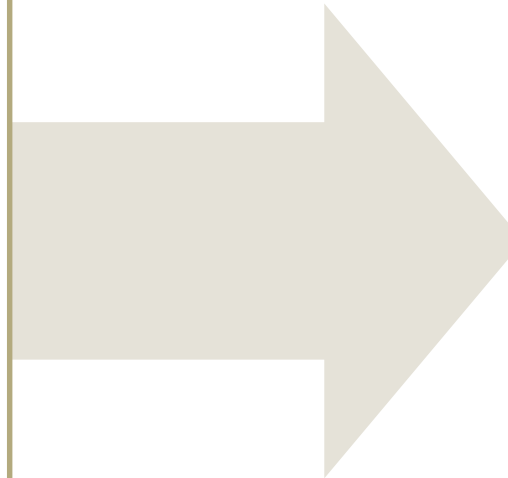
- Impracticable; or
- *(Proposed)* cost exceeds benefits



Board considered, but decided not, to amend IAS 8 to address the timing of application of a change in accounting policy that results from an agenda decision

Feedback on the ED

- Scope of proposed cost-benefit threshold
- Applying proposed cost-benefit threshold
- Timing of applying changes



- In December 2018, Board decided not to amend IAS 8 regarding timing
- Other aspects to be discussed at a future meeting

Onerous contracts—costs of fulfilling a contract

54

Identified problem

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

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

The Board proposes to amend IAS 37 to:



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



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

Comments due by 15 April 2019.

Property, plant and equipment—Proceeds before Intended Use—Proposals

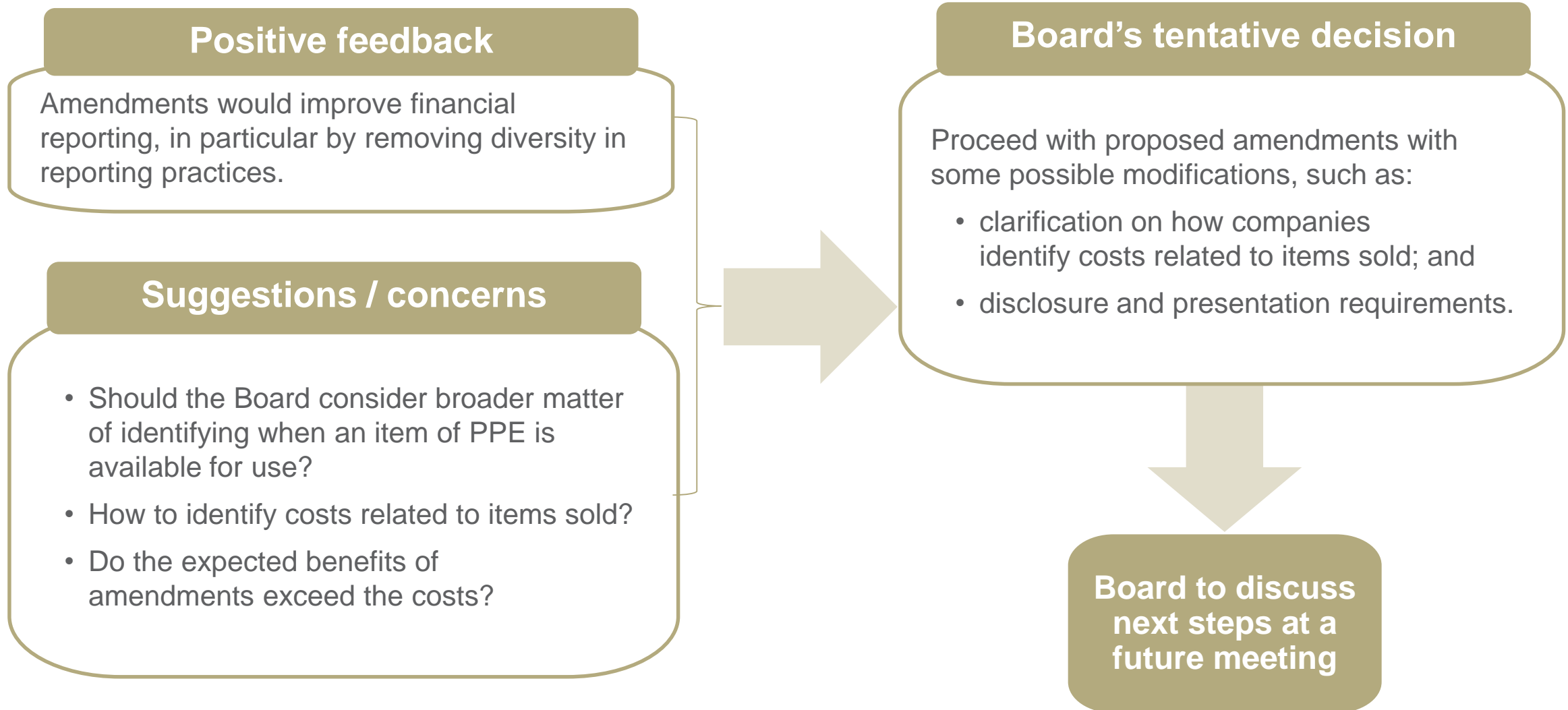
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Proposal

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

Property, plant and equipment— Proceeds before Intended Use—Feedback



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

57



The Board has proposed an amendment to IAS 12 that would narrow the initial recognition exemption in paragraphs 15 and 24. The exemption would no longer apply to the extent that, on the initial recognition of a transaction, an entity would recognise equal amounts of deferred tax assets and liabilities.

Exposure Draft expected in Q2 2019

Annual Improvements (2018 – 2020)

58

Amendments to IFRS 9

Fees in the '10 per cent' Test

Proposal to clarify fees to include when carrying out the '10 per cent' test for derecognition purposes.

Amendments to IAS 41

Taxation in Fair Value Measurements

Proposal to remove the requirement to exclude cash flows for taxation when measuring the fair value of biological assets.

Amendments to IFRS 1

Subsidiary as a First-time Adopter

Proposal to require a subsidiary to measure its cumulative translation differences using the amounts reported by its parent.

Amendment to IE13 accompanying IFRS 16

Lease Incentives

Proposal to remove from an illustrative example accompanying IFRS 16 the reimbursement of leasehold improvements by the lessor.

Exposure Draft expected in Q2 2019

The *IFRS for SMEs* Standard

Previous reviews

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

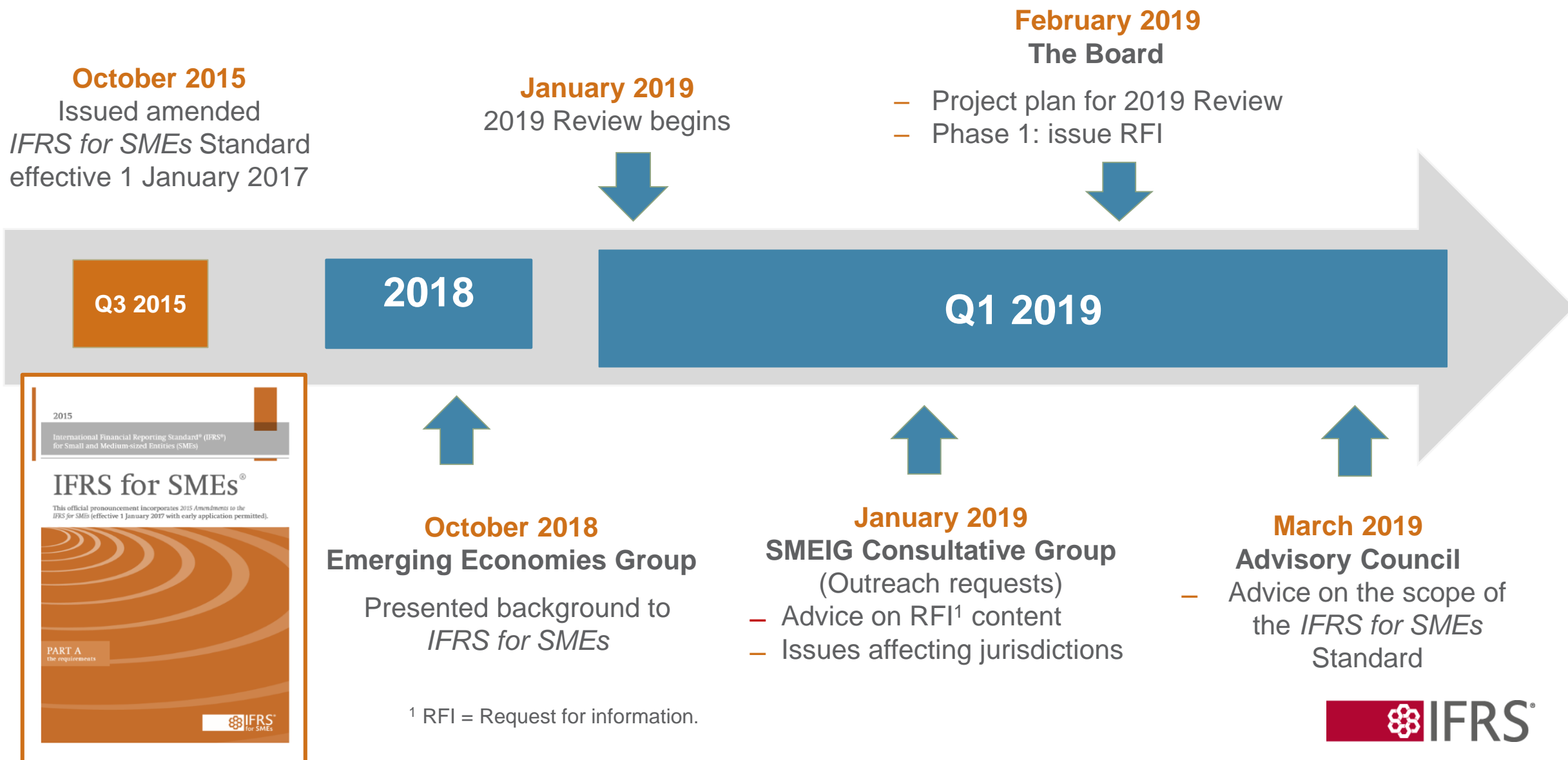
Current stage

- The Board has commenced the next review of the *IFRS for SMEs* Standard (2019 Review)
- The Board is developing a Request for Information focused on obtaining views on whether and, if so, how to update the *IFRS for SMEs* Standard

Next steps

- The Board expects to issue the a Request for Information in H2 2019

IFRS for SMEs 2019 Review—Status



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62



a mission
that matters



working with global
accounting experts



access to network of
influential people



small organisation
with a big impact



unique development
opportunities



intellectually
stimulating



international
environment

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