IFRS®

IASB Update February 2019

This IASB *Update* highlights preliminary decisions of the International Accounting Standards Board (Board). The Board's final decisions on IFRS® Standards, Amendments and IFRIC® Interpretations are formally balloted as set forth in the *Due Process Handbook* of the IFRS Foundation and the IFRS Interpretation Committee.

The Board met on Thursday 7 and Friday 8 February 2019 at the IFRS Foundation's offices in London.

The topics, in order of discussion, were:

- *IFRS for SMEs*® Standard—review and update
- Management Commentary
- Primary Financial Statements
- Amendments to IFRS 17 *Insurance Contracts*
- IBOR Reform and the Effects on Financial Reporting

IFRS for SMEs® Standard—review and update (Agenda Paper 30)

The Board met on 7 February 2019 to discuss the 2019 comprehensive review of the *IFRS for SMEs* Standard.

Agenda Paper 30A, which was provided to the Board for information only, described the development of the *IFRS for SMEs* Standard, including the Board's initial comprehensive review completed in 2015.

Project plan for the 2019 comprehensive review of the *IFRS for SMEs* Standard (Agenda Paper 30)

The Board established the proposed project timeline for the 2019 comprehensive review of the *IFRS for SMEs* Standard.

All 14 Board members agreed with this decision.

The Board tentatively decided that the Request for Information should specifically request views on whether and, if so, how the *IFRS for SMEs* Standard should be updated to take account of full IFRS Standards and amendments not currently incorporated into the *IFRS for SMEs* Standard.

All 14 Board members agreed with this decision.

The Board also decided which topics to discuss at future Board meetings.

All 14 Board members agreed with this decision.

Next step

In March 2019 the Board plans to discuss the scope of the *IFRS for SMEs* Standard, and its relationship with full IFRS Standards.

Management Commentary (oral update)

The Board met on 7 February 2019 to receive an update on the project and the main messages from the Management Commentary Consultative Group meeting held in January 2019. The Board was not asked to make any decisions.

Next step

The next Consultative Group meeting will be held in April 2019. The Board expects to continue discussions on the project at the May Board meeting.

Primary Financial Statements (Agenda Paper 21)

The Board met on 7 February 2019 to discuss:

- the classification of income and expenses in the statement(s) of financial performance for financial entities, following up on discussions from the September 2018 meeting;
- two outstanding issues on the statement of cash flows; and
- additional proposals on aggregation and disaggregation.

Classification of income and expenses by financial entities **(Agenda Paper 21A)**

The Board considered this issue in relation to:

a. entities that provide financing to customers as a main business activity; and
b. entities that, in the course of their main business activities invest in assets that generate a return individually and largely independently of other resources held by the entity.

In revising an approach decided in September 2018, the Board tentatively decided that:

c. an entity of the type described in (a) is required to include in operating profit:
   i. expenses from financing activities and income from cash and cash equivalents relating to the provision of financing to customers; or
   ii. all expenses from financing activities and income from cash and cash equivalents.

   Thirteen of 14 Board members agreed and one disagreed with this decision.

d. an entity of the type described in (a) shall not present the 'profit before financing and income tax' subtotal if the entity does not present expenses from financing activities or income from cash and cash equivalents below operating profit. This applies even when such an entity presents in the statement(s) of financial performance the unwinding of a discount on liabilities that do not arise from financing activities. All 14 Board members agreed with this decision.
e. an entity of the type described in (b) is required to include in operating profit, income (expenses) from investments made in the course of its main business activities. All 14 Board members agreed with this decision.

Outstanding issues on the statement of cash flows **(Agenda Paper 21B)**

The Board tentatively decided that the starting point for the indirect reconciliation of operating cash flows is the operating profit subtotal for all entities, amending its tentative decision of December 2017. All 14 Board members agreed with this decision.

In addition, the Board tentatively decided that:

a. all entities shall classify:
   i. cash flows from dividends paid as financing cash flows; and
   ii. cash flows from dividends received from associates and joint ventures accounted for using the equity method as investing cash flows.

   All 14 Board members agreed with this decision.

b. financial entities (entities that provide financing to customers as a main business activity and/or invest in the course of their main business activities in assets that generate a return individually and largely independently of other resources) shall classify cash flows from dividends received, interest paid and interest received each in a single section of the statement of cash flows. Financial entities shall determine the section in which to classify these cash flows as follows:
   i. if the entity presents related income (expenses) in a single section of the statement(s) of financial performance, the entity shall present related cash flows in that section; or
   ii. if the entity presents related income (expenses) in more than one section of the statement(s) of financial performance, the entity shall make an accounting policy choice regarding the section of the statement of cash flows in which to present related cash flows.

   Eleven of 14 Board members agreed and three disagreed with this decision.

***Additional proposals on aggregation and disaggregation* (Agenda Paper 21C)**

The Board tentatively decided, subject to drafting improvements, to replace the guidance decided by the Board in March 2017 on the steps involved in preparing financial statements with:

a. the description that aggregation and disaggregation involve:
   i. classifying the effects of individual transactions or other events into assets, liabilities, equity, income and expenses;
   ii. separating assets, liabilities, equity, income and expenses into groups based on their characteristics (for example, their nature, their function, their measurement basis or another characteristic) resulting in the presentation of line items that share at least one characteristic in the primary financial statements; and
   iii. separating the line items presented in the primary financial statements based on further characteristics resulting in the separate disclosure of items in the notes, if those items are material; and
b. supporting guidance along the lines discussed in Agenda Paper 21C.

All 14 Board members agreed with this decision.

In addition, the Board tentatively decided to provide the following additional guidance for material balances comprised of immaterial items:

Items presented in the primary financial statements or disclosed in the notes shall be described in a way that faithfully represents the items they aggregate. Faithful representation could be achieved by using item labels that describe the shared characteristics that form the basis of the aggregation. In producing financial statements, an entity may identify items that do not appear to share characteristics with other items and are not material but that when aggregated would result in a material balance. Labelling these items with a non-descriptive label such as ‘other’ would not faithfully represent these items without additional information. In order to faithfully represent these items, an entity shall:

a. reconsider whether the immaterial item(s) share similar characteristics with other immaterial item(s) and can be aggregated to create a material item that can be described in a manner that faithfully represents the aggregated items;
b. consider whether the aggregated items may be described in a way that faithfully represents the dissimilar items without changing the level of aggregation; and
c. if (a) and (b) are impractical, disclose information in the notes about the composition of the aggregated item, for example, ‘the balance consists of several unrelated immaterial amounts, the largest balance of which is CU10 of property maintenance expenses’.

Thirteen of 14 Board members agreed and one disagreed with this decision.

Next step

The Board will continue discussing topics within the scope of the project at future Board meetings.

Amendments to IFRS 17 *Insurance Contracts* (Agenda Paper 2)

The Board met on 7 February 2019 to consider possible amendments to IFRS 17 *Insurance Contracts* relating to the following topics:

- loans that transfer significant insurance risk—Agenda Paper 2A; and
- transition—Agenda Papers 2B, 2C and 2D.

Loans that transfer significant insurance risk (Agenda Paper 2A)

The Board tentatively decided to amend the scope of IFRS 17 and IFRS 9 *Financial Instruments* for insurance contracts that provide insurance coverage only for the settlement of the policyholder's obligation created by the contract. These amendments would enable entities issuing such contracts to account for those contracts applying either IFRS 17 or IFRS 9. The choice would be made portfolio by portfolio, using the IFRS 17 definition of a portfolio.

Thirteen of 14 Board members agreed and one disagreed with this decision.

Transition—Optionality and comparative information (Agenda Paper 2B)

The Board tentatively decided to:

a. retain the IFRS 17 transition requirements without making amendments that would reduce the optionality included in those requirements; and
b. retain the IFRS 17 requirement to present restated comparative information for the annual reporting period immediately preceding the date of initial application of IFRS 17.

All 14 Board members agreed with these decisions.

Transition—Risk mitigation option and amounts accumulated in other comprehensive income on transition (Agenda paper 2C)

The Board tentatively decided to retain the transition requirement in IFRS 17 that prohibits retrospective application of the risk mitigation option.

Thirteen of 14 Board members agreed and one disagreed with this decision. The Board asked the staff to continue to explore alternative proposals that would address stakeholders' concerns about the results of not applying the option retrospectively.

The Board also tentatively decided to retain the transition requirements in IFRS 17 relating to the cumulative amounts included in other comprehensive income.

All 14 Board members agreed with this decision.

Transition—Modified retrospective approach (Agenda paper 2D)

The Board tentatively decided to:

a. retain the transition requirements in the modified retrospective approach set out in IFRS 17 that:

   i. prohibit an entity from using a specified modification to the extent that the entity has reasonable and supportable information to apply the related IFRS 17 requirement retrospectively; and
   ii. permit an entity to use a specified modification only when the entity has reasonable and supportable information to apply that modification.

b. retain the transition requirements in IFRS 17 for the modified retrospective approach, without an amendment that would permit an entity to develop its own modifications that it regards as consistent with the objective of the modified retrospective approach. However, the Board noted the importance of the clarification in the paper that the existence of specified modifications does not preclude the normal use of estimation techniques.
c. amend the transition requirements in IFRS 17 for liabilities that relate to the settlement of claims incurred before an insurance contract was acquired as follows:
   i. to add a specified modification to the modified retrospective approach so that an entity classifies such liabilities as a *liability for incurred claims*. Consistent with the other specified modifications, an entity would be permitted to use this specified modification only to the extent that it does not have reasonable and supportable information to apply a retrospective approach.
   ii. to permit an entity applying the fair value approach to choose to classify such liabilities as a liability for incurred claims.
d. retain without amendment the specified modification in the modified retrospective approach relating to the use of cash flows that are known to have occurred, instead of estimating retrospectively cash flows that were expected to occur.
e. retain the modified retrospective approach for insurance contracts with direct participation features, without an amendment that would permit an entity to apply to such contracts the specified modifications permitted for insurance contracts without direct participation features.

All 14 Board members agreed with this decision.

Next step

The Board will continue its discussions on possible amendments to IFRS 17 at future meetings.

IBOR Reform and the Effects on Financial Reporting (Agenda Paper 14)

The Board met on 8 February 2019 to discuss proposed amendments to IFRS Standards that would address concerns that may arise leading up to IBOR reform. Issues affecting financial reporting when IBOR reform is enacted (ie when contracts are actually amended) will be discussed during the second phase of the project.

While the Board agreed to amend IFRS Standards to address concerns related to the uncertainties arising from IBOR reform, the Board emphasised that the underlying economic effects arising from IBOR reform should be represented in financial reporting. More specifically, the Board tentatively decided that:

a. regarding the ‘highly probable’ requirement, that IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement* should be amended to provide relief from the effects of uncertainties around the general conditions (timing and specifics) of the potential replacement of IBOR. In particular, when assessing the likelihood that a forecast transaction will occur, an entity can assume the IBOR-based contractual terms will remain unchanged. All 14 Board members agreed with this decision.
b. regarding the existence of an economic relationship (as required by IFRS 9) and the expectation that a hedge will be highly effective in achieving offsetting (as required by IAS 39), that IFRS 9 and IAS 39 should be amended to provide relief from uncertainties around the general conditions (timing and specifics) of the potential replacement of IBOR. In particular, when performing these assessments an entity should base such assessments on existing contractual cash flows from the hedging instrument and the hedged item. All 14 Board members agreed with this decision.
c. an entity should be allowed to continue hedge accounting when an IBOR risk component meets the separately identifiable requirement at the inception of the hedging relationship, although identification may be affected by IBOR reform in the future. In addition, the Board tentatively decided that relief should not be provided for risk components that are not separately identifiable at the inception of a hedging relationship. All 14 Board members agreed with this decision.
d. an entity should cease to apply the proposed relief when the nature and timing of designated future cash flows are certain. All 14 Board members agreed with this decision.
e. an entity should provide specific disclosures about the extent to which it applies the proposed relief. All 14 Board members agreed with this decision.
f. an entity should apply the proposed amendments retrospectively. The proposed effective date of the amendments is 1 January 2020 with earlier application permitted. Thirteen of 14 Board members agreed and one disagreed with this decision.

Next steps

The Board will discuss the following topics at a future meeting:

a. optional application of the proposed relief; and
b. certainty about the nature and timing of future cash flows and its interaction with ending the proposed relief.