IASB Update

From the International Accounting Standards Board

December 2013

Welcome to the *IASB Update*

The IASB met in public on 12 December 2013 at the IASB offices in London, UK.

The topics for discussion were:

- **Post-implementation Review of IFRS 3 *Business Combinations***
- **IFRIC Update**
- **Equity Method: Share of Other Net Assets Changes (proposed amendment to IAS 28)**
- **Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*)**
- **Actuarial Assumptions: Discount Rate (Proposed amendments to IAS 19)**
- **Annual Improvements—IFRS 1 *First-time Adoption of International Financial Reporting Standards*—Short term exemptions from IFRSs**
- **Financial Instruments: Impairment**
- **Financial Instruments: Classification and Measurement**
- **Fair Value Measurement: Unit of Account**

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Future board meetings

The IASB meets at least once a month for up to five days.

The next board meetings are:

20–24 January
13-21 February

To see all board meetings for 2013, **click here**.

Archive of *IASB Update* Newsletter

For archived copies of past issues of *IASB Update* on the IFRS website, **click here** .

Podcast summaries

To listen to a short board meeting audio summary (podcast) of previous board meetings, **click here**.

Post-implementation Review of IFRS 3 *Business Combinations*

The IASB considered an updated version of the tentative questions to be included in the Request for Information (RfI).

The IASB was also informed about the input received from the Accounting Standards Advisory Forum (ASAF) on those tentative questions, and noted that the ASAF members generally agreed with the areas covered and with the tentative questions suggested.

Next steps

The IASB plans to publish the RfI by the end of January 2014.

IFRIC Update

The IASB received an update from the November 2013 meeting of the IFRS Interpretations Committee. Details of this meeting were published in the IFRIC *Update*, which is available by **clicking here**.

Equity Method: Share of Other Net Assets Changes (proposed amendment to IAS 28)

In November 2012 the IASB published an Exposure Draft of proposed amendments to IAS 28. The IASB proposed in the ED that:

a. an investor should recognise, in the investor's equity, its share of the changes in the net assets of the investee that are not recognised in profit or loss or OCI of the investee, and that are not distributions received ('other net asset changes'); and
b. the investor should reclassify to profit or loss the cumulative amount of equity that the investor had previously recognised when the investor discontinues the use of the equity method.

At this meeting, the IASB continued its discussions on this topic in the light of the comments received on the ED. The IASB acknowledges that a number of respondents are concerned that the proposals in the ED would cause a departure from some aspects of current IFRS literature. The IASB considered four different models as alternatives to the proposals in the ED. The IASB observed that each model presented has challenges for the accounting for the investor's share of the investee's other net asset changes.

The IASB noted that the proposed amendments are a short-term solution to address diversity in practice until the IASB revisits the principles of the equity method of accounting. Consequently, the IASB tentatively decided to finalise the amendments on the basis of the proposals in the ED, subject to reviewing a further analysis of the application of those requirements to some specific fact patterns.

Eleven members agreed with this decision.

Next steps

The IASB will consider an analysis of the application of the proposed amendments to a selection of fact patterns at a future meeting.

Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*)

The IASB staff explained the due process steps undertaken by the IASB in completing the narrow-scope amendments to IAS 16 and IAS 38 on the '*Clarification of Acceptable Methods of Depreciation and Amortisation*'.

Agenda Paper 12B: Narrow-scope amendment: IAS 16 and IAS 38

Due process consideration

All IASB members agreed that:

a. the amendments to IAS 16 and IAS 38 should be finalised without re-exposure;
b. the effective date of the amendments should be 1 July 2015 and earlier application should be permitted; and
c. the due process requirements to date have been complied with.

No IASB members indicated that they intend to dissent to the publication of the final amendments to IAS 16 and IAS 38.

Next steps

The IASB plans to publish the final amendments to IAS 16 and IAS 38 in Q1 2014.

Actuarial Assumptions: Discount Rate (Proposed amendments to IAS 19)

The IASB received an update on the IFRS Interpretations Committee's discussions and decisions on the determination of the discount rate for post-employment benefit obligations. In November 2013, the Interpretations Committee finalised its decision not to add this issue to its agenda and recommended that this issue should be addressed in the IASB's research project on discount rates.

The IASB noted that its research project on discount rates is not likely to address the issue of determining the discount rate for post-employment benefit obligations directly, but the results of that project may be helpful in addressing that issue.

Next steps

The IASB will discuss the scope of its research project on discount rates in a future meeting. No further work is currently planned on the issue of determining the discount rate for post-employment benefit obligations.

Annual Improvements—IFRS 1 *First-time Adoption of International Financial Reporting Standards*—Short term exemptions from IFRSs

The IASB discussed whether some of the short-term exemptions in Appendix E of IFRS 1 *First-time Adoption of International Financial Reporting Standards* should be deleted, after those short-term exemptions have served their intended purpose.

The IASB tentatively decided to propose the deletion of the short-term exemptions in paragraphs E3-E7 of IFRS 1 with an effective date of annual periods beginning on or after 1 July 2016. It also tentatively decided to propose the deletion of the short-term exemption relating to the amendment to IFRS 7 *Financial Instruments: Disclosures* that was proposed in the Exposure Draft *Annual Improvements 2012-2014 Cycle* published in December 2013, but with an effective date of annual periods beginning on or after 1 January 2018. The IASB decided to include these proposed amendments in the Exposure Draft *Annual Improvements 2013-2015 Cycle*.

All IASB members agreed with these decisions.

Next steps

The IASB plans to publish the Exposure Draft *Annual Improvements 2013–2015 Cycle* for comment in the third quarter of 2014.

Financial Instruments: Impairment

The IASB met on 12 December 2013 to continue its redeliberations on the clarifications and enhancements to the proposals in the Exposure Draft *Financial Instruments: Expected Credit Losses* (the Exposure Draft). The IASB will decide at a future meeting whether to proceed to finalise the Exposure Draft.

At this meeting, the IASB considered the following specific aspects of the proposals in the Exposure Draft:

- loan commitment and financial guarantee contracts; and
- transition and effect analysis

Agenda Paper 5A: Loan commitments and financial guarantee contracts

The IASB discussed whether the tentative decision that expected credit losses for revolving credit facilities should be estimated for the period over which an entity is exposed to credit risk and over which future drawdowns cannot be avoided, should be extended to other loan commitments and financial guarantees.

The IASB tentatively:

- confirmed the proposals in the Exposure Draft that the maximum period over which expected credit losses should be estimated for loan commitments and financial guarantee contracts, other than revolving credit facilities, is the contractual period over which the entity is committed to provide credit;
- decided that an entity should apply the same discount rate when estimating expected credit losses on the drawn amount and the undrawn balance, unless the effective interest rate cannot be determined, in which case the discount rate should be determined as proposed in the Exposure Draft; and
- decided that an entity should present the provision for the expected credit losses on the undrawn balance together with the loss allowance for expected credit losses on the drawn amount if the entity cannot separately identify the expected credit losses associated with the undrawn balance.

Sixteen IASB members agreed with these decisions.

Agenda Paper 5B: Transition and Effect Analysis

The IASB discussed the proposed transition requirements that an entity should apply on initial application of the proposed expected credit loss model. The IASB tentatively confirmed that:

- the requirements should be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
- in order to assist entities to apply the proposals retrospectively, entities may apply the low credit risk exception (as proposed in paragraph C2(a) of the Exposure Draft) to identify financial instruments for which the credit risks have not significantly increased.

The IASB also tentatively decided to clarify that an entity could approximate the credit risk on initial recognition by considering the best available information that is available without undue cost or effort. The best available information is information that is:

- reasonably available and does not require the entity to undertake an exhaustive search for information; and

- relevant in determining or approximating the credit risk at initial recognition.

The IASB tentatively confirmed that if an entity is not able to determine or approximate the credit risk on initial recognition, the entity should measure the loss allowance based on the credit quality at each reporting date until that financial instrument is derecognised.

Furthermore, the IASB tentatively decided that it would in drafting, by the use of application guidance or by the use of examples, describe how:

- an entity would consider the significant increases in credit risk on transition using the rebuttable presumption for contractual payments that are more than 30 days past due, if the entity identifies increases in credit risk according to days past due; and
- an entity could assess whether there have been significant increases in credit by comparing the credit risk at the date of transition to the initial maximum credit risk that is accepted for a particular portfolio (by product type and/or region).

Sixteen IASB members agreed with these decisions.

Financial Instruments: Classification and Measurement

The IASB discussed the fair value option and tentatively decided to confirm the proposal in its recent Exposure Draft to extend the current fair value option in IFRS 9 *Financial Instruments* to financial assets that would otherwise be mandatorily measured at fair value through other comprehensive income. Thus an entity may measure these financial assets at fair value through profit or loss if doing so would eliminate or significantly reduce a measurement or recognition inconsistency (sometimes referred to as an ‘accounting mismatch’). That designation would be permitted only at initial recognition and would be irrevocable.

Fifteen members agreed. One member was absent.

Next steps

The IASB will consider the remaining aspects of its proposals at a future meeting with the aim of issuing the limited amendments to IFRS 9 in the first half of 2014.

Fair Value Measurement: Unit of Account

The IASB discussed the application of the portfolio exception as set out in IFRS 13 *Fair Value Measurement* for portfolios that comprise only Level 1 financial instruments whose market risks are substantially the same.

The IASB tentatively decided that the measurement should be the one resulting from multiplying the net position by the Level 1 prices. The IASB also tentatively decided that the Exposure Draft that clarifies the fair value measurement of quoted investments in subsidiaries, joint ventures and associates should include a non-authoritative example to illustrate the application of the portfolio exception for a portfolio that comprises only Level 1 financial instruments whose market risks are substantially the same.

Fifteen members agreed. One member was absent.

Work plan—projected targets as at 17 December 2013

Major IFRS				
Next major project milestone				
	2014 Q1	**2014 Q2**	**2014 Q3**	**2014 Q4**
IFRS 9: *Financial Instruments* (replacement of IAS 39)				
Classification and Measurement (Limited Amendments)	Target IFRS			
Impairment	Target IFRS			
Accounting for Macro Hedging	Target DP			
	2014 Q1	**2014 Q2**	**2014 Q3**	**2014 Q4**
Insurance Contracts	Redeliberations			
Leases	Redeliberations			
Rate-regulated Activities				
Interim IFRS	Target IFRS			
Rate Regulation		Target DP		
Revenue Recognition	Target IFRS			
IFRS for SMEs: Comprehensive Review 2012–2014—see **project page**				

Implementation				
Next major project milestone				
Narrow-scope amendments	**2014 Q1**	**2014 Q2**	**2014 Q3**	**2014 Q4**
Acquisition of an Interest in a Joint Operation (Proposed amendments to IFRS 11)	Target IFRS			
Annual Improvements 2012–2014 (Comment period ends 13 March 2014)		Redeliberations		
Annual Improvements 2013–2015			Target ED	
Bearer Plants (Proposed amendments to IAS 41)	Redeliberations			
Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed amendments to IAS 16 and IAS 38)	Target IFRS			
Disclosure Initiative				
Amendments to IAS 1 (Disclosure Initiative)	Target ED			
Elimination of gains arising from ‘downstream’ transactions (Proposed amendments to IAS 28)	Target ED			

Equity Method: Share of Other Net Asset Changes (Proposed amendments to IAS 28)	Target IFRS			
Fair Value Measurement: Unit of Account	Target ED			
Put Options Written on Non-controlling Interests (Proposed amendments to IAS 32)	Next steps TBD			
Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to IAS 12)		Target ED		
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Proposed amendments to IFRS 10 and IAS 28)	Target IFRS			
Separate Financial Statements (Equity Method) (Proposed amendments to IAS 27) (Comment period ends 3 February 2014)	Redeliberations			

Post-implementation reviews	**2014 Q1**	**2014 Q2**	**2014 Q3**	**2014 Q4**
IFRS 3 *Business Combinations*	Publish Request for Information			

Conceptual Framework

Next major project milestone

	2014 Q1	**2014 Q2**	**2014 Q3**	**2014 Q4**
Conceptual Framework (chapters addressing elements of financial statements, measurement, reporting entity and presentation and disclosure) [comment period ends 14 January 2014]	Redeliberations			

Research Projects

Research projects involve preliminary research to help the IASB evaluate whether to add a topic to its work plan. The IASB will begin research on the following topics in due course.

Research projects on which preliminary work has commenced:	
Business combinations under common control	
Disclosure Initiative	
Discount rates	
Emissions trading schemes	
Extractive activities	
Financial instruments with characteristics of equity	
Intangible assets	
Research projects on which preliminary work is not expected to commence until after the 2015 agenda consultation:	

Income taxes	
Post-employment benefits (including pensions)	
Share-based payments	
Research projects for which the timing of preliminary work has not yet been confirmed:	
Equity method of accounting	
Financial reporting in high inflationary economies	
Foreign currency translation	
Liabilities—amendments to IAS 37	

Completed IFRS

Major projects	Issued date	Effective date	Year that post-implementation review is expected to start*	
Amendments to IAS 19 *Employee Benefits*	June 2011	1 January 2013	2015	
IFRS 10 *Consolidated Financial Statements*	May 2011	1 January 2013	2016	
IFRS 11 *Joint Arrangements*	May 2011	1 January 2013	2016	
IFRS 12 *Disclosure of Interests in Other Entities*	May 2011	1 January 2013	2016	
IFRS 13 *Fair Value Measurement*	May 2011	1 January 2013	2015	
IFRS 9 *Financial Instruments*	November 2013	TBD (available for application)	TBC	

*A Post-implementation Review normally begins after the new requirements have been applied internationally for two years, which is generally about 30-36 months after the effective date.

Narrow-scope amendments	Issued date	Effective date	

Annual Improvements 2009–2011
 	
• IFRS 1 *First-time Adoption of International Financial Reporting Standards*:
  ○ **Repeated application of IFRS 1**
  ○ **Borrowing costs**
• IAS 1 *Presentation of Financial Statements*
  ○ **Clarification of the requirements for comparative information**
• IAS 16 *Property, Plant and Equipment*
  ○ **Classification of servicing equipment**
• IAS 32 *Financial Instruments: Presentation*
  ○ **Tax effect of distribution to holders of equity instruments**
• IAS 34 *Interim Financial Reporting*
	May 2012	1 January 2013	

◦ **Interim financial reporting and segment information for total assets and liabilities**			

Annual Improvements 2010-2012
 	
• IFRS 2 *Share-based Payment*
  ◦ **Definition of vesting condition**
• IFRS 3 *Business Combination*
  ◦ **Accounting for contingent consideration in a business combination**
• IFRS 8 *Operating Segments*
  ◦ **Aggregation of operating segments**
  ◦ **Reconciliation of the total of the reportable segments' assets to the entity's assets**
• IFRS 13 *Fair Value Measurement*
  ◦ **Short-term receivables and payables**
• IAS 16 *Property, Plant and Equipment*
  ◦ **Revaluation method—proportionate restatement of accumulated depreciation**
• IAS 24 *Related Party Disclosures*
  ◦ **Key management personnel services**
• IAS 38 *Intangible Assets*
  ◦ **Revaluation method—proportionate restatement of accumulated amortisation**
	December 2013	1 July 2014	

Annual Improvements 2011-2013
 	
• IFRS 1 *First-time Adoption of International Financial Reporting Standards*
  ◦ **Meaning of 'effective IFRSs'**
• IFRS 3 *Business Combinations*
  ◦ **Scope exceptions for joint ventures**
• IFRS 13 *Fair Value Measurement*
  ◦ **Scope of paragraph 52 (portfolio exception)**
• IAS 40 *Investment Property*
  ◦ **Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property**
	December 2013	1 July 2014	

Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11, and IFRS 12)	June 2012	1 January 2013	
Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	December 2011	1 January 2013	
Government Loans (Amendments to IFRS 1)	March 2012	1 January 2013	
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	December 2011	1 January 2014	
Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	October 2012	1 January 2014	
Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)	June 2013	1 January 2014	
Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)	May 2013	1 January 2014	
IFRS 9 *Financial Instruments*—Mandatory Effective Date of IFRS 9 and Transition Disclosures	December 2011	TBD (available for application)	
Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)	November 2013	1 July 2014	
Interpretations	**Issued date**	**Effective date**	
IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*	October 2011	1 January 2013	
IFRIC 21 *Levies*	May 2013	1 January 2014	

Agenda consultation

Next major project milestone

	2013	2014	2015
Three-yearly public consultation [Feedback Statement published 18 December 2012] [Next consultation scheduled 2015]			Initiate second three-yearly public consultation

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