IASB Update

From the International Accounting Standards Board

October 2013

Welcome to the *IASB Update*

The IASB met in public from 28 October-1 November 2013 at the IASB offices in London, UK. The FASB joined the IASB for some of the sessions via video from its offices in Norwalk.

The topics for discussion were:

- **Revenue Recognition**;
- **Financial Instruments: Classification and Measurement (Education Session)**;
- **Redeliberation of three proposed amendments related to joint arrangements**;
- **IAS 19 *Employee Benefits***;
- **Rate-regulated Activities: Interim IFRS**;
- **IFRIC *Update***;
- **IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* Exposure Draft *Clarification of Acceptable Methods of Depreciation and Amortisation***;
- **Annual ImprovementsIFRS 5 *Non-current Assets held for Sale and Discontinued Operations*change of disposal method**;
- **IFRS 2 *Share-based Payment*definition of performance condition: performance target achieved after the service period**;
- **Annual ImprovementsIAS 19 *Employee Benefits*Discount rate: regional market issue**;
- **Annual ImprovementsIFRS 7 *Financial Instruments: Disclosures*: applicability of the amendments to IFRS 7 to condensed interim financial statements**;
- **Annual ImprovementsIFRS 7 *Financial Instruments: Disclosures*Servicing contracts**;
- **Separate Financial Statements (Equity Method)**;
- **Rate-regulated Activities: research project**;
- **Accounting for Macro Hedging**;
- **Impairment**; and
- **Amendments to IAS 1**.

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Future board meetings

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

The next board meetings in 2013 are:

14-22 November
9-13 December

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**.

Revenue Recognition

IASB-only education session

On 28 October 2013, the IASB held an education session on Revenue Recognition to discuss the following topics:

a. The constraint on estimates of variable considerationincluding the objective of the constraint and accounting for sales-based royalties on licences of intellectual property;
b. Implementation guidance for licencesspecifically, improvements to the criteria for distinguishing between two types of licences (ie those that provides access to the entity's intellectual property and those that provide a right to use the entity's intellectual property); and
c. Including assessments of customer credit risk (ie collectability) in the revenue model.

No decisions were made. The FASB and the IASB will discuss these topics at a joint

decision-making session on Wednesday 30 October 2013.

Joint session with FASB

The IASB and the FASB met on 30 October 2013 to discuss the following topics to be included in the final Standard on *Revenue from Contracts with Customers*:

a. constraint on estimates of variable consideration;
b. implementation guidance: licences; and
c. collectability.

Paper 7A Constraint on estimates of variable consideration

The boards discussed the application of the constraint on estimates of variable consideration (ie when those estimates should be included in the transaction price). Specifically, the boards discussed the objective of the constraint, reassessment, and the application of the constraint to sales- and usage-based royalties on licences of intellectual property.

Objective of the constraint

The boards tentatively decided to specify a confidence level in the objective of the constraint of 'highly probable'. (For the FASB, the confidence level will be expressed as 'probable'. The boards acknowledge that different terms were necessary, even though they convey the same outcome, because of existing definitions in IFRS and US GAAP.) The boards also tentatively decided that if an entity expects that including some, but not all, of the estimated amount of variable consideration (that is, a minimum amount) in the transaction price would not result in a significant revenue reversal, the entity should include that amount in the estimate of the transaction price. The objective of the constraint should be stated in the final revenue Standard broadly as follows:

"An entity shall include an estimate of variable consideration in the transaction price to the extent it is [highly] probable that a significant revenue reversal will not occur. A significant revenue reversal will occur if there is a significant downward adjustment on the amount of cumulative revenue recognised from that contract with that customer."

Reassessment

The boards tentatively decided that an entity should update the estimated transaction price at each reporting date to represent faithfully the circumstances present at the reporting date and the changes in circumstances during the reporting period.

Sales- and usage-based royalties on licences of intellectual property

The boards discussed the pattern of revenue recognition that would result from the application of the constraint to licences of intellectual property with sales- or usage-based royalties. In the light of the resulting revenue pattern, the boards tentatively decided to include a specific requirement for licences of intellectual property in which the consideration is in the form of a sales- or usage-based royalty. That requirement specifies that an entity should include consideration from the sales- or usage-based royalty in the transaction price when the uncertainty has been resolved (that is, when the subsequent sales or usage occur).

Fifteen IASB members and four FASB members agreed with the above decisions. One FASB member abstained.

Paper 7B Implementation Guidance: Licences

The boards discussed improvements to the implementation guidance for licences and to the criteria for distinguishing between two types of licenceslicences that provide access to the entity's intellectual property (that is, a performance obligation satisfied over time) and licences that provide a right to use the entity's intellectual property (that is, a performance obligation satisfied at a point in time). The boards suggested further drafting improvements and tentatively decided to:

a. place greater emphasis in the implementation guidance on the importance of identifying performance obligations before applying the criteria to distinguish between the two types of licences;
b. include additional rationale in the implementation guidance that explains the intention of the criteria; and
c. provide further examples to clarify the objective and application of the criteria.

Sixteen IASB members and six FASB members agreed. One FASB member abstained.

Paper 7C Collectability

The boards discussed assessments of customer credit risk (ie collectability) in the revenue model. The boards reaffirmed previous tentative decisions to measure the transaction price, and therefore revenue, at the amount of consideration to which the entity is entitled (that is, an amount that is not adjusted for customer credit risk). The boards also tentatively decided to clarify the requirements relating to estimates of variable consideration, specifically as they relate to assessing whether an entity has provided a price concession. The boards also tentatively decided to clarify the criteria that must be met before an entity can apply the revenue model to a contract with a customer, by including an explicit collectability threshold. To meet that threshold and apply the revenue model, an entity must conclude that it is probable that it will collect the consideration to which it will be ultimately entitled to in exchange for the goods or services that will be transferred to the customer. In making that assessment, the boards noted that an entity would only consider customer credit risk and not other uncertainties, such as those related to performance or measurement, which would be accounted for in the timing of recognition and measurement of revenue. In setting the threshold, the boards also acknowledged that the term 'probable' has different meanings in US GAAP and IFRS; however the boards tentatively decided to set the threshold at a level that is consistent with current practice and existing Standards for revenue recognition in US GAAP and IFRS.

Fifteen IASB members agreed and five FASB members agreed. One FASB member abstained.

Next steps

This meeting marks the completion of the planned joint board discussions on revenue. The staff will continue drafting the final Standard and will confirm with each respective Board the finalisation of the remaining due process steps.

Financial Instruments: Classification and Measurement (Education Session)

On 29 October 2013, the IASB and the FASB held a joint education session on the business model assessment in IFRS 9 *Financial Instruments* (including the proposals in the Limited Amendments ED) and the FASB's proposed Accounting Standards Update. The boards discussed possible clarifications to the business model assessment in general, as well as possible clarifications related specifically to each of the three measurement categories.

No decisions were made.

Next steps

The IASB and the FASB will discuss the business model assessment at a future joint meeting.

Redeliberation of three proposed amendments related to joint arrangements

The IASB discussed the finalisation of three proposed amendments related to the accounting for joint arrangements:

a. ED/2012/6 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Proposed amendments to IFRS 10 and IAS 28);
b. ED/2012/7 *Acquisition of an Interest in a Joint Operation* (Proposed amendment to IFRS 11); and
c. ED/2012/3 *Equity Method: Share of Other Net Asset Changes* (Proposed amendment to IAS 28).

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (proposed amendments to IFRS 10 and IAS 28)

The IASB considered the comments received from respondents and the recommendations of the IFRS Interpretations Committee (the 'Interpretations Committee') in respect of the proposed amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. The IASB tentatively decided to finalise the proposed amendments with the following additional clarifications:

a. the proposed amendments to IFRS 10 should refer to the loss of control of a subsidiary, rather than to the sale or contribution of a subsidiary;
b. the gain or loss resulting from the loss of control of a subsidiary should include any reclassification adjustments, as described in paragraph B99 of IFRS 10;
c. the requirement to eliminate part of the gain or loss as proposed in paragraph B99A of IFRS 10 applies only when the investor accounts for its investment in the associate or joint venture using the equity method.

The IASB also tentatively decided to:

a. permit early application of the amendments to IFRS 10 and IAS 28; and
b. make consequential amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards* to provide relief from the retrospective application of the amendments to IFRS 10 and IAS 28 for first-time adopters.

Fourteen IASB members agreed.

Next steps

The staff will provide a due process summary on the proposed amendments to IFRS 10 and IAS 28 at a future IASB meeting.

Acquisition of an Interest in a Joint Operation (proposed amendment to IFRS 11)

The IASB considered the comments received from respondents on this Exposure Draft and the feedback from the Interpretations Committee. The IASB tentatively decided to finalise the proposed amendment with the following additional clarifications:

a. the guidance on the acquisition of an interest in a joint operation applies to both:
    i. the acquisition of the initial interest in a joint operation; and
    ii. the acquisition of additional interests in the same joint operation;
b. the relevant principles on business combinations accounting in IFRS 3 *Business Combinations* and other IFRSs are all the principles on business combinations accounting in IFRS 3 and other IFRSs unless they conflict with the principles in IFRS 11; and
c. the final sentence of paragraph BC10 in the Exposure Draft is added to the application guidance in paragraph B33B of the amendment. This sentence specifies that the amendment does not apply if no existing business is contributed to the joint operation on formation of that joint operation and the formation of the joint operation therefore coincides with the formation of the business.

All IASB members agreed.

Next steps

The staff will provide a due process summary on the proposed amendment to IFRS 11 at a future IASB meeting.

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

The IASB discussed the feedback from respondents on the Exposure Draft. It also discussed the Interpretations Committee's proposal to the IASB in respect of the proposed amendment and several possible ways to move this project forward.

The IASB tentatively rejected the following options:

a. aborting the project, because of the need to address existing diversity in practice;
b. proceeding with the IASB's proposal in the Exposure Draft, because of a number of concerns about departing from current IFRS literature; and
c. proceeding with the Interpretations Committee's original proposal to the IASB, because it does not address call option transactions entered into by an investee over its own equity (such as share-based payments).

Consequently, the IASB directed the staff to conduct more analysis as to whether an investor should recognise its share of other net asset changes of the investee in the investor's profit or loss or other comprehensive income. In particular, the IASB directed the staff to include an analysis of how these options are applied to share-based payment transactions.

Next steps

The staff will bring this analysis to a future IASB meeting.

IAS 19 *Employee Benefits*

The IASB considered the due process steps that it has taken to date in completing the narrow scope project of *Defined Benefit Plans: Employee Contributions* (Amendments to IAS 19).

All IASB members agreed that the IASB has complied with the due process requirements to date.

Next steps

Defined Benefit Plans: Employee Contributions is planned for publication at the end of November 2013.

Rate-regulated Activities: Interim IFRS

The IASB considered an analysis of comment letter responses to the Exposure Draft *Regulatory Deferral Accounts*; the deadline for comments was 4 September 2013. The Exposure Draft (interim ED) sets out proposals to allow first-time adopters of IFRS to continue to apply their existing policies for the recognition and measurement of regulatory balances, with enhanced presentation and disclosure requirements. These proposals are intended to be an interim solution until the IASB completes its comprehensive project on rate-regulated activities.

Publication of an interim IFRS for first-time adopters of IFRS

The IASB tentatively decided to proceed with the interim IFRS project. Eleven IASB members agreed.

The IASB tentatively decided to retain the proposal in the interim ED to restrict the scope of the interim IFRS only to first-time adopters of IFRS that recognised regulatory deferral account balances in their financial statements in accordance with their previous GAAP (as defined in IFRS 1 *First-time Adoption of International Financial Reporting Standards*). Fifteen IASB members agreed.

Changes from the Exposure Draft

The IASB tentatively agreed to retain the other proposals the interim ED, with the following amendments:

a. clarify that the scope criterion in paragraph 7(a) of the interim ED excludes self-regulated entities but permits some flexibility in the prices to be charged, within a range of prices established by the rate regulator. Fifteen IASB members agreed.
b. delete the scope criterion in paragraph 7(b) of the interim ED, which requires that the price established by regulation (the rate) is designed to recover the entity's allowable costs of providing the regulated goods or services. Fifteen IASB members agreed.
c. add application guidance to clarify some group accounting issues. Fourteen IASB members agreed.
d. introduce a limited exception to IFRS 3 *Business Combinations* to permit the continuation of the previous GAAP accounting policy for the recognition and measurement of regulatory account balances acquired in a business combination. Thirteen IASB members agreed.
e. specify that an entity should continue to apply its previous GAAP policies for the derecognition of regulatory account balances. Fourteen IASB members agreed.
f. clarify that an entity is not prohibited from recognising new regulatory balances that are created as a consequence of a change in an accounting policy for other items required by IFRS. Fourteen IASB members agreed.
g. split the net movement in regulatory balances presented in the statement of profit or loss and other comprehensive income (OCI) between amounts related to items reported in profit or loss and those reported in OCI. All IASB members agreed.
h. delete the specific reference to materiality as a factor to consider in deciding the level of detail to disclose. All IASB members agreed.

Next steps

The staff will bring to the November meeting a paper discussing the effective date of the interim IFRS and a summary of the due process steps undertaken on the project. In addition, the staff will begin drafting the interim IFRS for balloting.

IFRIC *Update*

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

IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*Exposure Draft *Clarification of Acceptable Methods of Depreciation and Amortisation*

In December 2012, the IASB published for comment the Exposure Draft ED/2012/5 *Clarification of Acceptable Methods of Depreciation and Amortisation*Proposed amendments to IAS 16 and IAS 38. The comment period ended on 2 April 2013.

At the July 2013 and September meetings, the Interpretations Committee was presented with a summary and an analysis of the 98 comment letters received on the Exposure Draft. The members of the Interpretations Committee expressed mixed views on the proposed amendments. However, they agreed that the focus of the amendments should remain on the principle that the method used for depreciation or amortisation should reflect the expected pattern of consumption of the future economic benefits embodied in the asset. Consequently, the Interpretations Committee recommended that the IASB should finalise the amendment to IAS 16 and IAS 38.

At the October 2013 meeting the IASB discussed the concerns expressed by the members of the Interpretations Committee and their recommendations.

The IASB members expressed mixed views on prohibiting the use of revenue data as a proxy for determining the pattern of consumption of economic benefits. Consequently the IASB asked for revisions to be made to the amendment.

Next steps

The staff will bring the revised wording to a future IASB meeting.

Annual ImprovementsIFRS 5 *Non-current Assets held for Sale and Discontinued Operations*change of disposal method

At its October 2013 meeting the IASB considered a recommendation from the Interpretations Committee to amend IFRS 5 to clarify the accounting for a disposal group in circumstances in which:

a. an entity reclassifies an asset (or disposal group) from held for sale to held for distribution (or vice versa); and
b. an asset (disposal group) no longer meets the criteria for held for distribution.

The IASB tentatively agreed with the Interpretations Committee's recommendation that it should amend IFRS 5 so that when an entity reclassifies an asset (or disposal group) from being held for sale to being held for distribution (or vice versa) and the disposal group thereby moves from one method of disposal to the other without interruption, the entity shall not follow the guidance on discontinuation of held for sale classification. Instead it should continue to apply held-for-disposal accounting.

The IASB also tentatively agreed with the Interpretations Committee to add guidance to IFRS 5 for circumstances in which an asset (or disposal group) ceases to be classified as held-for-distribution accounting. That guidance should be consistent with that for when an asset (disposal group) no longer meets the held-for-sale classification.

The IASB tentatively agreed that the proposed amendments to IFRS 5 should be applied prospectively.

The IASB tentatively agreed that the proposed amendments should be included in the Exposure Draft *Annual Improvements 2012-2014 Cycle*.

All IASB members present agreed. Two IASB members were not present.

Next steps

The IASB plans to publish the Exposure Draft *Annual Improvements 2012-2014 Cycle* in the fourth quarter of 2013.

IFRS 2 *Share-based Payments* definition of performance condition: performance target achieved after the service period

The staff informed the IASB of the US Emerging Issues Task Force (EITF)'s recent consensus that a performance target that is achieved after the requisite service period is a performance condition. This decision by the EITF was contrary to the proposed amendment in the IASB's Annual Improvements 2010-2012 Cycle. The staff asked the IASB whether it thought any further action was needed in response to the US EITF's consultation.

The IASB decided to pause the Annual Improvements 2010-2012 Cycle to allow it to think further about the implications of the EITF decision, and directed the staff to inform the Interpretations Committee about these developments.

The IASB asked the staff to bring the matter back to the next meeting.

Next steps

The staff will inform the Interpretations Committee of the developments at the IASB meeting at its next meeting. The IASB will discuss this matter again at its November 2013 meeting.

Annual Improvements IAS 19 *Employee Benefits* discount rate: regional market issue

At its July 2013 meeting, the IFRS Interpretations Committee discussed a request to clarify the application of the requirements of IAS 19 *Employee Benefits* (2011) on the determination of the discount rate to a regional market consisting of multiple countries sharing the same currency (for example, the Eurozone). The issue arose because some think that the assessment of whether there is a deep market in high quality corporate bonds should be made at a country level and not at a currency zone level.

The Interpretations Committee recommended to the IASB that it should amend paragraph 83 of IAS 19 through Annual Improvements to clarify that, in determining the discount rate, an entity should include high quality corporate bonds issued by entities operating in other countries, provided that those bonds are issued in the currency in which the benefits are to be paid. Consequently, the depth of the market for high quality corporate bonds should be assessed at the currency level and not at the country level.

At the October 2013 meeting, the IASB tentatively decided to amend IAS 19 as proposed by the Interpretations Committee for inclusion in the Exposure Draft *Annual Improvements 2012-2014 Cycle*.

All IASB members present agreed.

Next steps

The IASB plans to publish the Exposure Draft *Annual Improvements 2012-2014 Cycle* in the fourth quarter of 2013.

Annual ImprovementsIFRS 7 *Financial Instruments: Disclosures:* applicability of the amendments to IFRS 7 to condensed interim financial statements

The IASB considered a recommendation from the Interpretations Committee to clarify the applicability of the amendments to IFRS 7 *Disclosure-Offsetting Financial Assets and Financial Liabilities* issued in December 2011 ('Amendments to IFRS 7') to condensed interim financial statements.

The IASB noted that it did not amend IAS 34 *Interim Financial Reporting* when it issued the Amendments to IFRS 7. Consequently the additional disclosure required by the Amendments to IFRS 7 is not required in condensed interim financial statements unless its inclusion would be required in accordance with the existing requirements of IAS 34.

Given the uncertainty about this matter that had been raised with the Interpretations Committee, the IASB tentatively decided to propose amendments to IFRS 7 to clarify the requirements. The proposed amendments will be included in the Exposure Draft *Annual Improvements 2012-2014 Cycle*.

All IASB members present agreed.

Next steps

The IASB plans to publish the Exposure Draft *Annual Improvements 2012-2014 Cycle* in the fourth quarter of 2013.

Annual ImprovementsIFRS 7 *Financial Instruments: Disclosures*Servicing contracts

The IASB considered a recommendation from the Interpretations Committee that it should propose an amendment to IFRS 7 to clarify whether a servicing contract is continuing involvement for the purposes of the transfer disclosure requirements in paragraphs 42A-42H of IFRS 7. The amendment would:

a. add guidance to the Application Guidance of IFRS 7 to clarify how the guidance in paragraph 42C of IFRS 7 should be applied to a servicing contract when deciding whether a servicing contract is continuing involvement for the purposes of the transfer disclosure requirements;
b. amend paragraph B30 of IFRS 7 to clarify that the term 'payment' in that paragraph does not include amounts that an entity collects from the transferred financial asset and is required to remit to the transferee;
c. not apply to any comparative period presented that begins before the annual period for which the entity first applies the amendment; and
d. add a short-term exemption from IFRSs to Appendix E Short-term Exemptions from IFRSs of IFRS 1 *First time Adoption of*

International Financial Reporting Standards to provide first-time adopters with the same transition relief.

The IASB tentatively decided to include the amendment within the Exposure Draft *Annual Improvements 2012-2014 Cycle*. All IASB members present voted in favour of this decision.

Next steps

The IASB plans to publish the Exposure Draft *Annual Improvements 2012-2014 Cycle* in the fourth quarter of 2013.

Separate Financial Statements (Equity Method)

The IASB discussed the following:

a. transition requirements;
b. comment period duration; and
c. confirmation of due process steps undertaken to date.

Transition requirements

The IASB tentatively decided that:

- for an entity already applying IFRS and electing to use the equity method in its separate financial statements, the proposed amendment to IAS 27 *Separate Financial Statements* should be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
- for a first-time adopter of IFRS electing to use the equity method in its separate financial statements, the method should be applied from the date of transition to IFRS in accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

All IASB members agreed.

Comment period duration

The IASB tentatively decided that, subject to consultations with the Due Process Oversight Committee, the amendment to IAS 27 should be exposed for 60 days. The IASB noted that this proposed amendment is considered urgent for some jurisdictions using IFRS. All IASB members agreed.

Confirmation of due process steps and compliance so far

The IASB considered the due process steps undertaken to date on the project. All IASB members agreed that the due process requirements to date have been complied with.

Next steps

The staff will commence the balloting process.

Rate-regulated Activities: research project

The IASB continued its discussion about the features of rate regulation that should form the focus of the Discussion Paper (DP) that the IASB intends to publish for this project. The IASB considered an analysis of the rights and obligations arising from a number of common features of rate regulation. At the September meeting, the IASB tentatively identified these common features as being important to distinguish rate-regulated activities from other commercial activities.

The IASB tentatively decided that the next step in the staff's analysis should focus on the rights and obligations arising from a particular rate-setting mechanism that requires a 'true-up' adjustment to be made to the rate:

- for differences between estimated and actual amounts of cost and/or revenue for previous periods; and/or
- to award a bonus or impose a penalty for meeting or failing to meet a performance target.

All IASB members present agreed.

Next steps

Discussions on the Rate-regulated Activities research project will continue at the November IASB meeting.

Accounting for Macro Hedging

The IASB discussed Agenda Paper 4 *Accounting for Macro Hedgingdue process and permission to ballot*.

The IASB decided that the comment period for the *Accounting for Macro Hedging* DP should be 180 days. The IASB also stated that it is satisfied that it has completed all of the necessary steps to ensure that the DP is likely to meet its purpose and instructed the staff to prepare a draft of it for ballot.

Fifteen IASB members agreed. One IASB member was absent.

Next steps

The IASB expects to publish the *Accounting for Macro Hedging* Discussion Paper in Q1 2014.

Impairment

The IASB met on 31 October 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). Whether the IASB will proceed to finalise its Exposure Draft will be decided at a future meeting.

At this meeting, the IASB considered the following clarifications and enhancements to the proposals in the Exposure Draft:

- assessing when to recognise lifetime expected credit losses;
- the rebuttable presumption when financial assets are more than 30 days past due;

- the 'low credit risk' operational simplification;
- measurement of expected credit losses (including the discount rate); and
- modifications.

In its discussions, the IASB noted that not all the clarifications will warrant inclusion in the body of the Standard because many are designed as practical implementation suggestions. These clarifications may therefore be better addressed in examples, application guidance and in the Basis for Conclusions.

Agenda Paper 5A Assessing when to recognise lifetime expected credit losses

The IASB tentatively decided to confirm that lifetime expected credit losses shall be recognised when there is a significant increase in credit risk since initial recognition. The IASB also tentatively decided to clarify (potentially through examples) that:

a. the assessment of significant increases in credit risk could be implemented more simply by establishing the initial maximum credit risk for a particular portfolio (by product type and/or region) (the 'origination' credit risk) and then comparing the credit risk of financial instruments in that portfolio at the reporting date with that origination credit risk. This would be possible for portfolios of financial instruments with similar credit risk on initial recognition;
b. the assessment of significant increases in credit risk could be implemented through a counterparty assessment as long as such assessment achieves the objectives of the proposed model;
c. the assessment of when to recognise lifetime expected credit losses should consider only changes in the risk of a default occurring, rather than changes in the amount of expected credit losses (or the credit loss given default (LGD));
d. an assessment based on the change in the risk of a default occurring in the next 12 months is permitted unless circumstances indicate that a lifetime assessment is necessary. Examples will be provided of when a 12-month assessment would not be appropriate and a lifetime assessment would be necessary; and
e. a loss allowance measured at an amount equal to 12-month expected credit losses shall be re-established for financial instruments for which the criteria for the recognition of lifetime expected credit losses are no longer met.

Fourteen IASB members agreed with this decision. Two IASB members were not present.

Agenda Paper 5B Operational simplificationsmore than 30 days past due rebuttable presumption and low credit risk

<u>More than 30 days past due rebuttable presumption</u>

The IASB tentatively confirmed the rebuttable presumption that there is a significant increase in credit risk when contractual payments are more than 30 days past due.

Twelve IASB members agreed with this decision. Two IASB members were not present. In addition, the IASB tentatively decided to clarify that:

a. The objective of the rebuttable presumption is to serve as a backstop or latest point at which to identify financial instruments that have experienced a significant increase in credit risk.

   Fourteen IASB members agreed with this decision. Two IASB members were not present.

b. The presumption is rebuttable.

   Fourteen IASB members agreed with this decision. Two IASB members were not present.

c. The application of the rebuttable presumption is to identify significant increases in credit risk before default or objective evidence of impairment.

Thirteen IASB members agreed with this decision. Two IASB members were not present.

Low credit risk operational simplification

The IASB tentatively decided that an entity can assume that a financial instrument has not significantly increased in credit risk if it is low credit risk at the reporting date.

Twelve IASB members agreed with this decision. Two IASB members were not present.

The IASB also tentatively decided to:

a. modify the proposed description of low credit risk to better reflect the characteristics, namely that:
    i. the instrument has a low risk of default;
    ii. the borrower is considered, in the near term, to have a strong capacity to meet its obligations; and
    iii. the lender expects for the longer term that adverse changes in economic and business conditions may, but not necessarily, reduce the ability of the borrower to fulfil its obligations;
b. clarify that the low credit risk notion is not meant to be a bright-line trigger for the recognition of lifetime expected credit losses. Instead, when an instrument is no longer low credit risk, an entity would assess whether there has been a significant increase in credit risk to determine whether lifetime expected credit losses should be recognised; and
c. clarify that financial instruments are not required to be externally rated; but that low credit risk equates to a global credit rating definition of 'investment grade'.

Ten IASB members agreed with this decision. Two IASB members were not present.

Agenda Paper 5C Measurement of expected credit losses

The IASB tentatively decided to require that expected credit losses should be discounted at the effective interest rate or an approximation thereof.

Fourteen IASB members agreed with this decision. Two IASB members were not present.

Furthermore, in measuring expected credit losses, the IASB tentatively confirmed that:

a. The measurement of expected credit losses should incorporate the best available information that is reasonably available, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. For periods beyond 'reasonable and supportable forecasts' an entity should consider how best to reflect its expectations by considering information at the reporting date about the current conditions, as well as forecasts of future events and economic conditions.
b. Regulatory expected credit loss models may form a basis for expected credit loss calculations, but the measurement may need to be adjusted to meet the objectives of the proposed model.

The IASB tentatively decided to clarify the measurement of 12-month expected credit losses by incorporating the discussion in paragraph BC63 of the Exposure Draft as part of the application guidance, namely that 12-month expected credit losses are a portion of the lifetime expected credit losses. Thus, 12-month expected credit losses are neither the lifetime expected credit losses that an entity will incur on financial instruments that it predicts will default in the next 12 months, nor the cash shortfalls that are predicted over the next 12 months.

Fourteen IASB members agreed with this decision. Two IASB members were not present. *Agenda Paper 5D Modifications*

The IASB tentatively decided to confirm the proposals that:

a. the modification requirements apply to all modifications or renegotiations of contractual cash flows, regardless of the reason for the modification;

b. the modification gain or loss should be recognised in profit or loss; and
c. modified financial assets are subject to the same 'symmetrical' treatment (ie a modified asset can revert back to Stage 1, with a 12-month expected credit losses allowance) as other financial instruments.

In addition, the IASB tentatively decided to clarify the application guidance to emphasise that the credit risk on a financial asset will not automatically improve merely because the contractual cash flows have been modified.

Fourteen IASB members agreed with this decision. Two IASB members were not present.

Next steps

Discussions on the Impairment project will continue at the November IASB meeting.

Amendments to IAS 1

The IASB met on 1 November 2013 to discuss proposed narrow focus amendments to IAS 1 *Presentation of Financial Statements*.

Agenda Paper 8A Disclosure Initiative: amendments to IAS 1net debt

The IASB discussed requiring a net debt disclosure as part of the Amendments to IAS 1 project. However, because of the feedback received about the importance of this information and the resulting need to better understand the use of this information, the IASB agreed that 'net debt' disclosures should not be part of the Amendments to IAS 1 project. Requiring disclosures related to 'net debt' should instead be considered within another part of the Disclosure Initiative. Accordingly, the IASB requested that the staff should prepare a paper for discussion by the IASB that outlines the potential scope of a shorter-term project on 'net debt'.

Agenda Paper 8B Disclosure Initiative: amendments to IAS 1totals and subtotals

The IASB discussed totals and subtotals as part of the Amendments to IAS 1 project. The IASB tentatively decided, subject to drafting amendments, that:

a. guidance should be added to paragraphs 55 and 85 of IAS 1 to clarify the factors an entity should consider when aggregating IFRS recognised amounts into subtotals and totals; and
b. IAS 1 should not be amended to include specific examples of commonly reported totals of subtotals such as EBIT or EBITDA.

All IASB members present agreed. Two IASB members were not present.

Next steps

The staff will bring another paper to the IASB in November 2013 to discuss issues on the amendments to IAS 1 proposed at the September 2013 IASB meeting.

Agenda Paper 20 Current/non-current classification of liabilities: Summary of proposed amendment

The IASB continued its discussions about the requirements in IAS 1 *Presentation of Financial Statements* relating to the classification of liabilities as current or non-current.

IAS 1 requires that liabilities are classified as current when, among other criteria, the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. IAS 1 also requires that an entity classifies a liability as non-current if it expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period.

At this meeting, the IASB tentatively decided that classification of a liability as non-current depends on whether there is a contractual arrangement in existence at the reporting date whereby the entity will not be required to settle the liability within the next 12 months. All IASB members present agreed. The IASB also tentatively decided on the following other amendments to IAS 1:

a. to delete the term 'unconditional' from paragraph 69(d) so that 'unconditional right' is replaced by 'right'. Thirteen IASB members agreed. Two members were not present;
b. to replace the term 'discretion' in paragraph 73 with 'right' to more clearly align with the requirements of paragraph 69 (d) . All IASB members present agreed. Two IASB members were not present;
c. to link the settlement of the liability with the outflow of resources from the entity by adding 'by the transfer of cash or other assets' to paragraph 73 . All IASB members present agreed. Two IASB members were not present; and
d. to revise the requirements in paragraph 73 relating to an entity's right to refinance or rollover an obligation to include 'with the same lender on the same or similar terms'. All IASB members present agreed. Two IASB members were not present.

The IASB considered the effect of conditionality on the classification of liabilities and, in particular, whether breach of those conditions after the reporting date should affect classification as at the reporting date. The IASB requested that the staff should prepare a further analysis of the conditionality of rights including how changes in those conditions and management's expectations about the outcome of those changes would affect the classification of liabilities at the reporting date.

Next steps

The staff will bring a further analysis of the conditionality of rights to a future IASB meeting.

Work planprojected targets as at 5 November 2013

Major IFRS				
Next major project milestone				
	2013 Q4	**2014 Q1**	**2014 Q2**	**2014 Q3**
IFRS 9: *Financial Instruments* (replacement of IAS 39)				
Classification and Measurement (Limited Amendments)		Target IFRS		
Impairment		Target IFRS		
Hedge Accounting	Target IFRS			
Accounting for Macro Hedging		Target DP		
	2013 Q4	**2014 Q1**	**2014 Q2**	**2014 Q3**

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 2012-2014see **project page**				

Implementation

Next major project milestone

Narrow-scope amendments	**2013 Q4**	**2014 Q1**	**2014 Q2**	**2014 Q3**
Acquisition of an Interest in a Joint Operation (Proposed amendments to IFRS 11)		Target IFRS		
Actuarial Assumptions: Discount Rate (Proposed amendments to IAS 19)	TBD			
Defined Benefit Plans: Employee Contributions (Proposed amendments to IAS 19)	Target IFRS			
Annual Improvements 2010-2012	Target IFRS			
Annual Improvements 2011-2013	Target IFRS			
Annual Improvements 2012-2014	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		
Disclosure Requirements about Assessment of Going Concern (Proposed amendments to IAS 1) (Now part of the 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		Target ED		

Interests (Proposed amendments to IAS 32)				
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)	Target ED			

Post-implementation reviews	2013 Q4	2014 Q1	2014 Q2	2014 Q3
IFRS 3 *Business Combinations*		Publish Request for Information		

Conceptual Framework

Next major project milestone

	2013 Q4	2014 Q1	2014 Q2	2014 Q3
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	
Liabilitiesamendments 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*	October 2010	1 January 2015	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*Interim financial reporting and segment information for total assets and liabilities
	May 2012	1 January 2013	

Consolidated Financial Statements, Joint Arrangements and Disclosure of	June 2012	1 January 2013	

***Interests in Other Entities: Transition Guidance* (Amendments to IFRS 10, IFRS 11, and IFRS 12)**			
***Disclosures-Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7)**	December 2011	1 January 2013	
IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*	October 2011	1 January 2013	
IFRS 1 *First-time Adoption of International Financial Reporting Standards*Government Loans	March 2012	1 January 2013	
IAS 32 *Financial Instruments: Presentation*Offsetting Financial Assets and Financial Liabilities	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	1 January 2015	
Interpretations	**Issued date**	**Effective date**	
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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