IASB® Update

From the International Accounting Standards Board

IFRS®

May 2016

Welcome to the May IASB *Update*

The International Accounting Standards Board (the Board) met in public from 17 to 19 May 2016 at the IFRS® Foundation's offices in London, UK.

The topics for discussion were:

- ***2015 Agenda Consultation***
- **Amendments to IFRS 4: Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts***
- **IFRS 2 *Share-based Payment***
- **Financial Instruments with Characteristics of Equity**
- **Income Taxes**
- ***Conceptual Framework***
- **Disclosure Initiative**
- **Equity Method of Accounting**
- **Goodwill and Impairment**
- **Revenue from Contracts with Customers**

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Future IASB meetings

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

Next IASB meetings:

20 to 24 June 2016
18 to 22 July 2016
19 to 23 September 2016

To see upcoming and past IASB meetings, **click here**.

Archive of *IASB Update* Newsletter

For past issues of *IASB Update* **click here**.

Podcast summaries

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

2015 Agenda Consultation (Agenda Papers 4, 13, 15, 21, 24)

Agenda Paper 24A: Draft work plan 2017-2021

The Board was asked to comment on the draft work plan strategy and the draft work plan for 2017-2021 laid out in Agenda Paper 24A. In summary, the draft work plan strategy suggested that the focus of the Board's activities should now switch from transaction-specific Standards-level projects to show a greater emphasis on:

a. implementation and the support of consistent application.
b. standard-setting that enhances consistency between individual Standards and the *Conceptual Framework*, and builds on the revised *Conceptual Framework* in areas such as the definition of a liability and the distinction between liabilities and equity.
c. promoting more effective communication of relevant financial information from preparers to users of financial statements. (The Disclosure Initiative, and the projects on primary financial statements including performance reporting, on goodwill and impairment, and on financial instruments with characteristics of equity have all been identified as important for communication to users of financial statements.)
d. a Research programme that is realistic and achievable. The Research programme should consist of projects that have clear objectives, aimed at gathering evidence needed to support decisions on whether to add projects to the Standards-level programme.

The draft work plan strategy also noted that the Board will devote some resources to wider corporate reporting matters, and will continue to develop its IFRS taxonomy, which is important for the development of electronic data gathering and analysis.

The Board generally agreed with the draft work plan strategy contained in Agenda Paper 24A. However, the Board:

a. thought that the strategy should give greater prominence to improving communication effectiveness, as a key strategic theme for the next five years;
b. recommended that the staff develop a plan to involve national and regional standard-setters more effectively in the Board's research activities;
c. requested that the staff modify the presentation of the work plan to clarify the time scales and resourcing of individual projects; and
d. recognised the constraints on stakeholders' resources and its own resources and recommended that its work plan should address a limited number of topics in a timely manner.

The Board considered the components of the draft work plan project-by-project and agreed with the staff's recommendation that there should be no changes to the topics included on the standards-level work plan.

In addition, the Board decided that the active research section of the draft work plan should include the following topics:

a. Disclosure Initiative, including Principles of Disclosure;
b. Primary Financial Statements;
c. Financial Instruments with Characteristics of Equity;
d. Goodwill and Impairment;

e. Dynamic Risk Management; and
f. Business Combinations under Common Control.

The Board also discussed the research pipeline. The research pipeline consists of topics that the Board thinks it should address, but which are not currently on its active research programme because the timing of the project being dependent on completion of another project or activity or because resources are not yet available. The Board expects to begin work on projects in its research pipeline between 2017 and 2021. The Board tentatively decided that its research pipeline should comprise the following topics:

a. Equity Method of Accounting (for example, for associates and for joint ventures);
b. Extractive Activities;
c. Pollutant Pricing Mechanisms;
d. Provisions, Contingent Liabilities and Contingent Assets (review of IAS 37);
e. Variable and Contingent Consideration (and possible follow-on work on risk-sharing and collaborative arrangements);
f. three feasibility studies:
    i. SMEs that are subsidiaries—to assess whether it would be feasible to permit SMEs to use the recognition and measurement requirements in IFRS Standards and the disclosure requirements in the IFRS for SMEs;
    ii. Post-employment Benefits that depend on asset returns—to assess whether it would be feasible to develop an approach that focuses on the relationship between the cash flows included in the measurement of those benefits and the discount rate; and
    iii. High Inflation—to assess whether it would be feasible to extend the scope of IAS 29 *Financial Reporting in Hyperinflationary Economics* to cover economies subject to only high inflation, without amending other requirements of IAS 29.

The Board decided not to include in its draft work plan any further work on the following topics:

a. Post-employment Benefits (other than the feasibility study for benefits that depend on asset returns);
b. Income Taxes;
c. Foreign Currency Translation; and
d. High Inflation (other than the feasibility study for the scope of IAS 29).

The Board also noted that its existing research projects on share-based payment and on discount rates were likely to be completed by the end of 2016.

All Board members agreed with the above decisions.

Next steps

The Board's work plan strategy and revised draft work plan will be discussed at the June 2016 meeting of the IFRS Advisory Council. The staff will include advice received at the Advisory Council meeting in a revised draft work plan for discussion by the Board at its July 2016 meeting.

Agenda Paper 24B: Interval between agenda consultations

The Board tentatively decided to confirm the proposal in the Request for Views *2015 Agenda Consultation* (the RFV) that the interval between the completion of one agenda consultation and the commencement of the next should be extended from three to, at the latest, five years after completion of the previous agenda consultation.

All Board members agreed with this decision.

Amendments to IFRS 4: Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* (Agenda Paper 14)

The Board met on 17 May to complete its planned redeliberations on the proposals in the Exposure Draft ('the ED') *Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts (amendments to IFRS 4).

Agenda Paper 14B: Reassessment of eligibility for the temporary exemption from applying IFRS 9

Mandatory reassessment of eligibility for the temporary exemption

The Board tentatively decided that an entity that is eligible for the temporary exemption from applying IFRS 9 must reassess whether its activities are still predominantly related to insurance:

a. if and only if there has been a demonstrable change in the corporate structure of the entity that could result in a change in the predominant activities of the entity (for example, the acquisition or disposal of a business); and
b. by computing the predominance ratio using the carrying amounts of the liabilities reported on the entity's balance sheet at the end of the annual reporting period immediately following the change in corporate structure.

The Board tentatively decided that when an entity concludes, as a result of a reassessment, that its activities are no longer predominantly related to insurance, the entity must:

a. apply IFRS 9 from the earlier of:
    i. its second annual reporting period that begins on after the change in corporate structure that changed its predominant activities; and
    ii. its annual reporting period that begins on or after the fixed expiry date of the temporary exemption.
b. disclose in the annual reporting periods before the entity applies IFRS 9:
    i. the fact that it is no longer eligible to apply the temporary exemption from applying IFRS 9;
    ii. the reason why it is no longer eligible; and
    iii. the date on which the change in corporate structure occurred that made it ineligible.

Optional reassessment of eligibility for the temporary exemption

The Board tentatively decided that an entity that previously was not eligible for the temporary exemption should be permitted to reassess its eligibility:

a. before 2018 (the mandatory effective date of IFRS 9) if and only if there has been a demonstrable change in the corporate structure of the entity that could result in a change in the predominant activities of the entity (for example, the acquisition or disposal of a business); and
b. by computing the predominance ratio using the carrying amounts of the liabilities reported on the entity's balance sheet at the end of the annual reporting period immediately following that change.

The Board tentatively decided that an entity that becomes eligible for the temporary exemption after the initial date of assessment must disclose, as part of its explanation on how it concluded that it is eligible for the temporary exemption (paragraph 37A(b) of the ED):

a. the reason for the reassessment;
b. an explanation of the change in its predominant activities; and
c. the date on which the change in corporate structure occurred that made it eligible for the temporary exemption.

Guidance on when to reassess eligibility for the temporary exemption

For the purposes of determining whether an entity is required or permitted to reassess its eligibility for the temporary exemption from IFRS 9, the Board tentatively decided that a demonstrable change in an entity's corporate structure that could result in a change in its predominant activities must be significant to its operations and demonstrable to external parties.

All 14 Board members agreed with these decisions.

Agenda Paper 14C: Fixed expiry dates and other aspects of the temporary exemption and the overlay approach

The Board tentatively decided to confirm the ED's proposal that:

a. an entity should be required to cease applying the temporary exemption no later than for annual reporting periods beginning on or after 1 January 2021;
b. an entity that previously elected to apply the temporary exemption from applying IFRS 9 may, at the beginning of any subsequent annual reporting period, choose to apply IFRS 9 rather than IAS 39 *Financial Instruments: Recognition and Measurement*;
c. an entity that chooses or is required to cease applying the temporary exemption from applying IFRS 9 should, on initial application of IFRS 9, use the relevant transition requirements in that Standard;
d. an entity that ceases to apply the temporary exemption before the application of the forthcoming insurance contracts Standard should be permitted, but not required, to apply the overlay approach to qualifying financial assets;
e. the temporary exemption should be effective for annual reporting periods beginning on or after 1 January 2018; and
f. the overlay approach should be effective when an entity first applies IFRS 9 (other than the 'own

credit' requirements in isolation).

All 14 Board members agreed with these decisions.

The Board tentatively decided to confirm the ED proposal that the overlay approach should not have a fixed expiry date.

13 Board members agreed and one Board member disagreed with this decision.

Agenda Paper 14D: Relief for investors in associates and joint ventures

Applicability of the relief for investors in associates and joint ventures

The Board tentatively decided:

a. to provide relief from the requirement in paragraphs 35-36 of IAS 28 *Investment in Associates and Joint Ventures* to use uniform accounting policies when using the equity method to account for interests in associates and joint ventures;
b. that the relief should apply when either:
    i. the investor uses IFRS 9 in its financial statements but its investee uses the temporary exemption; or
    ii. the investor uses the temporary exemption in its financial statements but its investee uses IFRS 9.
c. to make the relief available on an investment-by-investment basis; and
d. that an investor that chooses to apply IFRS 9 in using the equity method to account for an investee cannot later choose to apply IAS 39 in subsequent reporting periods.

Disclosures

The Board tentatively decided to require an investor to reproduce, in its financial statements, the disclosures required to be provided in the IFRS financial statements of investees that have applied either the temporary exemption or the overlay approach, subject to materiality considerations. In particular, an entity should:

a. provide the disclosures applicable to entities applying the temporary exemption for each investee:
    i. that is individually material to the investor's financial statements; and
    ii. for which the temporary exemption has been applied in the financial statements used by the investor to apply the equity method for that investee.
b. provide, in aggregate, the quantitative disclosures applicable to entities applying the temporary exemption for all investees:
    i. that are individually immaterial but material in aggregate to the investor's financial statements; and
    ii. for which the temporary exemption has been applied in the financial statements used by the investor to apply the equity method for those investees.
c. provide the disclosures applicable to entities applying the overlay approach for each investee:
    i. that is individually material to the investor's financial statements; and

   ii. for which the overlay approach has been applied in the financial statements used by the investor to apply the equity method for that investee.

d. provide, in aggregate, the quantitative disclosures applicable to entities applying the overlay approach for all investees:
   i. that are individually immaterial but material in aggregate to the investor's financial statements; and
   ii. for which the overlay approach has been applied in the financial statements used by the investor to apply the equity method for those investees.

The Board tentatively decided to require an investor to present the amounts disclosed consistently with the requirements for summarised financial information in IFRS 12 *Disclosure of Interests in Other Entities*. Specifically:

a. the amounts disclosed for individually material investees should be those included in the IFRS financial statements of the investee, and not the investor's share of those amounts; and
b. the aggregate amounts disclosed for individually immaterial investees that are material in aggregate should be the investor's share of those amounts included by applying the equity method.

All 14 Board members agreed with these decisions.

Agenda Paper 14E: First-time adopters of IFRS Standards—Applicability of the overlay approach and the temporary exemption

The Board tentatively decided to modify the proposals in the ED so that:

a. a first-time adopter is permitted to apply the temporary exemption (ie to apply IAS 39) when it meets the qualifying criteria. When the first-time adopter assesses whether it meets the predominance criterion, the first-time adopter must use the carrying amounts of liabilities applying applicable IFRS Standards at its annual reporting date between the 1 April 2015 and 31 March 2016, the date of assessment (or at a later date, if the entity is required or permitted to reassesses whether it meets the qualifying criteria at that later date); and
b. a first-time adopter is permitted to apply the overlay approach to qualifying assets. A first-time adopter that applies the overlay approach must restate comparative information to reflect the overlay approach when the entity restates comparative information in accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

All 14 Board members agreed with these decisions.

Agenda Paper 14F: Due process steps and balloting

The Board reviewed the mandatory and non-mandatory due process steps that the Board has taken so far in developing the amendments to IFRS 4 and also considered the re-exposure criteria in the *Due Process Handbook*. All 14 Board members confirmed that they are satisfied that the Board has completed all the necessary due process steps on the project to date and instructed the staff commence the drafting process for the amendments.

One Board member indicated that they intend to dissent from the issuance of the amendments to IFRS 4.

Next steps

The Board aims to issue the amendments to IFRS 4 in September 2016.

IFRS 2 *Share-based Payment* (Agenda Paper 16)

In November 2015, the Board considered a report summarising the staff's research on application issues arising from IFRS 2 *Share-based Payment*. The objective of this research project was twofold:

a. to identify whether it is IFRS 2 that is causing perceived complexity in accounting for share-based payment arrangements, and if it is, to identify the most common areas of complexity; and
b. to analyse why IFRS 2 has attracted many interpretation requests.

On 17 May 2016, the Board received an update on feedback obtained since November 2015. That feedback was obtained during meetings with the Global Preparers Forum and Accounting Standards Advisory Form and in the responses to the *Agenda Consultation 2015*.

The Board decided:

a. not to perform any further research on this topic;
b. that there is no need to seek feedback from stakeholders on that decision or on the staff's findings; and
c. that there is no need to publish a formal research paper or discussion paper summarising the research performed in this project. The staff will consider how best to make the work performed visible and retrievable.

All 14 Board members agreed with these decisions.

Financial Instruments with Characteristics of Equity (Agenda Paper 5)

The Board met on 17 May 2016 to discuss the research project on Financial Instruments with Characteristics of Equity.

In this meeting, the Board continued its discussion of potential requirements for the attribution of profit or loss and other comprehensive income for derivatives if they are classified as equity (such as warrants).

The Board discussed four possible approaches:

a. approach A would not result in any attribution;

b. approach B would attribute an amount equal to changes in the fair value of the derivative; and
c. approaches C and D would attribute an amount weighted by the relative fair value of the derivative and the fair values of other classes of equity. Approach C would apply that weighting to the end of period carrying amounts, whereas Approach D would apply that weighting to profit or loss and other comprehensive income.

The Board indicated that it would be useful for entities to provide additional information to reflect differences between derivatives classified as equity and other classes of equity through attribution. The Board decided to include a discussion of the various approaches in a future discussion paper to obtain input regarding the potential costs and benefits of each approach.

Next steps

At a future meeting the Board will discuss:

a. additional details of the definition of the residual amount for non-derivative and derivative obligations, including consideration of contracts for the exchange of a fixed amount of cash or other financial assets for a fixed amount of equity instruments;
b. whether the separate presentation of income and expense arising from claims classified as liabilities that depend on the residual amount should apply only within profit or loss, or should use the distinction between profit or loss and other comprehensive income; and
c. possible improvements to disclosures about classes of equity claims other than ordinary shares.

Income Taxes (Agenda Paper 19)

On 18 May 2016, the Board held an education session to consider the research project on Income Taxes.

The purpose of the project is to better understand the needs of financial statement stakeholders and stimulate discussion before the *2015 Agenda Consultation* on whether the Standard should undergo fundamental change or continue to focus on 'narrow-scope' amendments.

At this education session, the Board considered:

a. the history of the Board's projects on Income Taxes, and problems that arise in applying IAS 12 and their main causes (Agenda Paper 19A);
b. the alternative accounting models for Income Taxes that other standard-setters have considered in the past (Agenda Paper 19B);
c. feedback from investor outreach conducted by the staff (Agenda Papers 19C-19D); and
d. feedback from the *2015 Agenda Consultation* (Agenda Paper 19E).

The Board was not asked to make any decisions.

At its meeting on 19 May 2016 the Board decided not to include this project on its draft work plan.

Conceptual Framework (Agenda Paper 10)

On 18 May 2016 the Board discussed whether any amendments are needed to Chapter 1—The objective of general purpose financial reporting and Chapter 2—Qualitative characteristics of useful financial information in response to feedback received on the Exposure Draft *Conceptual Framework for Financial Reporting* ('the Exposure Draft').

Agenda Paper 10B: Chapters 1 and 2—Introduction

The Board tentatively decided to:

a. retain the existing description of the primary user group in Chapter 1;
b. confirm that it would include in the *Conceptual Framework* an explicit statement that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form; and
c. confirm that relevance and faithful representation should continue to be identified as the two fundamental qualitative characteristics of useful financial information.

14 Board members agreed with these decisions.

Agenda Paper 10C: Stewardship

The Board discussed whether any changes are needed to the discussion of stewardship in Chapter 1 and tentatively decided to:

a. clarify the link between the objective of financial reporting and stewardship by explaining resource allocation decisions as:
    i. decisions to buy, sell or hold equity and debt instruments;
    ii. decisions to provide or settle loans and other forms of credit; and
    iii. decisions needed to exercise rights while holding investments, such as rights to vote on or otherwise influence management's actions.

    12 Board members agreed with this decision and two Board members disagreed.

b. retain paragraphs 1.22—1.23 of the Exposure Draft without explaining further which aspects of management's stewardship responsibilities can be assessed using information in financial reports. 13 Board members agreed with this decision and one Board member was absent.
c. continue using the term 'stewardship' in the *Conceptual Framework* and explain in the Basis for Conclusions on the *Conceptual Framework* what the term 'stewardship' means and how it relates to the term 'accountability'. 13 Board members agreed with this decision and one Board member disagreed.

In addition, the Board tentatively decided to indicate in the Basis for Conclusions on the revised *Conceptual Framework* that increasing the prominence of stewardship within the objective of financial reporting does not imply a preference for a historical cost measurement basis.

12 Board members agreed with this decision and two Board members disagreed.

Agenda Paper 10D: Prudence

The Board tentatively decided to confirm that the revised *Conceptual Framework* should include a reference to prudence described as the exercise of caution when making judgements under conditions of uncertainty, as proposed in the Exposure Draft.

13 Board members agreed with this decision and one Board member disagreed.

The Board tentatively decided that there is no need to explain in the Basis for Conclusions on the *Conceptual Framework* that the notion of prudence cannot be used by preparers to override the requirements in IFRS Standards because the *Conceptual Framework* already includes a statement that it is not a Standard and does not override any specific Standards.

13 Board members agreed with this decision and one Board member disagreed.

In addition, the Board directed the staff to explore further whether and how the *Conceptual Framework* should acknowledge that asymmetric treatment of gains (or assets) and losses (or liabilities) could be selected if such selection is intended to result in relevant information that faithfully represents what it purports to represent.

Agenda Paper 10E: Measurement uncertainty

The Board tentatively decided to:

a. describe measurement uncertainty as a factor affecting faithful representation. 13 Board members agreed with this decision and one Board member disagreed; and
b. clarify in the Basis for Conclusions on the revised *Conceptual Framework* that a trade-off can exist between the fundamental qualitative characteristics of relevance and faithful representation. 10 Board members agreed with this decision and four Board members disagreed.

The Board tentatively decided not to include a brief explanation of existence, outcome and measurement uncertainty in the Introduction to Chapter 2. Seven Board members voted against including such an explanation and seven Board members voted for including it.

Next steps

At the June Board meeting the Board plans to discuss:

a. elements (income and expenses); and

b. presentation of information about financial performance.

Disclosure Initiative (Agenda Paper 11)

The Board met on 18 and 19 May 2016 to discuss disclosures about restrictions on cash and about liquidity, as part of the Disclosure Initiative.

Agenda Paper 11: Disclosures about restrictions on cash and about liquidity

At its meeting on 18 May the Board tentatively decided to develop, as part of a narrow scope project, its proposals for the disclosure of restrictions that affect the decisions of an entity to use cash and cash equivalents.

Eight of the 14 Board members agreed with this decision and six disagreed.

At its meeting on 19 May, the Board decided not to proceed with a broader liquidity project.

Next steps

At the June 2016 IASB meeting the staff plan to continue discussions on the Disclosure Intiative with a detailed analysis of the feedback received on the Exposure Draft: *IFRS Practice Statement Application of materiality to financial statements*, and to seek the Board's view on specific issues raised by respondents.

Equity Method of Accounting (Agenda Paper 26)

On 19 May 2016 the Board met to discuss the next steps for the Equity Method of Accounting project. The Board discussed the progress on the limited-scope research project and feedback on the *2015 Agenda Consultation*. Based on this discussion the Board decided to:

a. defer work on the Equity Method research project until the Post-implementation Reviews (PIR) of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* are undertaken;
b. seek feedback on investors' information needs regarding investments accounted for using the equity method as part of the PIR of IFRS 10, IFRS 11 and IFRS 12; and
c. reconsider the scope of the project after considering the feedback on the PIR of IFRS 10, IFRS 11 and IFRS 12.

All Board members present agreed with this decision.

At its meeting on 19 May 2016, the Board decided to include this project in its research pipeline.

Next steps

The Board plans to seek feedback on investors' information needs regarding investments accounted for using the equity method as part of the PIR of IFRS 10, IFRS 11 and IFRS 12.

Goodwill and Impairment (Agenda Paper 18)

The Board met on 19 May 2016 to discuss its Goodwill and Impairment project. This project responds to some of the findings from the IASB's Post-implementation Review of IFRS 3 *Business Combinations*.

At this meeting staff from the Accounting Standards Board of Japan (ASBJ) and the European Financial Reporting Advisory Group (EFRAG) presented some data about amounts and trends of reported goodwill, impairment and intangible assets.

The Board also considered the feedback about the PIR of IFRS 3 that was received in the *2015 Agenda Consultation*, and discussed a staff progress report on the impairment phase of this project.

No decisions were made.

At its meeting on 19 May 2016, the Board decided to include this project on the active research section of the draft work plan.

Next steps

The Board will continue its discussions of this project at future meetings. The Board also expects to discuss this project with the FASB next month.

Revenue from Contracts with Customers (Agenda Item 7—Oral Update)

The Board received an oral update on the meeting of US stakeholders of the Transition Resource Group (TRG) that was held by the FASB on 18 April 2016. No follow-up is required by the Board in respect of the issues discussed at that TRG meeting.

Work plan—projected targets as at 20 May 2016

As noted above, on 19 May 2016, the Board made some tentative decisions about the next steps for some research projects, and the future shape of the Research Programme more generally, based on the feedback received on the 2015 Agenda Consultation. The Board will seek input from the IFRS Advisory Council before finalising those decisions. View the work plan **here** before these tentative decisions are implemented.

The work plan will be updated further when decisions on the Agenda Consultation are finalised. In the meantime, further information can be found on the **2015 Agenda Consultation project page.**

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