

IFRS® Foundation

# IASB Technical Update

12<sup>th</sup> Annual AOSSG Meeting

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# Agenda

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Introduction

Forthcoming IFRS amendments

Consultations

Other projects

Work of the IFRS Interpretations Committee

Shaping the next five years



# Forthcoming IFRS amendments

Expected in December 2020

# Accounting Policies and Accounting Estimates (Amendments to IAS 8)

## Identified problem

Companies can find it difficult to distinguish between a change in accounting policy and a change in accounting estimate, especially when it relates to a change in a measurement method

## The forthcoming amendments



- Introduce a definition of ‘accounting estimates’
- Provide clarifications, such as
  - estimation techniques and valuation techniques are examples of measurement techniques used to develop accounting estimates
  - a change in accounting estimate that results from new information or new developments is not the correction of an error



**Effective date**

**Annual reporting periods beginning on or after 1 January 2023**

# Disclosure Initiative—Accounting Policies

## Identified problem

- Users say that accounting policy disclosures today are often not useful
- Stakeholders' views differ about 'significant' accounting policies required by IAS 1 *Presentation of Financial Statements*

## The forthcoming amendments



- Amend IAS 1 to require companies to disclose their *material* accounting policy information rather than their significant accounting policies
- Clarify that not all accounting policy information that relate to material transactions, other events or conditions is material to the financial statements
- Add guidance and examples to the materiality practice statement, which will explain how to apply the materiality process to identify material accounting policy information



Effective date

Annual reporting periods beginning on or after 1 January 2023

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# Consultations

# General Presentation and Disclosures



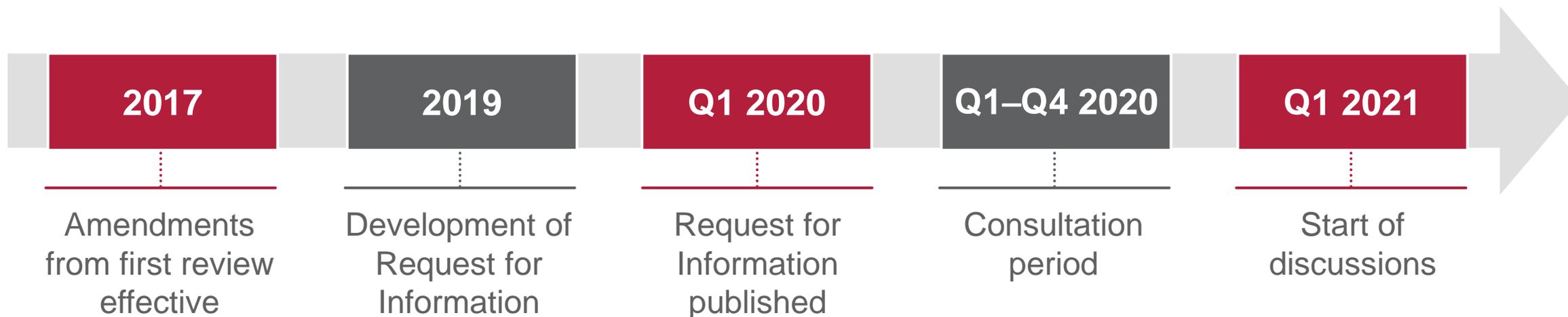
## Objective

- improve how information is communicated
- focus on information included in the statement of profit or loss

## Main proposals

- 1 Require additional **defined subtotals** in statement of profit or loss
- 2 Strengthen requirements for **disaggregating information**
- 3 Require disclosures about **management performance measures**

# Review of the *IFRS for SMEs* Standard



## Objective

- seek feedback on whether and how to align with IFRS Standards
- decide whether to propose amendments

## Questions on...

- A** ... strategy and the general framework for the review
- B** ... sections of the *IFRS for SMEs* Standard that could be aligned with IFRS Standards
- C** ... new topics and other matters related to the *IFRS for SMEs* Standard

# Business Combinations—Disclosures, Goodwill and Impairment



## Objective

- improve information companies provide about their acquisitions

## Preliminary views

- 1**
  - Disclose management’s objectives for acquisitions
  - Disclose performance against those objectives subsequently
- 2**
  - Retain impairment-only model for goodwill
  - Simplify impairment test
- 3**
  - Present amount of total equity excluding goodwill
  - Do not change recognition of intangibles separately from goodwill

# Business Combinations under Common Control

## Identified problem

No IFRS requirements for how to account for business combinations under common control. Diverse accounting practices apply.

## Approach

- Use **acquisition method** in specified cases
- Use **book-value method** for other combinations

- Apply as set out in IFRS 3 *Business Combinations*
- Recognise a contribution to equity in case of a bargain purchase

## Acquisition method

- Measure received assets/liabilities at the transferred company's book values
- Measure paid consideration in the form of assets/liabilities at their book values
- Recognise difference between paid consideration and received assets/liabilities in equity

## Book-value method

## Forthcoming consultation document

Discussion Paper expected in November 2020

# Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12

## Purpose

Assess whether IFRS 10, IFRS 11 and IFRS 12 are working as intended

## Selecting topics to be covered in the Request for Information

### Consolidated reports

- Control assessment
- Investment entities
- Particular accounting requirements

### Joint arrangements

- Collaborative arrangements
- Classifying joint arrangements
- Accounting for joint operations

### Disclosures

- If meet users' needs
- Information that is difficult to prepare or redundant

## Forthcoming consultation document

Request for Information expected in December 2020

# Rate-regulated Activities

## Identified problem

- Regulatory agreements can create rights and obligations for a company to adjust the regulated rates charged to customers for goods or services supplied in a future period
- These rights and obligations are outside the scope of IFRS Standards but information about them would be useful to users of the company's financial statements

## Approach

Develop an accounting model that:

- recognises these rights and obligations as regulatory assets and regulatory liabilities
- measures those regulatory assets and regulatory liabilities using a cash-flow-based technique
- presents net movement between the opening and closing carrying amounts of regulatory assets and regulatory liabilities immediately below the revenue line item

## Forthcoming consultation document

Exposure Draft expected in January 2021

# Management Commentary

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## Purpose

Revise the IFRS Practice Statement 1 *Management Commentary* issued in 2010, which sets out a non-binding framework for preparing management commentary on financial statements

## Approach

- Consolidate innovations in narrative reporting since 2010
- Address gaps in reporting practice, such as the short-term focus in reporting and failure to identify and discuss matters that are specific and important to a company
- Retain a principle-based approach, but provide sufficient detail to support rigorous application of the Practice Statement by companies and the effective review of companies' management commentaries by auditors and regulators
- Can meet information needs by referencing others' disclosure requirements

## Forthcoming consultation document

Exposure Draft expected in Q1 2021

# Disclosure Initiative—Targeted Standards-level Review of Disclosures

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## The disclosure problem

- Not enough relevant information
- Too much irrelevant information
- Ineffective communication

## Approach

- Help stakeholders improve the usefulness of disclosures for the primary users of financial statements
- Develop guidance for IASB to use when developing and drafting disclosure objectives and requirements
- Objective is not to change the volume of required disclosures, although this may be a consequence

## Forthcoming consultation document

Exposure Draft expected in March 2021

# Disclosure Initiative—Subsidiaries that are SMEs

## Purpose

For SME subsidiaries with a parent that reports applying IFRS Standards, reduce costs without removing information needed by the users of the subsidiaries' financial statements

## Solution

Develop an IFRS Standard that permits subsidiaries that are SMEs to apply recognition and measurement requirements of IFRS Standards with reduced disclosure requirements

## Approach

Use the *IFRS for SMEs* Standard to:

- define scope of subsidiaries that are SMEs (non-publicly accountable)
- determine the starting point for the reduced disclosure requirements

## Forthcoming consultation document

Discussion Paper or Exposure Draft

# Narrow-scope amendments to IAS 21

## Problem with IAS 21

What exchange rate should a company use when a currency's exchangeability is lacking?

## Possible amendments to IAS 21

- Identify the circumstances in which exchangeability is considered lacking
- Require estimation of spot exchange rate using new guidance
- Provide disclosures

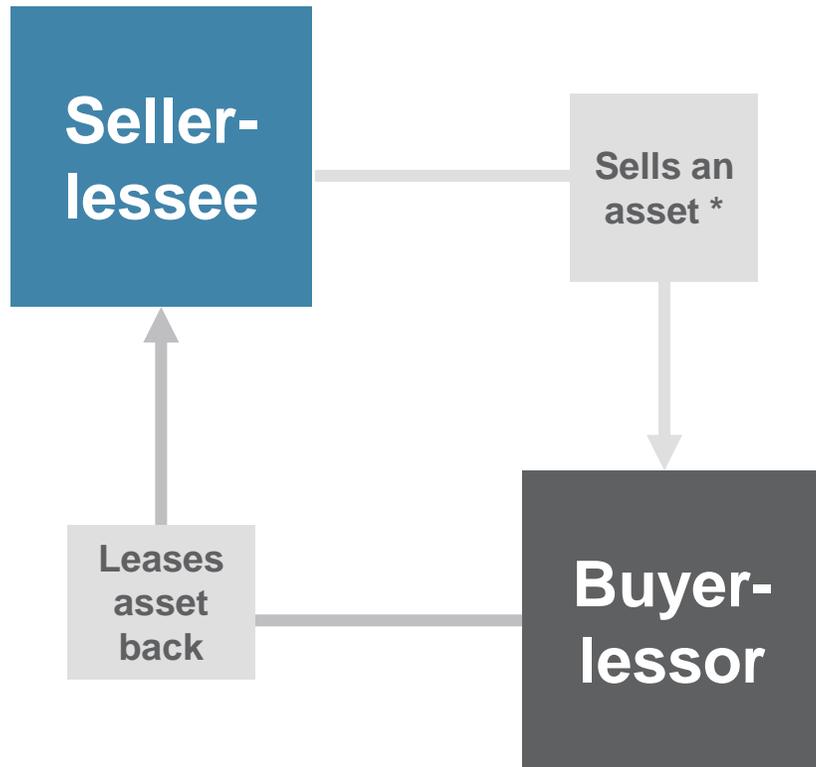
## Transition

Prospectively with no restatement of comparatives

## Forthcoming consultation document

Exposure Draft

# Narrow-scope amendments to IFRS 16



\* The transaction satisfies the requirements in IFRS 15 to be accounted for as a sale

## Problem with IFRS 16

How to measure lease liability with variable payments in a sale and leaseback subsequently

## Possible amendments to IFRS 16

- Clarify how subsequent measurement requirements in IFRS 16 apply to the liability
- Include examples illustrating how seller-lessee accounts for a sale and leaseback with variable payments

## Forthcoming consultation document

Exposure Draft expected in November 2020

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# Other projects

# Dynamic Risk Management

## Objective

Develop an accounting model that will better reflect a company's dynamic risk management process in the financial statements. The process involves understanding and managing the amount, timing and uncertainty caused by interest rate risks

## Core model

Derivatives

+

Asset profile

=

Target profile

- When **derivatives** are successful in aligning the **asset profile** with the **target profile**, changes in fair value of such derivatives are deferred in OCI and reclassified to the statement of profit or loss over time
- Assuming perfect alignment, the results reported in the statement of profit or loss should reflect the company's target profile

## Next steps

Focused outreach on the core model from October 2020

# Financial Instruments with Characteristics of Equity

## Objective

- Improve the information that companies provide in their financial statements about financial instruments that they have issued
- Address challenges with applying IAS 32 *Financial Instruments: Presentation*

## Project plan

- Explore clarifying IAS 32 classification principles (rather than rewriting IAS 32) to address practice issues (eg classification of financial instruments settled in the issuer's own equity instruments)
- Provide classification guidance and illustrative examples
- Improve presentation and disclosure

## Next steps

Outreach on specific topics and IASB discussion of practice issues

# Other research projects in the current work plan

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## Pension Benefits that Depend on Asset Returns



### Objective

Address a perceived inconsistency in the measurement of a defined benefit obligation when the amount of benefits depend on the return of a specified pool of assets

## Extractive Activities



### Objective

Gather evidence to decide whether to start a project to replace IFRS 6 *Exploration for and Evaluation of Mineral Resources*

# Research pipeline

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1

## Equity Method

A number of queries over time. Topic to be investigated after starting Post-implementation Review of IFRS 11 *Joint Arrangements*

2

## Pollutant Pricing Mechanisms

Assess whether the IASB should develop a proposal to address any diversity that may exist in accounting for pollutant pricing mechanisms

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## High Inflation: Scope of IAS 29

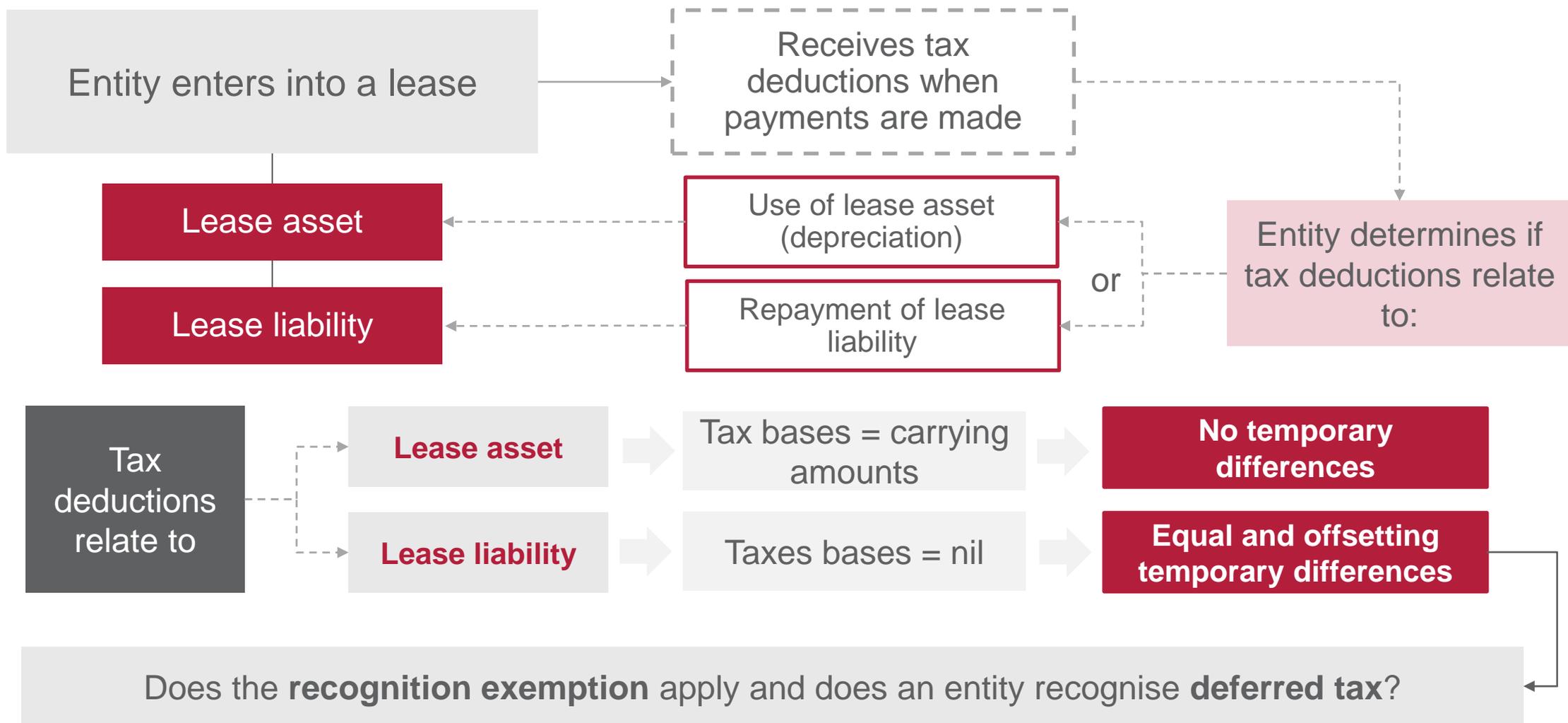
Assess whether it is feasible to extend the scope of IAS 29 *Financial Reporting in Hyperinflationary Economies* to cover economies subject to high inflation, rather than hyperinflation

4

## Variable and Contingent Consideration

Cross-cutting issue raised in 2015 Agenda Consultation and in earlier deliberations of other topics. This work may also lead to follow on work on risk-sharing and collaborative arrangements

# Deferred tax related to assets and liabilities arising from a single transaction (IAS 12) (1/2)



# Deferred tax related to assets and liabilities arising from a single transaction (IAS 12) (2/2)

IASB proposes to amend IAS 12 *Income Taxes*

IASB considered the purpose of the recognition exemption

Leases may give rise to **equal** and **offsetting** temporary differences

Exemption is not needed



## Narrowing the scope of the recognition exemption

An entity recognises deferred tax to the **extent** that the transaction gives rise to **equal amounts** of **deferred tax assets** and **liabilities**



## Reasons for the amendment

- Faithful representation
- Reduce diversity
- Narrow in scope

## Next steps

Decide project direction at a future IASB meeting

# Provisions—Targeted Improvements (IAS 37)

## Objective

- Develop proposals for three targeted amendments to *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*

## Targeted amendments

- **Align requirements** for identifying liabilities with *Conceptual Framework*
- Clarify which **costs** to include in measure of a provision
- Specify whether **discount rates** used should reflect entity's own credit risk

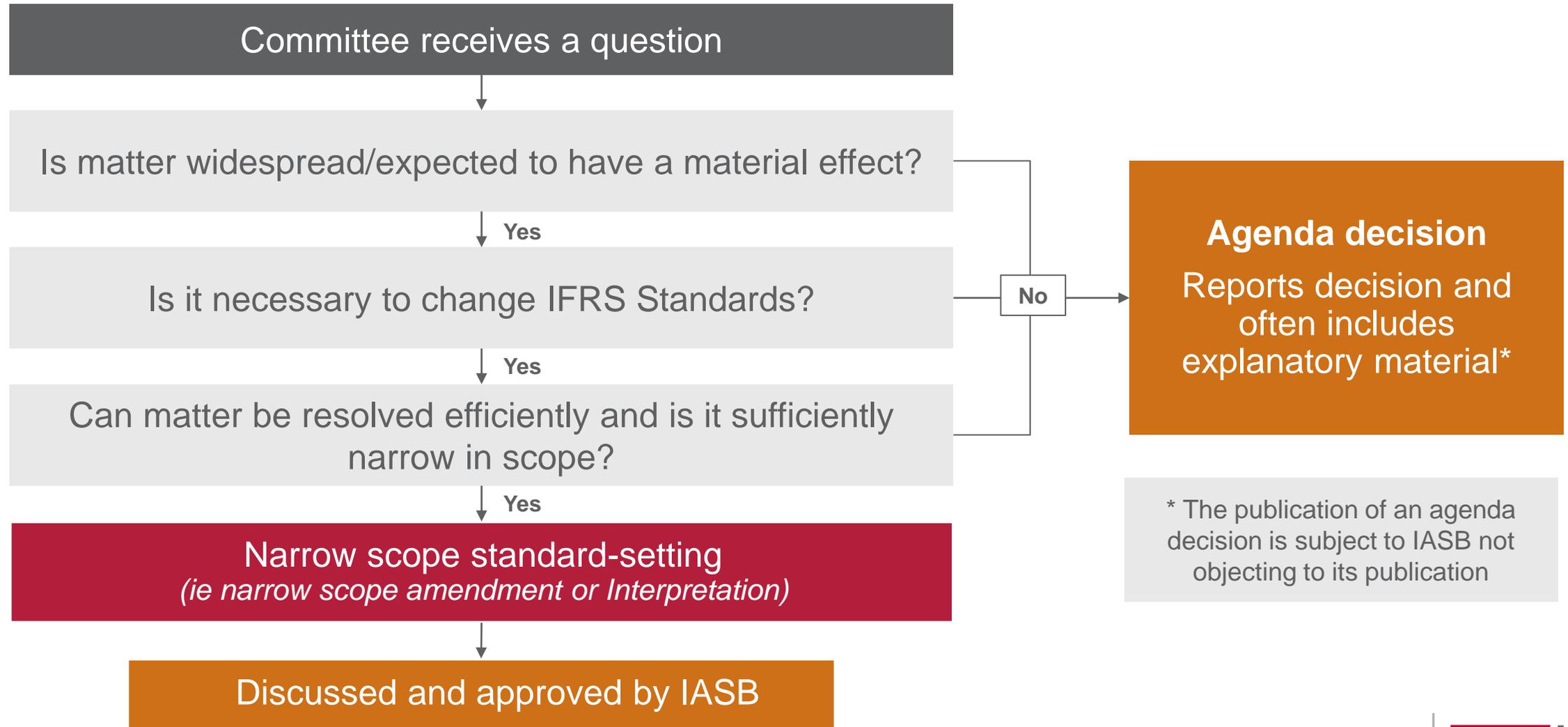
## Next steps

Staff will prepare a project plan for consideration by the IASB



# Work of the IFRS Interpretations Committee

# The Interpretations Committee's process



# Committee's work: Overview of 2020 activities

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**11** addressed by Committee through agenda decisions with explanatory material

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**1** addressed through a narrow-scope amendment

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Five Committee meetings held in 2020 to date

# Sample of recent agenda decisions

## IFRS 16 *Leases*

Lease term

Lessee's  
Incremental  
Borrowing Rate

Definition of Lease

Sale and  
Leaseback with  
Variable Payments

## IFRS 15 *Revenue from Contracts with Customers*

Compensation for  
Delays /  
Cancellations

Training costs

## IFRS 9 *Financial Instruments*

Fair value hedge of  
FX risk on non-  
financial assets

## Other Standards

Holdings of  
Cryptocurrencies

Hyperinflationary  
foreign operations

Supply Chain  
Financing  
Arrangements—  
Reverse Factoring

Player Transfer  
Payments

Multiple Tax  
Consequences of  
Recovering an  
Asset

Deferred Tax  
related to an  
Investment in a  
Subsidiary

# Due Process Handbook and Agenda Decisions



Revised *Due Process Handbook* published in August 2020

## The explanatory material in agenda decisions

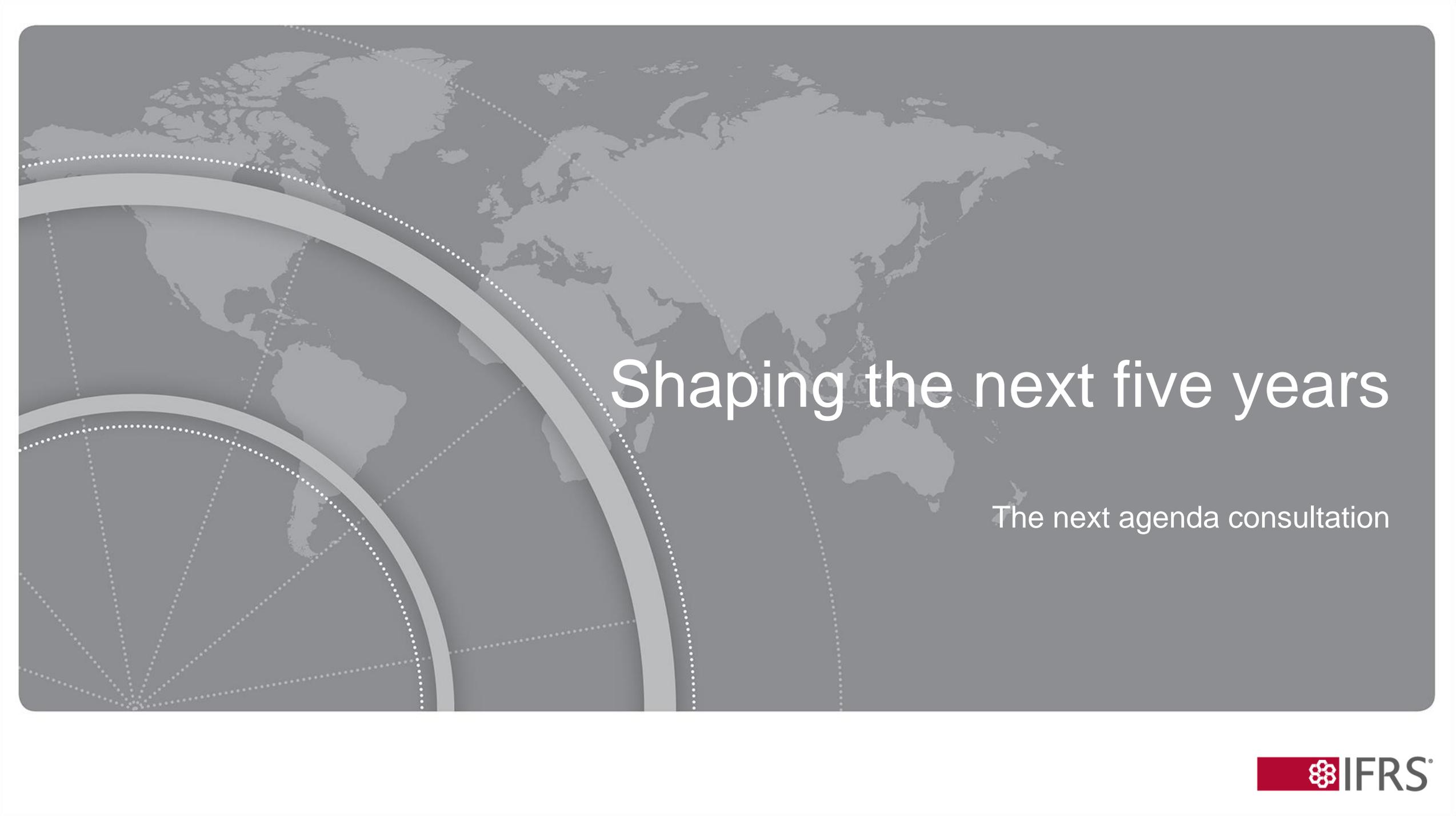
- cannot add or change requirements in IFRS Standards
- derives its authority from IFRS Standards
- may provide additional insights that might change a company's understanding of how to apply IFRS Standards

IASB now  
formally involved  
in finalisation

A company is entitled to sufficient time to determine and implement any necessary accounting policy change as a result of an agenda decision



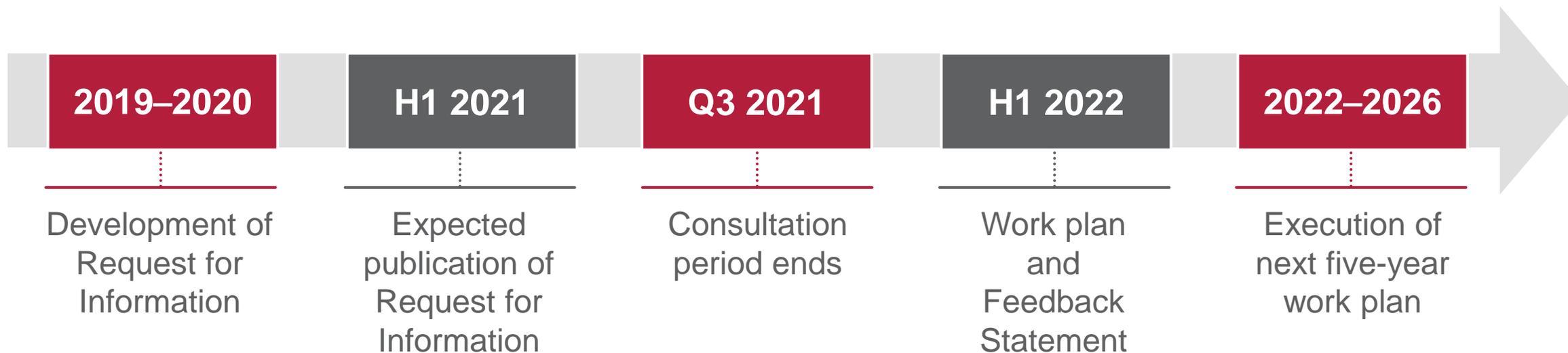
If an accounting practice is not aligned with an agenda decision, then it's not IFRS

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# Shaping the next five years

The next agenda consultation

# Defining the IASB work plan for 2022–2026



**The purpose of an agenda consultation is to seek feedback on**

Strategic direction and balance of work plan

Criteria for assessing projects to be added

Priority of financial reporting issues

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