



IFRS® Foundation

# IASB and IFRIC Technical Update

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

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# Overview

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Introduction

Consultations out for comment and forthcoming consultations

Projects with consultations recently closed

Forthcoming IFRS amendments

Other projects

Third Agenda Consultation

Work of the IFRS Interpretations Committee

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# Introduction

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## IASB work plan

- This document sets IASB's technical projects, highlighting the next milestone
- Such projects include research, standard-setting and maintenance

## Third Agenda Consultation

- The consultation closed on 27 September
- This document provides an overview of the feedback

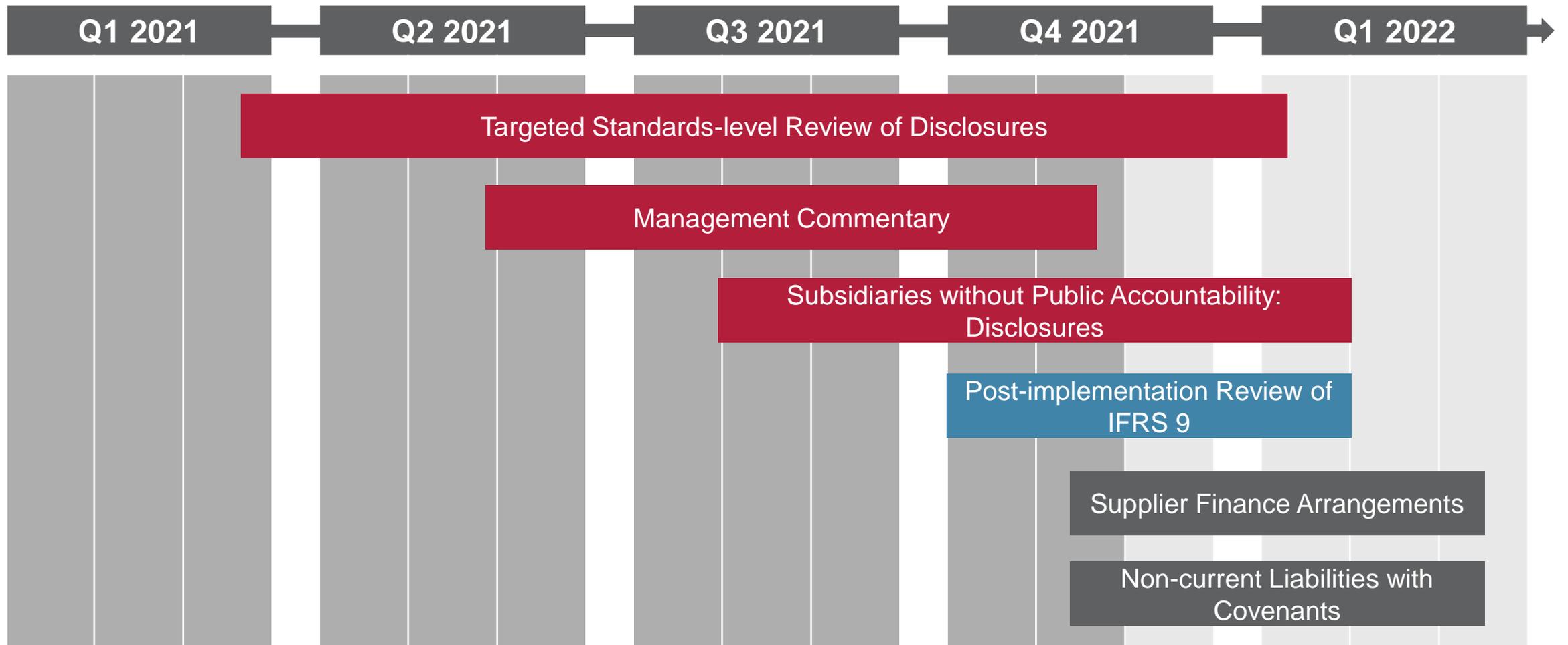
## Work of the IFRS Interpretations Committee

- This document covers some recent agenda decisions and includes a preview of what is coming up at future Committee discussions

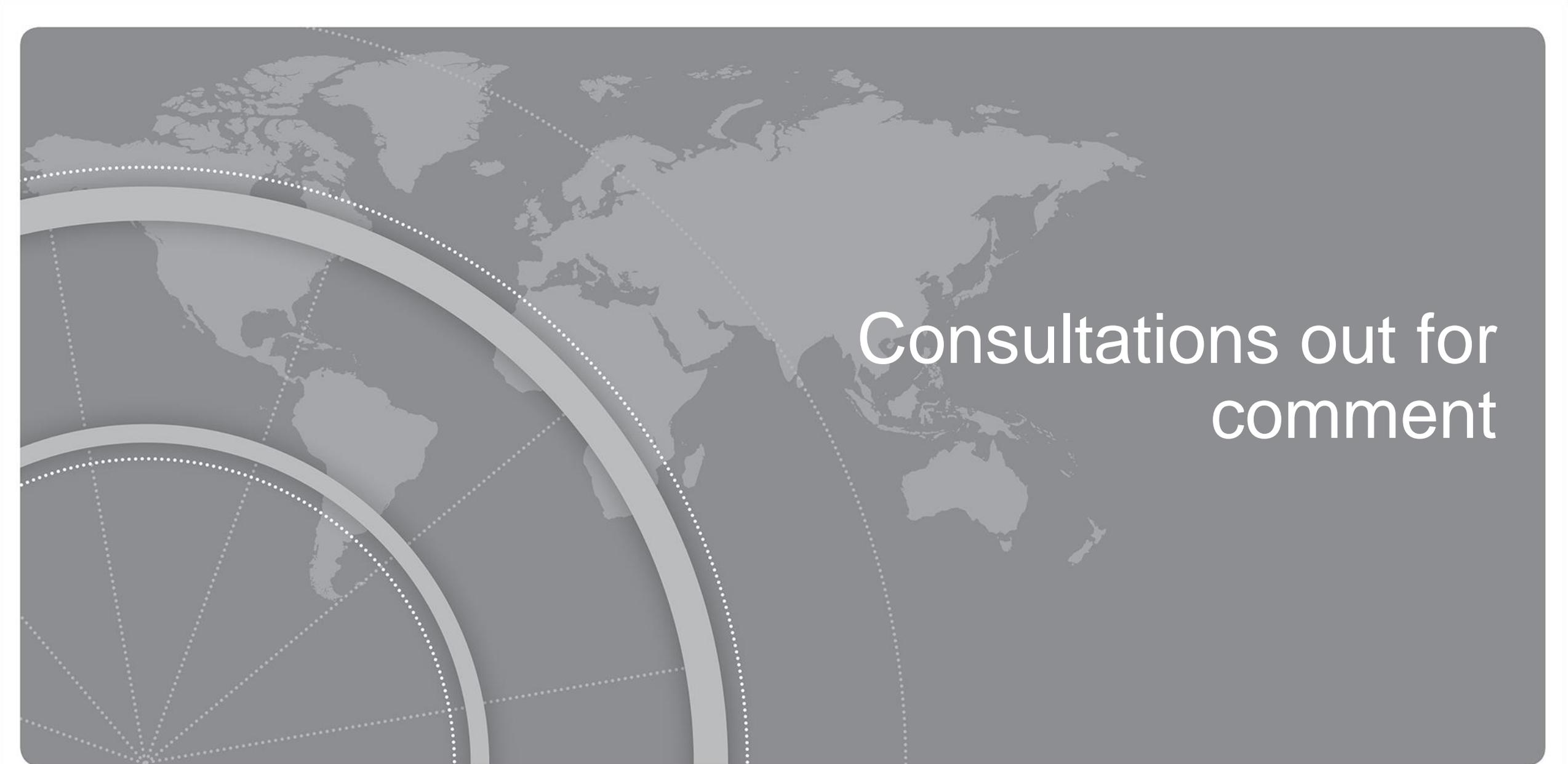
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# Consultations

# Overview of main consultations



■ Research projects   ■ Standard-setting projects   ■ Maintenance projects

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Consultations out for  
comment

# Disclosure Initiative—Targeted Standards-level Review of Disclosures



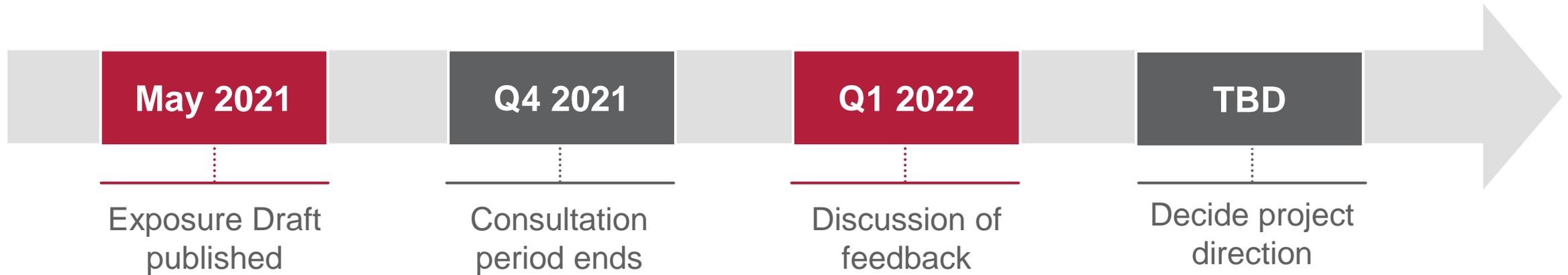
## Objective

- Improve the IASB’s approach to developing disclosure requirements in a way that enables companies to enhance their judgement and provide more decision-useful information for investors

## Main proposals

- 1 New approach for the IASB to use when developing and drafting disclosure requirements in IFRS Standards (proposed Guidance)
- 2 Replace disclosure requirements in IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits* with a new set of disclosure requirements developed applying the proposed Guidance
- 3 Focus compliance on detailed disclosure objectives rather than prescriptive requirements, thus requiring companies to apply judgement

# Management Commentary



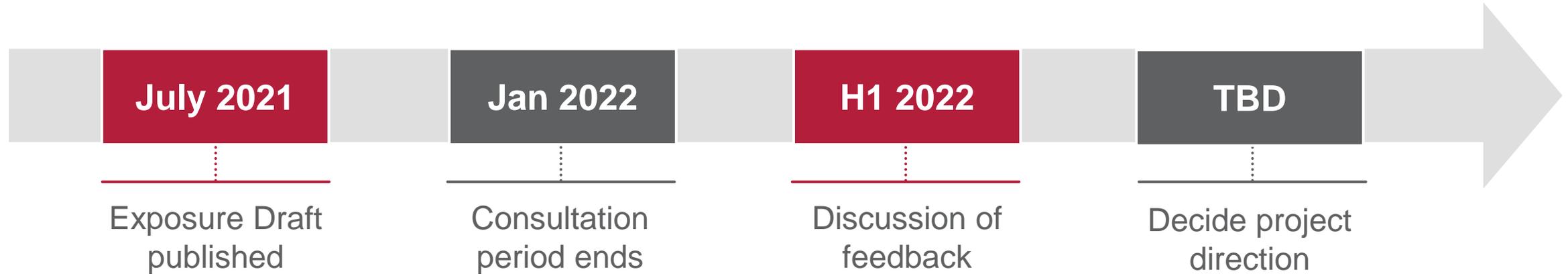
## Objective

Overhaul IFRS Practice Statement 1 to provide a **comprehensive framework** for preparing management commentary—building on recent developments in narrative reporting

## Features of the proposals

- 1 Focus on information needs of **investors** and **creditors**
- 2 Disclosure objectives + supporting guidance
- 3 Would bring together in one report **financial**, **sustainability** and **other** information about matters fundamental to entity's long-term prospects

# Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures



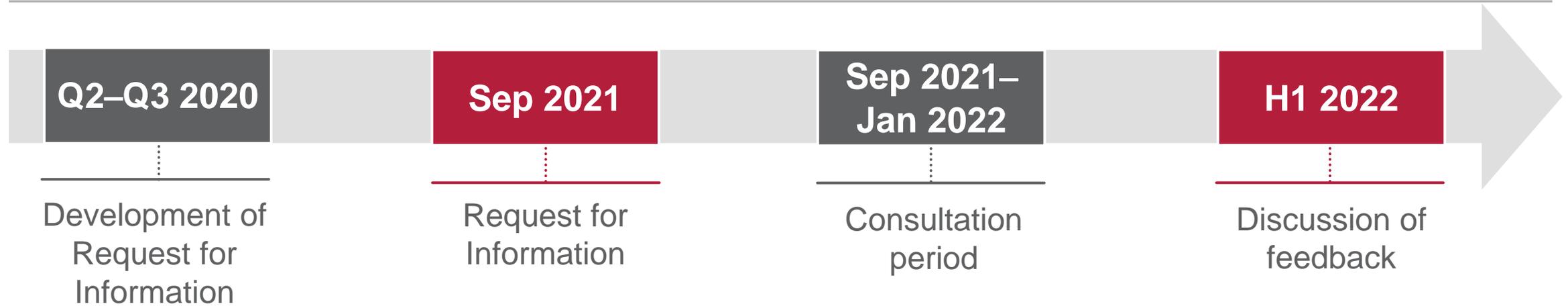
## Objective

To permit eligible subsidiaries to apply the disclosure requirements in the draft Standard and the recognition, measurement and presentation requirements in IFRS Standards

## Features of the proposals

- 1 Sets out **reduced disclosure requirements** for eligible subsidiaries
- 2 A **voluntary standard** forming part of the IFRS Standards
- 3 Would **reduce costs** for preparers and **maintain usefulness** of the financial statements

# Post-implementation Review of IFRS 9— Classification and Measurement



## Objective

- Assess whether the classification and measurement requirements in IFRS 9 are working as intended

## Topics in the Request for Information

- |   |  |                       |
|---|--|-----------------------|
| 1 | Business model, SPPI, Fair value changes in equity instruments                           | Financial assets      |
| 2 | Presentation of own credit gains and losses  | Financial liabilities |
| 3 | Modifications to contractual cash flows, Effective interest method, Transition to IFRS 9 | Other topics          |



# Forthcoming consultations

# Supplier Finance Arrangements

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## Objective

Provide information that would help investors determine the effects of supplier finance arrangements on a company's liabilities and cash flows

## Approach

- **Explain** the type of arrangements to be included within the scope of the proposed amendments
- Add **qualitative and quantitative disclosure** requirements for supplier finance arrangements to meet overall and specific disclosure objectives
- Add supplier finance arrangements **as an example** within the existing liquidity risk disclosure requirements in IFRS 7

## Forthcoming consultation document

Exposure Draft expected November 2021

# Non-current Liabilities with Covenants

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## Objective

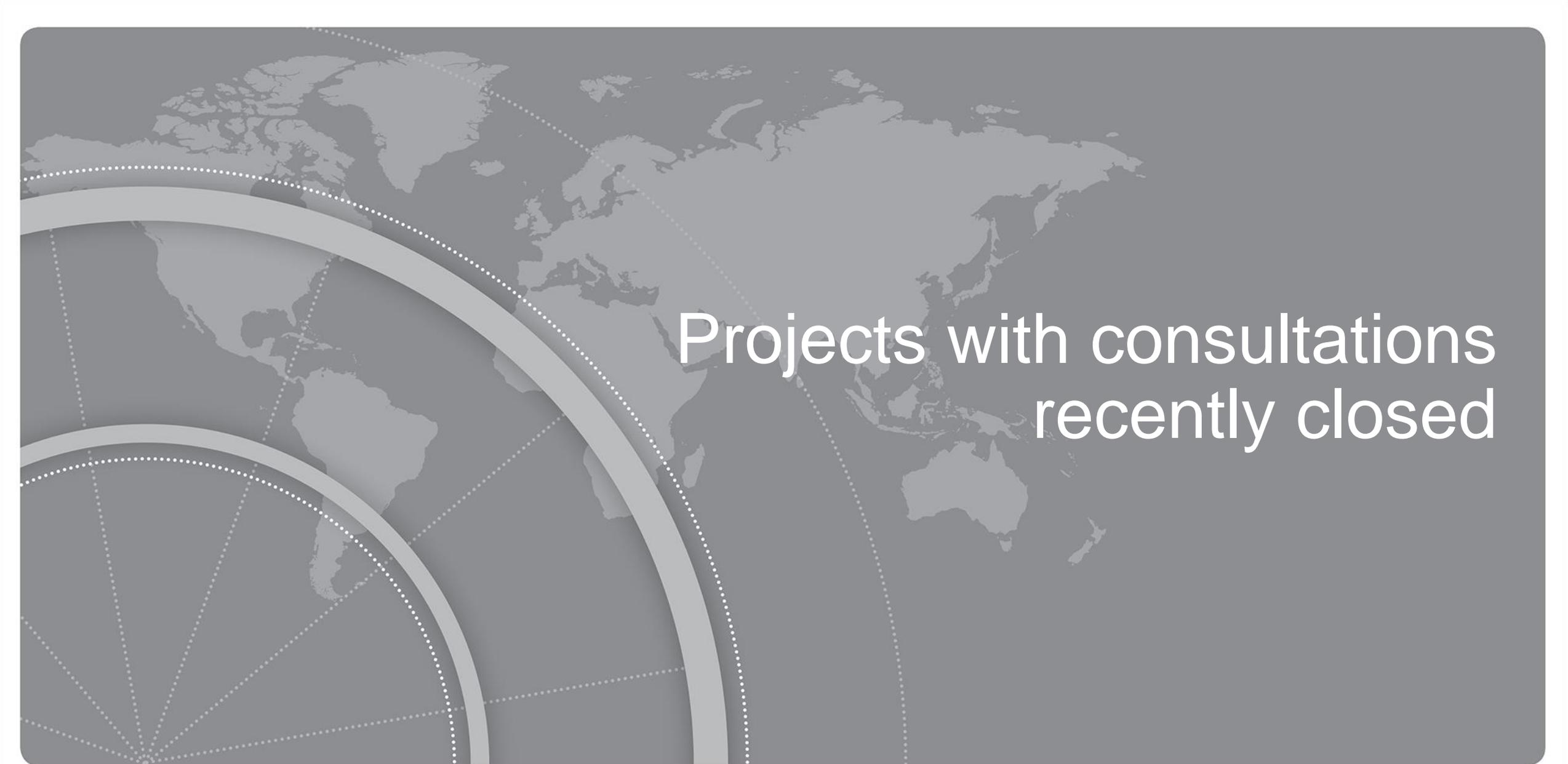
Improve the information about liabilities with covenants provided through classification (as current or non-current), presentation and disclosure in financial statements

## Approach

- Specify that covenants with which an entity must comply **after the reporting period** do not affect classification of a liability as current or non-current at the end of the reporting period.
- Add **presentation and disclosure requirements** for non-current liabilities subject to covenants
- Clarify situations in which an entity **does not have a right to defer settlement**

## Forthcoming consultation document

Exposure Draft expected November 2021



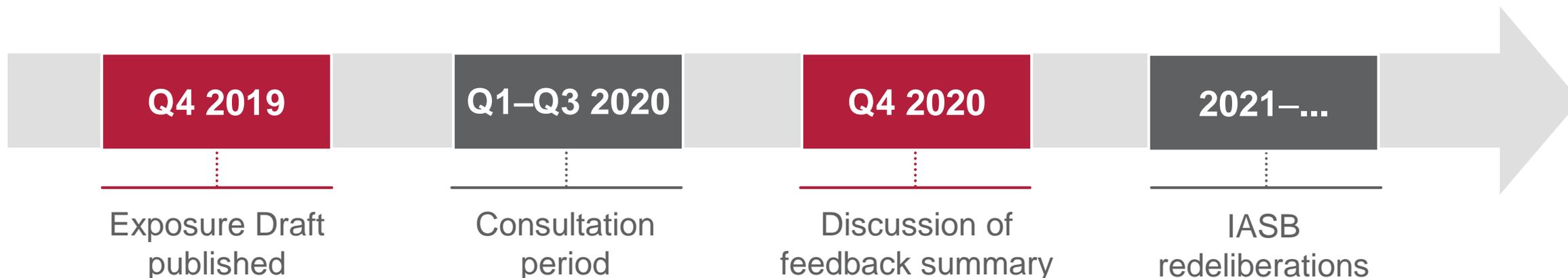
# Projects with consultations recently closed

# IASB discussing ...

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	Next steps
Primary Financial Statements	IFRS Standard
Second Review of the <i>IFRS for SMEs</i> Standard	Exposure Draft
Goodwill and Impairment	Decide Project Direction
Lease Liability in a Sale and Leaseback	Decide Project Direction
Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12	Feedback Statement
Rate-regulated Activities	Feedback Discussion
Business Combinations under Common Control	Feedback Discussion
Lack of Exchangeability	Feedback Discussion

# Primary Financial Statements



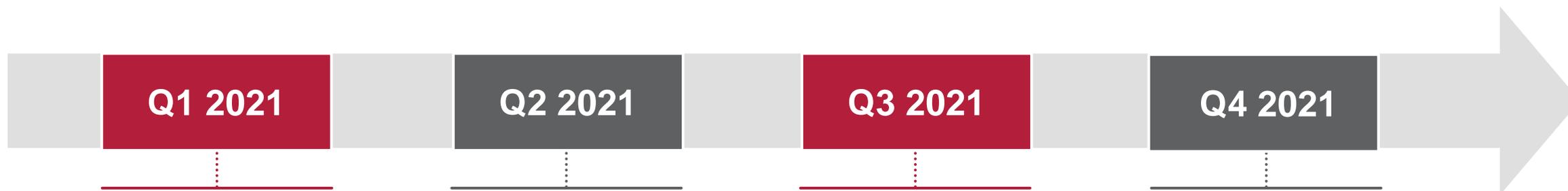
## Objective

- Improve communication in financial statements
- 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**

# Primary Financial Statements in 2021



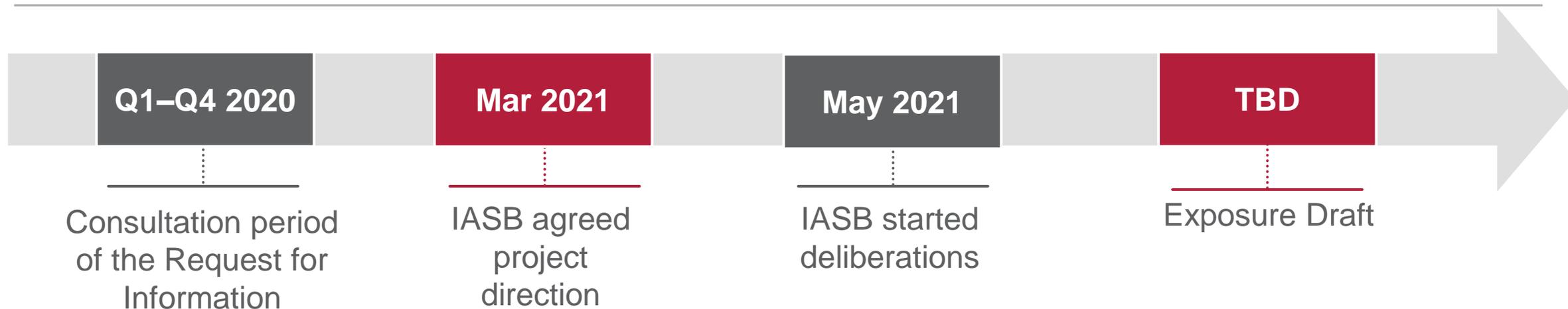
- ✓ Operating profit or loss subtotal and operating category
- ✓ Requirement to identify MPMs
- ✓ Statement of cash flows

- ✓ Disaggregation principles and roles of primary financial statements and the notes
- ✓ Profit before financing and income tax and financing category
- ✓ Scope of MPMs

- ✓ Financing category, derivatives and hedging instruments and FX differences
- ✓ Other aspects of definition of MPM
- ✓ Application of aggregation and disaggregation in primary financial statements and the notes

- ✓ Operating profit before depreciation, amortisation and specified impairments (OPDAI)
- ✓ Initial discussion on associates & JVs
- ✓ Initial discussion on analysis of operating expenses
  - Definition of MPMs
  - Initial discussion of unusual income and expenses

# Second Review of the *IFRS for SMEs* Standard



## Objective

- Update the *IFRS for SMEs* Standard for new requirements in IFRS Standards that are in the scope of the review

## Approach

- Apply alignment approach to decide how to update the *IFRS for SMEs* Standard
- The alignment approach uses the principles of relevance to SMEs, simplicity and faithful representation, including the assessment of costs and benefits, to identify possible amendments

# Goodwill and Impairment



## Preliminary views



### Objective

- Improve information companies provide about their acquisitions

1

- Disclose management's objectives for acquisitions and subsequently disclose the performance against those objectives
- Some targeted improvements to existing standards

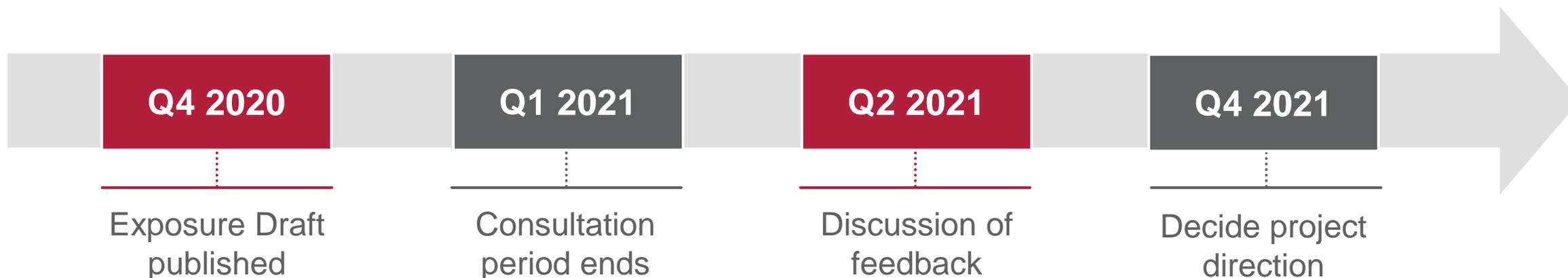
2

- 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

# Lease Liability in a Sale and Leaseback



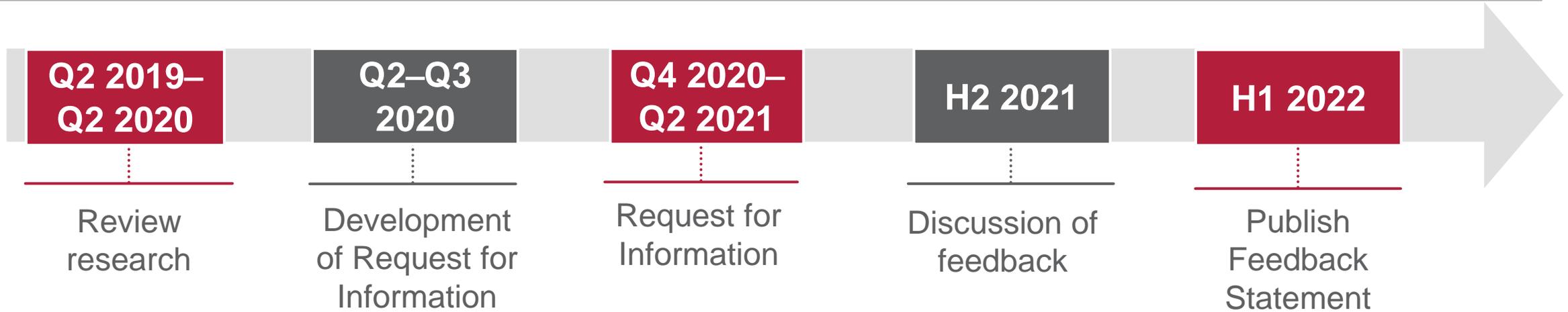
## Objective

- Improve the measurement requirements for sale and leaseback transactions — particularly those with variable payments

## Proposed amendment to IFRS 16 *Leases*

- 1 Specify the method used in initially measuring the right-of-use asset and liability arising in a sale and leaseback transaction
- 2 Specify subsequent measurement requirements for the lease liability in a sale and leaseback transaction

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



## Topics in the Request for Information



### Objective

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

- |   |   |                      |
|---|---|----------------------|
| 1 | Control assessment, investment entities, specific accounting requirements                     | Consolidated reports |
| 2 | Collaborative arrangements, classifying joint arrangements, requirements for joint operations | Joint arrangements   |
| 3 | Whether the disclosures provided applying IFRS 12 meet the Standard's objective               | Disclosures          |

# Rate-regulated Activities



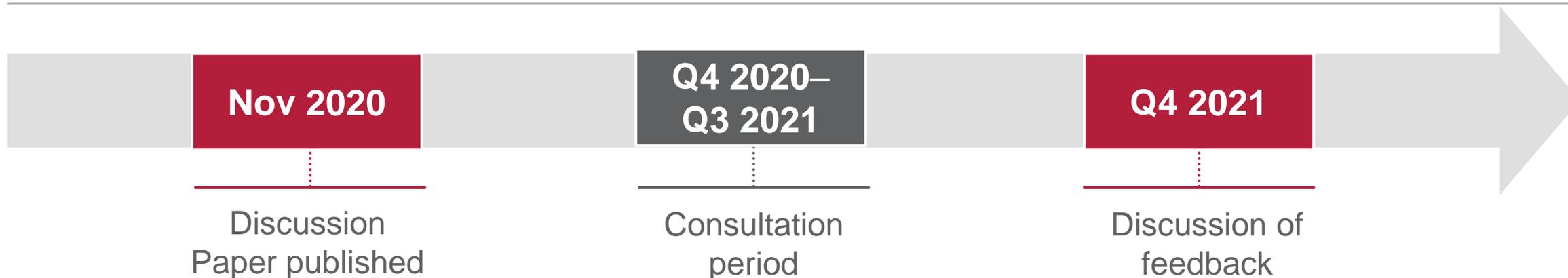
## Objective

- Provide information about the effects of regulatory income, regulatory expense, regulatory assets and regulatory liabilities on companies' financial performance and financial position

## Main proposals

- 1 Require recognition of **regulatory assets**, **regulatory liabilities**, **regulatory income** and **regulatory expense**
- 2 Reflect **compensation** for goods or services supplied as part of a company's reported financial performance for the period in which it supplies those goods or services
- 3 Measure regulatory assets and regulatory liabilities using a **cash-flow-based** measurement technique

# Business Combinations under Common Control



## Objective

- Fill a 'gap' in IFRS Standards
- Give investors the information they need without imposing unnecessary costs on companies

## Preliminary views

- 1 Specify which method should be applied in which circumstances to reduce diversity in practice and improve transparency in reporting
- 2 Use the **acquisition method** set out in IFRS 3 *Business Combinations* for combinations that affect investors outside the group, including all combinations by companies whose shares are publicly traded
- 3 Use a **book-value method** to be specified in IFRS Standards in all other cases – such as group restructurings involving wholly-owned subsidiaries

# Lack of Exchangeability



## Objective

- Improve usefulness of information provided by requiring a consistent approach to determining whether a currency is exchangeable into another currency and the exchange rate to use when it is not

## Proposed Amendments to IAS 21

- 1 Specify when exchangeability between two currencies is lacking and how to make that assessment
- 2 Estimate the spot exchange rate when exchangeability is lacking
- 3 Disclose how the lack of exchangeability affects, or is expected to affect, the entity's financial performance, financial position, and cash flows



# Forthcoming IFRS amendments

Expected in December 2021

# Initial Application of IFRS 17 and IFRS 9— Comparative Information (Amendment to IFRS 17)

## Identified problem

Possible accounting mismatches between financial assets and insurance contract liabilities in the prior periods presented on initial application of IFRS 17

## The amendment



- Provides a classification overlay
- Relates only to comparative information presented on initial application of IFRS 17
- Enables companies to present comparative information about particular financial assets in a manner consistent with how IFRS 9 is expected to be applied



## Effective date

Annual reporting periods beginning on or after 1 January 2023

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# Other projects

# Financial Instruments with Characteristics of Equity

## Purpose

- 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*

## Approach

- 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 milestone

Exposure Draft

# 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

Redeliberation of key issues identified in the outreach

# Provisions—Targeted Improvements to IAS 37

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## 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

# Equity Method

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## Objective

- Assess whether application questions with the equity method as set out in IAS 28 *Investments in Associates and Joint Ventures* can be addressed in consolidated and individual financial statements by identifying and explaining the principles of IAS 28

## Project plan

- Identify application questions in the equity method and decide which of these problems to address
- Address application questions by identifying and explaining the principles that underlie IAS 28

## Next steps

Review list of application questions and decide project direction

# Extractive Activities

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## Objective

- Provide more useful information about exploration and evaluation expenditure and activities accounted for applying IFRS 6 *Exploration for and Evaluation of Mineral Resources* by improving the transparency and comparability of this information

## Project scope

- Explore developing requirements or guidance to improve the disclosure objectives and requirements about a company's exploration and evaluation expenditure and activities
- Explore removing the temporary status of IFRS 6

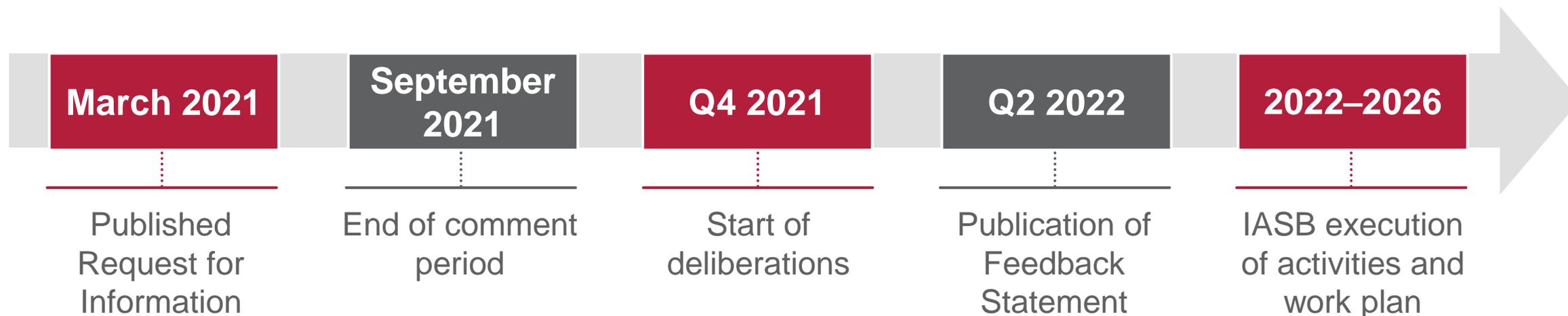
## Next steps

Consider research to be performed



# Third Agenda Consultation

# Third Agenda Consultation



## Objective of the agenda consultation

To seek views on

- the strategic direction and balance of the IASB's activities
- the criteria for assessing the priority of financial reporting issues that could be added to the work plan
- new financial reporting issues that could be given priority in the IASB's work plan

# Third Agenda Consultation—feedback overview (1/3)



- The Board’s **strategic direction** is about right; consider some minor changes to **rebalance** the level of focus
- Set aside capacity for interactions with the International Sustainability Standards Board (ISSB) and to respond to emerging issues
- Partnering with national standard-setters could help increase the Board’s capacity in some areas

Activity	Current level of focus	Feedback
Research and standard-setting projects	40%–45%	Decrease or leave unchanged
Maintenance and consistent application of IFRS Standards	15%–20%	Increase or leave unchanged
The <i>IFRS for SMEs</i> Standard	5%	Leave unchanged
Digital financial reporting	5%	Increase
Understandability and accessibility	5%	Increase
Stakeholder engagement	20%–25%	Leave unchanged

# Third Agenda Consultation—feedback overview (2/3)



- Stakeholders generally agreed with the IASB’s proposed **criteria** for assessing the priority of financial reporting issues
- Stakeholders would like to understand how the criteria have been applied
- Consider including all proposed criteria in the *Due Process Handbook*



- The IASB should not add too many **new projects** to the work plan as will need capacity to deal with emerging issues and interaction with the ISSB
- Some projects are related and could be worked on at the same time—for example, intangible assets and cryptocurrencies
- The IASB should work on climate-related risks and pollutant pricing mechanisms together with the ISSB

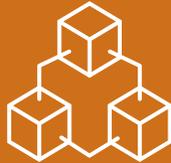
# Third Agenda Consultation—feedback overview (3/3)

Some of the most commonly suggested projects (in alphabetical order)

Climate-related risks



Cryptocurrencies and related transactions



Going concern



Intangible assets



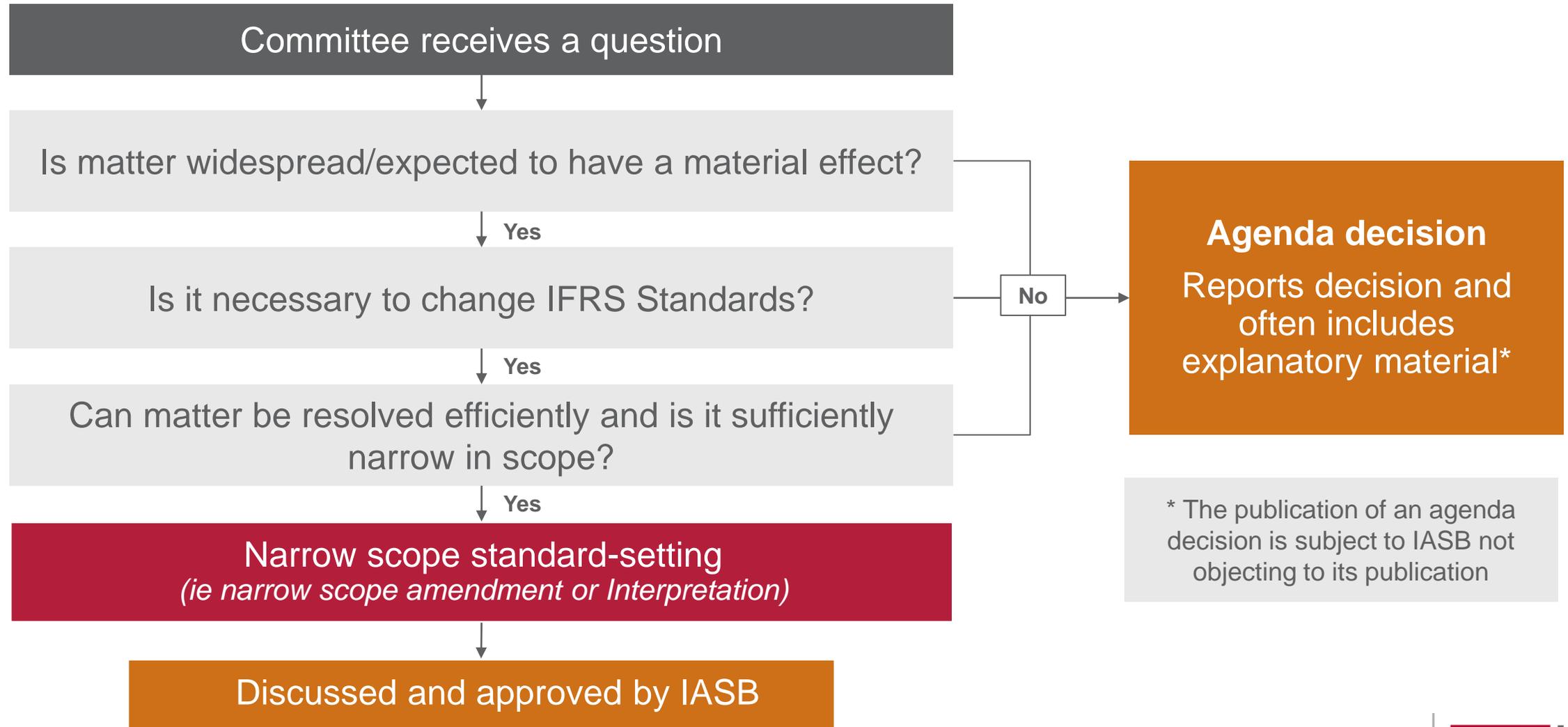
Statement of cash flows and related matters





# Work of the IFRS Interpretations Committee

# The Interpretations Committee's process



# Committee's work: Overview of 2021 activities

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**11** addressed by Committee through agenda decisions (most including explanatory material)

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**1** work in progress

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

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Five Committee meetings held in 2021 to date

# Sample of recent agenda decisions

Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition  
(IAS 32 *Financial Instruments: Presentation*)

Non-refundable Value Added Tax on Lease Payments  
(IFRS 16 *Leases*)

Hedging Variability in Cash Flows due to Real Interest Rates  
(IFRS 9 *Financial Instruments*)

Supply Chain Financing Arrangements—Reverse Factoring

Player Transfer Payments  
(IAS 38 *Intangible Assets*)

Attributing Benefit to Periods of Service  
(IAS 19 *Employee Benefits*)

Configuration or Customisation Costs in a Cloud Computing Arrangement  
(IAS 38 *Intangible Assets*)

Costs Necessary to Sell Inventories  
(IAS 2 *Inventories*)

Preparation of Financial Statements when an Entity is No Longer a Going Concern  
(IAS 10 *Events after the Reporting Period*)

# Recent agenda decisions

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We will now cover more detail a few recently published agenda decisions:

1

## Agenda Decision

'Configuration or Customisation Costs in a Cloud Computing Arrangement' (IAS 38)—*March 2021*

2

## Agenda Decision

'Supply Chain Financing Arrangements—Reverse Factoring'—*December 2020*

3

## Agenda Decision

'Costs Necessary to Sell Inventories' (IAS 2)—*June 2021*

# Costs in a cloud computing arrangement

How a customer accounts for costs of configuring or customising a supplier's application software in a Software as a Service (SaaS) arrangement?



Access to the software is a **service** received over time



Customer incurs costs of **configuring** or **customising** the software

## Questions

Does the customer recognise an intangible asset?

If not an intangible asset, how does the customer account for the costs?

## Conclusions in finalised agenda decision

Depends on the **nature** and **output** of the configuration or customisation performed, but often not an asset.

Recognised as an expense as follows:

- **Distinct service:** when configured and customised
- **Not distinct:** as access to the software is provided (over the contract term)

# Supply chain financing arrangements

## Reverse factoring arrangements

An arrangement in which a financial institution **agrees to pay amounts a company owes to the company's suppliers** and the **company agrees to pay the financial institution** at the same date or later

### Questions

How does a company **present** liabilities related to reverse factoring?

What information about reverse factoring arrangements should be **disclosed**?

### Agenda decision finalised

Explains existing requirements that apply to:

- **Presentation of liabilities**—as part of trade payables, other financial liabilities or separate line item
- **Cash flows**—operating or financing activities
- **Disclosure**—liquidity risk disclosures in IFRS 7

# Costs Necessary to Sell Inventories

When estimating the net realisable value of inventories, does an entity include all costs necessary to make the sale or only those that are incremental to the sale?

## Committee's discussion and conclusion



'*Net realisable value* is the estimated selling price in the ordinary course of business less the estimated costs of completion and the **estimated costs necessary to make the sale**'

*Paragraph 6 of IAS 2*

IAS 2 does not identify which specific costs are 'necessary to make the sale'.



However, the Standard **does not allow** an entity to **limit such costs** to only those that are incremental.



An entity uses its judgement to determine which costs are necessary to make the sale.

# Coming up

## Interpretations Committee's meetings

### November 2021

#### Comment letters on tentative agenda decision

Economic Benefits from  
Use of a Windfarm (IFRS 16)

TLTRO III Transactions  
(IFRS 9 and IAS 20)

#### New submissions

Deficits in low/new energy  
vehicle credits (IAS 37)

Principal versus agent: IT resellers (IFRS 15)

### Future meetings

#### Comment letters on tentative agenda decision

Cash Received via Electronic Transfer as  
Settlement for a Financial Asset (IFRS 9)

Demand Deposits with  
Restrictions on Use (IAS 7)

#### New submissions

Rent concessions: lessors  
and lessees (IFRS 16 and IFRS 9)

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