

# IASB® Update

From the International Accounting Standards Board®



February 2016

## Welcome to the February *IASB Update*

The International Accounting Standards Board® (the Board) met in public from 16-17 February 2016 at the IFRS Foundation's offices in London, UK.

The topics for discussion were:

- **Insurance Contracts**
- **Goodwill and Impairment**
- **IFRS Implementation Issues**
- **Financial Instruments with Characteristics of Equity**

### Contact us

**International Accounting Standards Board**  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Tel: +44 (0)20 7246 6410  
Fax: +44 (0)20 7246 6411  
E-mail: [info@ifrs.org](mailto:info@ifrs.org)  
Website: [www.ifrs.org](http://www.ifrs.org)

### Future IASB meetings

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

The next IASB meetings are:

14 to 18 March 2016  
18 to 22 April 2016  
16 to 20 May 2016

To see upcoming and past IASB meetings, [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](#).

## Insurance Contracts (Agenda Paper 2)

At its January 2016 meeting the Board completed its planned technical decisions on the accounting for insurance contracts.

***(Decision-making session)***

The Board met on 16 February 2016 to review the mandatory and non-mandatory due process steps that the Board has taken so far in developing the new insurance contracts Standard 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 Insurance Contracts project to date and instructed the staff to commence the drafting process.

No Board members intend, at this time, to dissent from issuance of the Standard on insurance contracts.

***Next steps***

The staff will begin the balloting process for the new insurance contracts Standard. The Board will discuss the effective date, and any sweep issues that arise in the drafting process, at a future Board meeting.

## **Goodwill and Impairment (Agenda Paper 18)**

The Board met on 16 February 2016 to discuss its Goodwill and Impairment project. That project responds to some of the findings from the IASB's Post-implementation Review (PiR) of IFRS 3 *Business Combinations*.

The Board continued its discussion on the following three topics covered by the project:

- a. identification and measurement of intangible assets in a business combination;
- b. subsequent accounting for goodwill (including the relative merits of an impairment-only approach and an amortisation and impairment approach); and
- c. improving the impairment requirements for goodwill and other non-current, non-financial assets in IAS 36 *Impairment of Assets*.

No decisions were made.

***Next steps***

The Board will continue its discussion at future meetings and consider the steps it needs to take before holding further discussions with the US Financial Accounting Standards Board (FASB).

## **IFRS Implementation Issues (Agenda Paper 12)**

***Measurement of interests in associates and joint ventures that, in substance, form part of the net investment (Agenda Paper 12A)***

The Board discussed a request from the Interpretations Committee for input on an issue relating to the measurement of long-term interests that, in substance, form part of the net investment in an associate or a joint venture, but to which the equity method is not applied ('long-term interests'). The questions raised by the Interpretations Committee were:

- a. whether the scope exception in paragraph 2.1(a) of IFRS 9 *Financial Instruments* applies to long-term interests in an associate or a joint venture; and
- b. if not, how the requirements of IFRS 9 and IAS 28 *Investments in Associates and Joint Ventures* interact with respect to such long-term interests.

The Board discussed a staff analysis of IFRS Standards as follows:

- a. the scope exception in paragraph 2.1(a) of IFRS 9 does not apply to long-term interests because:
  - i. the scope exception in that paragraph applies only to interests in an associate or a joint venture that an entity accounts for using the equity method; and
  - ii. long-term interests are not accounted for using the equity method.
- b. if not, how the requirements of IFRS 9 and IAS 28 *Investments in Associates and Joint Ventures* interact with respect to such long-term interests.
  - i. the entity would recognise and measure long-term interests by applying the requirements of IFRS 9, including the impairment requirements of IFRS 9;
  - ii. in allocating any losses of the associate or joint venture, the entity would include the carrying amount of those long-term interests (determined by applying IFRS 9) as part of the net investment to which the losses are allocated; and
  - iii. the entity would assess the net investment for impairment applying the requirements in paragraphs 40 and 41A-43 of IAS 28.

12 Board members agreed with the staff analysis and 2 Board members disagreed.

#### **Next steps**

Feedback from the Board will be provided to the Interpretations Committee at a future meeting.

#### **Classification of Liabilities (Agenda Paper 12B)**

The Board considered how its proposals in the Exposure Draft *Classification of Liabilities* (Proposed amendments to IAS 1) should be applied when conditions in the lending agreement are tested or reviewed after the end of the reporting period. The Board tentatively decided that:

- a. compliance with any conditions in the lending agreement should be assessed as at the reporting date;
- b. any requirement in the lending agreement to test compliance with those conditions at a date after the end of the reporting period should not change the requirement for classification to be based on an assessment of compliance as at the end of the reporting period;
- c. the proposed amendments should require that compliance with a condition as at the end of the reporting period should determine whether a right that is subject to that condition should affect classification (as described in paragraph BC4 of the ED);
- d. when an agreement includes a periodic review clause, in which the lender has the right to demand repayment, the entity has a right to defer settlement only up to the date of the periodic review; and
- e. the Board's proposals, that classification of a liability is based on rights in existence at the end of the reporting period and compliance with any conditions is assessed as at the end of the reporting period, should not be amended in respect of a periodic review clause.

13 of the 14 Board members agreed with these decisions.

#### **Next steps**

At a future Board meeting, the staff expect to examine the guidance with respect to the transfer of equity as a means of settlement by using specific examples raised in the consultation.

## **Financial Instruments with Characteristics of Equity (Agenda Paper 5)**

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

In this meeting, the Board discussed the further development of the three approaches (Alpha, Beta and Gamma) it had identified as potential ways of improving IAS 32 *Financial Instruments: Presentation*. Those three approaches classify claims as liabilities or equity based on different features of claims that are relevant to different assessments of the entity's financial position and financial performance. The Board's discussions focused on developing Approach Gamma, because it distinguishes claims based on a combination of the features used to distinguish claims in the other approaches.

### ***Presentation: Sub-classes of liabilities including presenting income and expense from particular types of liabilities (Agenda Paper 5A)***

#### ***Financial performance***

The Board discussed the presentation of income and expense that arises from liabilities with different features.

The Board indicated that, under the Gamma approach (as with the Alpha approach), it would be useful to distinguish between:

- a. income or expense that arises from liabilities for a specified amount, ie an amount that is

- determined independently from the entity's economic resources; and
- b. income and expense that arises from liabilities that depend on a residual amount.

The Board expects to consider, at a future meeting:

- a. how to distinguish between income or expense that arises from these two sub-classes of liabilities at a future meeting; and
- b. how to present income and expense from these two sub-classes of liabilities, for example within profit or loss or using the distinction between profit or loss and other comprehensive income.

#### *Financial position*

The Board discussed the presentation of liabilities with different features on the face of the statement of financial position.

The Board indicated that, under the Gamma Approach (as with the Alpha approach) it would be useful to present separately liabilities that depend on a residual amount.

In addition, the Board indicated that it would consider at a future meeting whether it would be useful to provide information about the priority of liabilities on the face of the statement of financial position, or in the notes, for all of the approaches being considered.

#### ***Presentation: Attribution of profit or loss and other comprehensive income to sub-classes of equity (Agenda Paper 5B)***

The Board observed that existing IFRS Standards require the attribution of profit or loss and other comprehensive income between non-controlling interests and parent equity interests. The Board indicated that, under all of the approaches being considered, it would be useful to:

- a. require entities to attribute profit or loss and other comprehensive income to some classes of equity other than the ordinary shares of the parent entity; and
- b. update the carrying amount of each sub-class of equity to reflect any such attribution.

The Board observed that some of the claims that would be classified as liabilities under the Gamma approach would be classified as equity under the Alpha and Beta approaches. Because of this difference, the Board asked the staff to explore ways to present the attribution of amounts to these classes of equity more prominently than other classes of equity.

The Board will discuss the specific requirements for determining the amount to be attributed to classes of equity other than ordinary shares at a future meeting.

#### ***Claims with conditional alternative settlement outcomes (Agenda Paper 5C)***

The Board discussed claims with alternative liability or equity settlement outcomes that are:

- a. conditional on rights within the control of the entity; or
- b. contingent on the occurrence or non-occurrence of uncertain future events beyond the control of both the entity and holder of the claim.

The Board will continue to consider these issues at a future meeting.

#### ***Next steps***

The Board will continue to develop the three approaches at a future meeting.

### **Work plan—projected targets as at 19 February 2016**

The work plan reflecting decisions made at this meeting was updated on the IASB website on 19 February 2016. [View it here](#).