



Project:	International Projects	Meeting	AASB October 2015 (M148)
Topic:	Various	Agenda Item:	11.1
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		Decision-Making:	Medium/Low
		Project Status:	Various

Introduction and objective of this paper

- 1 The objective of this paper is to decide whether to take any action in relation to key decisions made at recent international standard-setting meetings.

Link to project summary

http://www.aasb.gov.au/admin/file/content102/c3/AASB_Standard_Setting_Work_Program.pdf

Attachments

Agenda Paper 11.2	<i>IASB Update</i> September 2015
Agenda Paper 11.3	<i>IFRIC Update</i> September 2015
Agenda Paper 11.4	<i>Deloitte IFRS in Focus: Meeting of the Transition Resource Group for Impairment of Financial Instruments</i>
Agenda Paper 11.5	<i>IPSASB Meeting Highlights</i> September 2015 (to be tabled, if available)

Summary of staff recommendations

- 2 AASB staff have made two “action” recommendations in relation to recent IFRS Interpretations Committee (the Committee) deliberations on IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Staff recommend that the Board:
 - (a) direct staff to contact Committee staff to raise a concern regarding the drafting of a tentative agenda decision regarding the allocation of impairment losses to non-current assets held in a disposal group; and
 - (b) write to the Committee concerning the Committee’s tentative agenda decision to defer consideration of a number of a number of IFRS 5 issues raised with the Committee to after the completion of the IASB’s Agenda Consultation.

- 3 AASB staff bring to the attention of the Board issues related to the IASB's tentative agenda decisions on insurance contracts and discount rates, and the Committee's tentative agenda decisions on the allocation of impairment between continuing and discontinued operations. However, staff have recommended no action be taken on these issues at this stage.
- 4 Staff have no issues to raise in relation the Impairment ITG or IPSASB meetings.

Overview

IASB (see Agenda Paper 11.2)

- 5 At the IASB's September meeting, the key projects for discussion included: Insurance Contracts, Disclosure Initiative, Revenue from Contracts with Customers, Conceptual Framework, Business Combinations, Financial Instruments with Characteristics of Equity, Discount Rates and the IASB's Research Programme.

Insurance Contracts

- 6 AASB staff wish to draw the Board's attention to the IASB's tentative decision to amend IFRS 4 *Insurance Contracts* to give companies with a business model to predominantly issue insurance contracts the option to defer the effective date of IFRS 9 *Financial Instruments* until 2021 (the 'deferral approach'). The IASB also tentatively decided to propose that entities already applying IFRS 9 would have the option to defer into OCI the difference between (i) the amount that would be recognised in profit or loss in accordance with IFRS 9 and (ii) the amounts recognised in profit or loss in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* for specified assets.
- 7 AASB staff would have preferred an option whereby IFRS 9 adopters would be able to re-apply IFRS 9 upon initial application of the new Insurance Standard as those entities might have made different decisions about their business model given the IFRS 4 requirements.
- 8 These decisions are in relation to a future Exposure Draft (ED) that would amend IFRS 4 and IFRS 9 for the decisions reached as discussed in paragraph 6. Accordingly, AASB staff do not recommend any action by the Board at this stage. Instead, AASB staff recommend raising this point in the AASB's submission on the related ED.

Discount Rates

- 9 AASB staff also note the IASB's discussions regarding the discount rate research project and would prefer that the IASB instead focus its efforts on a measurement concepts project. AASB staff plan to recommend highlighting this issue in the AASB's submission on the IASB's Agenda Consultation. Accordingly, staff do not recommend that the Board take any action on this issue at this stage.

Other issues

- 10 Other than the issue expressed in paragraphs 6 to 9 above, AASB staff do not have any other issues to bring to the Board's attention at this stage.

- 11 AASB staff note that *Effective Date of IFRS 15* was issued on 11 September 2015 to defer the effective date of IFRS 15 by 1 year from 1 January 2017 to 1 January 2018 with early application still permissible. AASB staff plan to issue an Australian-equivalent amendment in October. Sweep issues (if any) will be discussed at Agenda item 18 of the October AASB meeting.
- 12 The next IASB meeting is scheduled to be held on 19-23 October 2015.

Question 1 to Board members:

Do Board members agree with the staff recommendations above in relation to IASB activities?

IFRS Interpretations Committee (see Agenda Paper 11.3)

- 13 The Committee met on 8 and 9 September 2015 at which it made no final agenda decisions, recommended an amendment to IFRS 11 *Joint Arrangements* to be effected through the IASB's Annual Improvements process and made several tentative agenda decisions in relation to:
- (a) IFRS 5;
 - (b) IFRS 9 *Financial Instruments*;
 - (c) IFRS 11 *Joint Arrangements*;
 - (d) IAS 32 *Financial Instruments: Presentation*; and
 - (e) IAS 39 *Financial Instruments: Recognition and Measurement*.
- 14 AASB staff wish to draw to the Board's attention the three tentative agenda decisions pertaining to IFRS 5.

To what extent can an impairment loss be allocated to non-current assets within a disposal group?

- 15 The tentative agenda decision concludes that an impairment loss of a disposal group may reduce the carrying amount of non-current assets within a disposal group to below a non-current asset's fair value less costs of disposal and its value in use.
- 16 AASB staff sought and received feedback from some Australian constituents in April 2015 as part of the Committee staff outreach process. Staff are drawing the Committee's conclusion to the Board's attention as the feedback received from staff outreach indicated diversity in practice.

Staff recommendation

- 17 AASB staff **agree** with the conclusion reached in the tentative agenda decision. However, staff think that the tentative agenda decision could be improved by including, as support for the conclusion, a discussion of the appropriate unit of account in these circumstances being the (single) disposal group, rather than the individual assets and liabilities forming the disposal group.

- 18 AASB staff recommend that the Board direct staff to communicate the staff concern in this regard to IASB staff.

How to present intragroup transactions between continuing and discontinued operations?

- 19 The tentative agenda decision concludes that intragroup transactions between continuing and discontinued operations should be eliminated in full.
- 20 AASB staff sought and received feedback from some Australian constituents in April 2015 as part of the Committee staff outreach process. Staff are drawing the Committee's conclusion to the Board's attention as the feedback received from staff outreach indicated diversity in practice. Staff note that the tentative agenda decision also refers to diversity observed in practice.

Staff recommendation:

- 21 AASB staff **agree** with the conclusion reached in the tentative agenda decision, including that additional disclosures may be necessary to evaluate the financial effect of the discontinued operation.
- 22 AASB staff do not recommend that the Board take any action at this stage.

Other IFRS 5-related issues

- 23 The tentative agenda decision describes various IFRS 5 issues that have been raised to the Committee, and notes that the Committee will not be further addressing these issues before the *IASB 2015 Agenda Consultation* is complete.

Staff recommendation

- 24 AASB staff support the proposal to defer any further short-term discussions on these issues. However, staff think there is a difference between not adding issues to the Committee's agenda, and deferring a decision to add an issue to its agenda or continue discussing an issue. AASB staff think that it is not appropriate for an agenda decision to be finalised to complete the issue where an issue is only being 'parked'.
- 25 Should the Committee decide to proceed with finalising its agenda decision in this regard, staff note that rejection notices "should be seen as helpful, informative and persuasive"¹. Accordingly, AASB staff recommend that the Board write to the Committee:
- (a) querying whether an agenda decision is necessary;
 - (b) supporting the Committee's decision to defer any further discussion on the issues until the outcome of the *IASB 2015 Agenda Consultation* is known;

1 <http://www.ifrs.org/How-we-develop-Interpretations/Pages/Setting-the-agenda.aspx>

- (c) encouraging that the agenda decision describe why these matters have been raised as issues to the Committee and why each remains unresolved having been previously discussed by the Committee; and
- (d) encouraging the wording of the final sentence be amended to read “Consequently, the Interpretations Committee [decided] not to add these issues to its agenda at this time”, to acknowledge that these issues may need to be re-addressed by the Committee following the outcome of the IASB *2015 Agenda Consultation*.

26 The Committee is next scheduled to meet on 10 and 11 November 2015.

Question 2 to Board members:

Do Board members agree with the staff recommendations above in relation to IFRIC activities?

IFRS Transition Resource Group for Impairment of Financial Instruments (ITG) (see Agenda Paper 11.4)

- 27 The ITG met on 16 September 2015 where it discussed 4 issues: (1) significant increases in credit risk, (2) use of changes in the risk of a default occurring over the next 12 months when assessing for significant increases in credit risk, (3) measurement of expected credit losses for revolving facilities and (4) forward-looking information. At this meeting the ITG also received an update on the status of the final Basel guidance on accounting for expected credit losses.
- 28 For all four issues discussed, IASB staff did not recommend any amendments to IFRS 9, noting that sufficient guidance already existed in all cases. ITG members agreed with IASB staff analysis and views. AASB staff do not have any issues to raise with the Board in relation to this ITG meeting at this stage.
- 29 The next ITG meeting is planned to be held on 11 December 2015.

IPSASB

- 30 The IPSASB met on 22-25 September 2015 and the key topics discussed included: the Cash Basis Review, Public Sector Financial Instruments, Impairment of Revalued Assets, Improvements, Public Sector Combinations, Non-exchange Expenses, Revenue, Emissions Trading Schemes, Employee Benefits and Heritage Assets. IPSASB member, Tim Youngberry, will provide a verbal update of the meeting outcomes at the AASB meeting. AASB staff do not have any issues to raise with the Board in relation to this meeting at this stage.
- 31 The next IPSASB meeting is planned to be held on 8-11 December 2015.

Appendix A: IFRS Interpretations Committee staff outreach requests (19 August 2015 – 5 October 2015)

Topic	Date request received	Rate AASB staff responded
IFRS 9 <i>Financial Instruments</i> Outreach request to clarify how to determine hedge effectiveness for hedges of a net investment in a foreign operation.	18 September 2015	Not yet responded. Comments due by 9 October.
IAS 12 <i>Income Taxes</i> & IAS 32 <i>Financial Instruments: Presentation</i> Outreach request querying: (1) whether there are any tax consequences arising from interest payments on financial instruments that are classified as equity, and (2) whether costs of issuing such instruments should be presented in profit or loss, or directly in equity.	3 October 2015	Not yet responded. Comments due by 23 October.
IFRIC 12 <i>Service Concession Arrangements</i> Outreach request querying: (1) whether service concession arrangements that involve a lease of infrastructure fall within the scope of IFRIC 12; and (2) if so, how should an entity recognise and present liabilities from the lease.	3 October 2015	Not yet responded. Comments due by 23 October.
IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i> Outreach request querying whether a cash advance that is received from the government that is refundable if the project is successful should be treated as a government grant when received or as forgivable loan.	3 October 2015	Not yet responded. Comments due by 23 October.
IAS 12 <i>Income Taxes</i> & IAS 38 <i>Intangible Assets</i> Outreach request querying whether deferred tax on indefinite life intangible assets should be calculated using the tax rate (and tax base) applicable to trading profits or to capital gains.	3 October 2015	Not yet responded. Comments due by 23 October.