IFRS®

IASB Update March 2019

This IASB *Update* highlights preliminary decisions of the International Accounting Standards Board (Board). The Board's final decisions on IFRS® Standards, Amendments and IFRIC® Interpretations are formally balloted as set forth in the *Due Process Handbook* of the IFRS Foundation and the IFRS Interpretation Committee.

The Board met on Tuesday 12 to Thursday 14 March 2019 at the IFRS Foundation's offices in London.

The topics, in order of discussion, were:

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- SMEs that are subsidiaries
- SME Standard review and update
- Financial Instruments with Characteristics of Equity
- Business Combinations under Common Control
- Extractive Activities
- Primary Financial Statements
- Amendments to IFRS 17 *Insurance Contracts*
- Disclosure Initiative
- IBOR Reform and the Effects on Financial Reporting

Classification of Liabilities as Current or Non-current (Agenda Paper 29)

The Board met on 12 March 2019 to continue its discussion of comments on the Exposure Draft *Classification of Liabilities*, which proposes amendments to paragraphs 69–76 of IAS 1 *Presentation of Financial Statements*.

Liabilities with equity-settlement features (Agenda Paper 29A)

The Board tentatively decided to clarify the IAS 1 requirements for classifying liabilities with equity-settlement features by:

a. clarifying the circumstances in which an obligation to transfer the entity's own equity instruments affects the classification of a liability:
b. clarifying that the existing and proposed references to equity instruments are to the entity's own equity instruments.
c. aligning the terminology—referring to the 'transfer to the counterparty' (not 'issue') of the entity's own equity instruments. The term transfer would apply to any means of delivering the entity's equity instruments to the counterparty, including issuing new instruments.

All 14 Board members agreed with the decision.

The Board asked the staff to perform focused consultation to obtain a better understanding of the practical effect of these clarifications.

Lending conditions tested after the reporting period (Agenda Paper 29B)

At a previous meeting, the Board tentatively decided to clarify in IAS 1 that, in assessing an entity's right to defer settlement of a liability, compliance with any conditions in a lending agreement should be assessed as at the reporting date, even if the lender will not test the entity's compliance until a later date.

At this meeting, the Board tentatively decided not to add further guidance on how to test compliance with conditions linked to the entity's financial performance.

Ten of 14 Board members agreed and four disagreed with the decision.

Next steps

The Board will discuss transition arrangements and review the due process on this project.

SMEs that are subsidiaries (Agenda Paper 31)

The Board met on 12 March 2019 to receive an update on its research project on SMEs that are subsidiaries. This project, previously in the research pipeline, has now become active.

The Board was not asked to make any decisions.

Next step

The staff will undertake outreach.

2019 Comprehensive Review of the IFRS for SMEs Standard (Agenda Paper 30)

The Board met on 12 March 2019 to discuss the 2019 comprehensive review of the *IFRS for SMEs* Standard.

The Board discussed:

a. whether the *IFRS for SMEs* Standard should be aligned with full IFRS Standards;
b. the principles to apply when considering whether and how the *IFRS for SMEs* Standard should be updated for new and amended IFRS Standards; and
c. whether the Request for Information should recommend aligning Section 2 Concepts and Pervasive Principles of the *IFRS for SMEs* Standard with the 2018 *Conceptual Framework for Financial Reporting*.

The Board did not make any decisions.

Next steps

The Board instructed the staff to prepare a paper that demonstrates how the principles would be applied when considering whether and how the *IFRS for SMEs* Standard should be updated for new and amended IFRS Standards.

Financial Instruments with Characteristics of Equity (Agenda Paper 5)

The Board met on 13 March 2019 to discuss themes emerging from feedback on the Discussion Paper *Financial Instruments with Characteristics of Equity* through comment letters and outreach.

The Board was not asked to make any decisions.

Next steps

At future Board meetings, the Board will receive detailed comment-letter analyses on the Discussion Paper.

Business Combinations under Common Control (Agenda Paper 23)

The Board met on 13 March 2019 to discuss the research project on Business Combinations under Common Control.

The Board discussed the information needs of different types of primary users of an entity's financial statements and how those information needs are considered in developing measurement alternatives for transactions within the scope of the project.

The Board also discussed whether a predecessor approach could be applied for transactions between wholly owned entities; in particular, for transactions that affect lenders and other creditors of the receiving entity or affect prospective equity investors.

The Board was not asked to make any decisions.

Next step

The Board expects to continue discussions on methods of accounting for transactions within the scope of the project at future meetings.

Extractive Activities (Agenda Paper 19)

The Board met on 13 March 2019 to discuss feedback from National Standard-setters on changes in the extractives industry since the publication of the 2010 *Extractive Activities* Discussion Paper. The Board was not asked to make any decisions.

Next steps

Before deciding the scope and direction of this research project, the Board plans to hold education sessions to develop further its understanding of extractive activities and the findings of the 2010 Discussion Paper.

Primary Financial Statements (Agenda Paper 21)

The Board met on 13 March to discuss:

a. whether to add to the required line items in the primary financial statements; and
b. the definition of and guidance and disclosure requirements for unusual items.

***Additional proposals on required line items in the primary financial statements* (Agenda Paper 21A)**

The Board tentatively decided to:

a. require entities to present in the statement of financial position:
    i. goodwill;
    ii. investments in 'integral' associates and joint ventures accounted for using the equity method; and

iii. investments in 'non-integral' associates and joint ventures accounted for using the equity method.

Thirteen of 14 Board members agreed and one disagreed with this decision.

b. not add amortisation, depreciation or research and development expenditure to the list of line items in paragraph 82 of IAS 1 required to be presented in the statement(s) of financial performance. Twelve of 14 Board members agreed and two disagreed with this decision.

***Unusual items* (Agenda Paper 21B)**

The Board tentatively decided to:

a. define unusual items along the following lines:

   'Unusual items are income or expenses with limited predictive value because it is reasonable to expect that similar items will not arise for several future annual reporting periods.

   'Similar items are income or expenses that are similar in type and amount.'

Thirteen of 14 Board members agreed and one disagreed with this decision.

b. state that gains or losses arising from the remeasurement of items required to be measured at current value (including fair value) generally should not be classified as unusual items.

Eleven of 14 Board members agreed and three disagreed with this decision.

c. require entities to attribute unusual expenses to categories of expense by nature, regardless of their method of analysis of expenses in the statement(s) of financial performance. Thirteen of 14 Board members agreed and one disagreed with this decision.
d. require entities to provide a narrative description of the transactions or other events that give rise to unusual items. Thirteen of 14 Board members agreed and one disagreed with this decision.
e. not require entities to provide information about income or expenses related to unusual income or expenses (unless those income or expenses themselves meet the definition of unusual items). Thirteen of 14 Board members agreed and one disagreed with this decision.

The Board tentatively decided not to provide guidance stating that:

a. information provided about unusual items should be neutral, noting that information in financial statements is expected to be neutral; and
b. entities may consider the past occurrence of similar items to assess whether it is reasonable to expect that similar items will arise in the future.

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

Next steps

The Board will continue discussing topics within the scope of the project at future Board meetings.

Amendments to IFRS 17 *Insurance Contracts* (Agenda Paper 2)

The Board met on 14 March 2019 to consider possible amendments to IFRS 17 *Insurance Contracts* relating to the following topics:

- level of aggregation—Agenda Paper 2A, 2B and 2C;
- credit cards that provide insurance coverage—Agenda Paper 2D;
- transition requirements—risk mitigation option—Agenda Paper 2E;
- transition requirements—loans that transfer significant insurance risk—Agenda Paper 2F;
- amendments to disclosure requirements resulting from the Board's tentative decisions to date —Agenda Paper 2G; and
- other implications for disclosure and transition requirements—Agenda Paper 2H.

Level of aggregation **(Agenda Paper 2A–2C)**

The Board tentatively decided to retain the IFRS 17 requirements on the level of aggregation unchanged.

All 14 Board members agreed with this decision.

Credit cards that provide insurance coverage **(Agenda Paper 2D)**

The Board tentatively decided to amend IFRS 17 to exclude from its scope credit card contracts that provide insurance coverage for which the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

All 14 Board members agreed with this decision.

Transition requirements—Risk mitigation option **(Agenda paper 2E)**

The Board tentatively decided to amend the requirements of IFRS 17 to:

a. permit an entity to apply the risk mitigation option prospectively from the IFRS 17 transition date, provided that the entity designates its risk mitigation relationships to apply the risk mitigation option no later than the IFRS 17 transition date; and
b. permit an entity that can apply IFRS 17 retrospectively to a group of insurance contracts with direct participating features to use the fair value transition approach for the group, if and only if it:
    i. chooses to apply the risk mitigation option to the group prospectively from the transition date; and

  ii. has used derivatives or reinsurance contracts held to mitigate financial risk arising from the group before the transition date.

All 14 Board members agreed with this decision.

Transition requirements—Loans that transfer significant insurance risk **(Agenda paper 2F)**

The Board tentatively decided to retain:

a. the transition requirements in IFRS 17 for loans that transfer significant insurance risk, if an entity elects to apply the requirements in IFRS 17 to a portfolio of such loans; and
b. the transition requirements in IFRS 9 *Financial Instruments* for loans that transfer significant insurance risk, if an entity:
    i. elects to apply the requirements in IFRS 9 to a portfolio of such loans; and
    ii. initially applies IFRS 17 and IFRS 9 at the same time.

The Board tentatively decided to amend the transition requirements in IFRS 9 for loans that transfer significant insurance risk, if an entity:

a. elects to apply the requirements in IFRS 9 to a portfolio of such loans; and
b. has applied IFRS 9 before it initially applies IFRS 17

In such circumstances, the Board tentatively decided to amend the transition requirements in IFRS 9:

a. to require an entity to apply the transition requirements in IFRS 9 that are necessary for applying the proposed amendments.
b. to permit an entity to newly designate, and to require an entity to revoke its previous designations of, a financial liability under the fair value option at the date the entity first applies the proposed amendments, to the extent that a new accounting mismatch is created, or a previous accounting mismatch no longer exists as a result of applying the proposed amendments.
c. not to require an entity to restate prior periods to reflect the application of the proposed amendments but to permit an entity to restate prior periods under particular conditions.
d. to exempt an entity from presenting the quantitative information required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
e. to require an entity to disclose specific information in addition to the disclosures that any other IFRS Standard would require. The specific information required is:
    i. the previous classification, including measurement category when applicable, and carrying amount of the loans immediately before applying the proposed amendments;
    ii. the new measurement category and carrying amount of the loans determined in accordance with IFRS 9 after applying the proposed amendments;
    iii. the carrying amount of any financial liabilities at the date of the initial application of the proposed amendments in the statement of financial position that were previously designated at fair value through profit or loss (FVPL) but are no longer so designated as a result of the proposed amendments; and

iv. the reasons for any designation or de-designation of financial liabilities as measured at FVPL.

All 14 Board members agreed with this decision.

***Amendments to disclosure requirements resulting from the Board's tentative decisions to date* (Agenda Paper 2G)**

The Board tentatively decided to amend the disclosure requirements in IFRS 17 to reflect proposed amendments related to:

a. the contractual service margin recognised in profit or loss on the basis of coverage units determined by considering both insurance coverage and investment-related services or investment-return services, if any, by requiring:
    i. quantitative disclosure, in appropriate time bands, of the expected recognition in profit or loss of the contractual service margin remaining at the end of the reporting period —ie removing the option in paragraph 109 of IFRS 17 to provide only qualitative information.
    ii. specific disclosure of the approach to assessing the relative weighting of the benefits provided by insurance coverage and investment-related services or investment-return services, as part of the disclosure requirements in paragraph 117 of IFRS 17.
b. insurance acquisition cash flows not yet included in the measurement of recognised groups of insurance contracts, by requiring:
    i. reconciliation of the asset created by these cash flows at the beginning and the end of the reporting period and its changes, specifically recognition of any impairment loss or reversals. The aggregation of the information provided in this reconciliation should be consistent with the aggregation an entity uses when applying paragraph 98 of IFRS 17 to the related insurance contracts.
    ii. quantitative disclosure, in appropriate time bands, of the expected timing of the inclusion of these acquisition cash flows in the measurement of the related group of insurance contracts.

All 14 Board members agreed with this decision.

***Implications on disclosure and transition requirements* (Agenda paper 2H)**

The Board tentatively decided to retain unchanged all disclosure and transition requirements in IFRS 17, except as described in the tentative decisions on Agenda Papers 2E, 2F and 2G.

All 14 Board members agreed with this decision.

Next steps

At its April 2019 meeting, the Board plans to consider the package of amendments tentatively decided by the Board as a whole. At that meeting the Board will consider whether:

a. on the whole, the benefits of the amendments outweigh the costs; and
b. on the whole, the amendments do not unduly disrupt implementation.

At the same meeting, the staff expect to request Board's permission to start the balloting process for the proposed amendments to IFRS 17.

Disclosure Initiative—Accounting Policies (Agenda Paper 11)

The Board met on 14 March 2019 to continue its deliberations about accounting policy disclosures.

***Examples* (Agenda Paper 11A)**

The Board tentatively decided to use two examples to demonstrate how an entity should apply the four-step materiality process set out in the materiality practice statement to accounting policy disclosures.

The Board also tentatively decided that the examples should:

a. highlight the need to focus on information useful to users of financial statements; and
b. demonstrate how the application of the four-step materiality process can respond to:
    i. the use of boilerplate or generic information in accounting-policy disclosures material to the financial statements; and
    ii. accounting-policy disclosures containing only information that repeats requirements of IFRS Standards.

Thirteen of 14 Board members agreed and one disagreed with these decisions.

Next steps

The Board will discuss due process steps at a future meeting.

IBOR Reform and the Effects on Financial Reporting (Agenda Paper 14)

The Board met on 14 March 2019 to discuss:

- whether an entity should have a choice to apply the relief set out during the February 2019 Board meeting and when an entity should cease to apply the relief—Agenda Paper 14; and
- due process steps—Agenda Paper 14A.

***Voluntary application and end of relief* (Agenda Paper 14)**

The Board tentatively decided that:

a. the application of the relief, where applicable, should be mandatory.

b. entities should cease to apply the relief when the earlier of the following occurs:
    i. uncertainty regarding timing and amount of the resulting cash flows is no longer present; and
    ii. the hedging relationship terminates.
c. end of relief, before the termination of the hedge relationship, is not applicable for separately identifiable risk components.

All 14 Board members agreed with these decisions.

Due process steps (Agenda Paper 14A)

The Board tentatively decided that the comment period for the proposed amendments to IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement* should be 45 days. All 14 Board members agreed with this decision.

All Board members confirmed they were satisfied that the Board has complied with the applicable due process requirements and that it has undertaken sufficient consultation and analysis to begin the process for balloting the Exposure Draft.

No Board members indicated they intend to dissent from the proposed amendments to IFRS 9 and IAS 39.

Next step

The Board plans to issue an exposure draft in the second quarter of 2019.