IFRS®

IASB Update September 2018

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 Wednesday 19 and Thursday 20 September 2018 at the IFRS Foundation's offices in London.

The topics, in order of discussion, were:

- Dynamic Risk Management
- Implementation—Costs Considered in Assessing Whether a Contract is Onerous
- Extractive Activities
- Research Programme
- Primary Financial Statements
- Classification of Liabilities
- Disclosure Initiative: Targeted Standards-level Review of Disclosures

Dynamic Risk Management (Agenda Paper 4)

The Board met on 19 September 2018 to discuss the Dynamic Risk Management (DRM) research project. Agenda Paper 4A provided a summary of discussions to date for information only.

Imperfect Alignment (Agenda Paper 4B)

The Board discussed the information that should be provided in situations of imperfect alignment. Board members unanimously agreed that, for items designated in the DRM model, measuring imperfect alignment provides information about the extent to which an entity has achieved its risk management strategy and therefore quantifies the resulting potential impact on the entity's future economic resources. The Board also tentatively decided:

a. entities should measure imperfect alignment on an on-going basis. All 14 Board members agreed with this decision.

b. when an entity over-hedges, it should present the difference between changes in fair value of the designated and benchmark derivatives in the statement of profit or loss as imperfect alignment. Thirteen of 14 Board members agreed with this decision and one member abstained.
c. the ‘lower of’ test should be retained within the DRM accounting model. The staff will consider how to best communicate imperfect alignment when the ‘lower of’ test is applied. All 14 Board members agreed with this decision.
d. the target profile within the DRM accounting should be defined as a single outcome. All 14 Board members agreed with this decision.
e. the DRM model should require a minimum level of alignment in the form of qualitative thresholds supported by quantitative analysis. All 14 Board members agreed with this decision.

The Board instructed the staff to further explore how the proposed minimum performance requirements would be specifically applied in the context of the DRM model.

Change in Risk Management Strategy **(Agenda Paper 4C)**

Agenda paper 4C discussed how an entity applying the DRM accounting model should reflect a change in the risk management strategy.

The Board tentatively decided that when a change in risk management strategy requires a change in the entity’s target profile, the accumulated balance recognised in other comprehensive income should be reclassified to profit or loss over the life of the target profile as defined prior to the change in risk management strategy.

All 14 Board members agreed with this decision.

Next step

In future meetings, the Board plans to continue deliberations on the Dynamic Risk Management accounting model.

Costs Considered in Assessing Whether a Contract is Onerous (Proposed amendments to IAS 37) (Agenda Paper 12)

The Board met on 19 September 2018 to discuss the due process steps for the coming exposure draft, *Costs Considered in Assessing Whether a Contract is Onerous*.

The Board tentatively decided that the comment period for the proposed amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* should be at least 120 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 balloting the proposed amendments to IAS 37.

No Board members indicated they intend to dissent from the proposed amendments to IAS 37.

Next steps

The Board plans to issue an exposure draft in the last quarter of 2018.

Extractive Activities (Agenda Paper 19)

The Board met on 19 September 2018 to receive an update on the project and an outline of its next steps. The Board was not asked to make any decisions.

Research update (Agenda Paper 8)

The Board met on 20 September 2018 for an update on developments in its research programme since June 2018. (Information on the Board's work plan, including its research programme, is available here.) The Board noted that the staff have started work on two projects from the research pipeline: Extractive Activities and Pension Benefits that Depend on Asset Returns. As a result, the work plan now lists these two research projects as active.

The Board was not asked to make any decisions.

Next Step

The Board expects to receive the next update on its research programme in around three or four months.

Primary Financial Statements (Agenda Paper 21)

The Board met on 20 September to discuss:

a. the scope of proposals for subtotals in the statement of profit or loss;
b. providing information about unusual or infrequent items;
c. introducing indicators for making the split between 'integral' and 'non-integral' associates and joint ventures; and
d. moving the Primary Financial Statements project from the research programme to the standard-setting programme.

Scope of proposals for subtotals in the statement of profit or loss **(Agenda Paper 21A)**

The Board discussed:

a. the scope of the Board's proposal for a 'profit before finance income/expenses and income tax' subtotal;
b. the scope of the Board's proposal for a 'profit before income/expenses from investments, finance income/expenses and income tax' subtotal;
c. the implications of the scope proposals for the presentation of subtotals by entities with more than one main business activity; and
d. the implications of the scope proposals for the presentation of the share of profit from investments in associates and joint ventures.

The Board tentatively agreed in principle with the proposed requirements relating to (a)–(c) above but directed the staff to improve the proposals by:

a. redrafting and reordering to simplify and clarify the proposals; and
b. developing better ways to describe entities that are not required to provide some of the proposed subtotals.

The scope of the Board's proposal for a 'profit before finance income/expenses and income tax' subtotal

The Board tentatively decided in principle that:

a. entities are not required to present a 'profit before finance income/expenses and income tax' subtotal if their main business activity is to provide financing to customers and if they separately present financing income. Eleven of 14 Board members agreed and three disagreed with this decision.
b. entities that do not present a 'profit before finance income/expenses and income tax' subtotal shall include in the 'business profit from consolidated entities' subtotal:
    i. interest income on cash and cash equivalents calculated using the effective interest method;
    ii. other income from cash and cash equivalents and financing activities; and
    iii. expenses from financing activities.

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

c. entities with insurance finance income or expenses should include it in the 'business profit from consolidated entities' subtotal. (Applying the proposals in the section on the scope of the Board's proposal for a 'profit before income/expenses from investments, finance income/expenses and income tax' subtotal, related investment income and expenses would also be included in that subtotal.) Twelve of 14 Board members agreed and two disagreed with this decision.

The scope of the Board's proposal for a 'profit before income/expenses from investments, finance income/expenses and income tax' subtotal

The Board tentatively decided in principle that:

a. entities are not required to present a ‘profit before income/expenses from investments, finance income/expenses and income tax’ subtotal if, in the course of their main business activity, they invest in assets that generate a return individually and largely independently from other resources held by the entity. Thirteen of 14 Board members agreed and one disagreed with this decision.
b. entities that do not present a ‘profit before income/expenses from investments, finance income/expenses and income tax’ subtotal shall include income/expenses from investments made in the course of their main business activity within the ‘business profit from consolidated entities’ subtotal and below that subtotal present all other income/expenses from investments. Twelve of 14 Board members agreed and two disagreed with this decision.

The implications of scope proposals for the presentation of subtotals by entities with more than one main business activity

The Board tentatively decided in principle that entities whose main business activities comprise investing and providing financing to customers are:

a. not required to present a ‘profit before finance income/expenses and income tax’ subtotal and shall include, within the ‘business profit from consolidated entities’ subtotal, the following line items:
    i. interest income on cash and cash equivalents calculated using the effective interest method;
    ii. other income from cash and cash equivalents and financing activities; and
    iii. expenses from financing activities.
b. not required to present a ‘profit before income/expenses from investments, finance income/expenses and income tax’ subtotal and shall include income/expenses from investments made in the course of their investing business activity within the ‘business profit from consolidated entities’ subtotal and below that subtotal, present all other income/expenses from investments.

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

The Board discussed, but did not reach a tentative decision about entities whose main business activities include a non-financial business activity and also include investing or providing financing to customers (or both). The Board indicated that such entities should not be exempt from presenting the ‘profit before finance income/expenses and income tax’ subtotal or the ‘profit before income/expenses from investments, finance income/expenses and income tax’ subtotal. Instead, such entities should be permitted or required to include some income or expenses from financing activities or investing activities in the ‘business profit from consolidated entities’ subtotal. The Board asked the staff to develop this proposal further and consider whether the approach used for such entities could be used to simplify the proposals for other entities.

The implications of the scope proposals for the presentation of the share of profit from investments in associates and joint ventures

The Board tentatively decided that all entities are required to separately present the share of profit or loss from integral and non-integral associates and joint ventures below the ‘business profit from consolidated entities’ subtotal. All 14 Board members agreed with this decision.

Scope of proposals for subtotals in the statement of profit or loss: Illustrations of possible effects of staff proposals on some types of entities **(Agenda Paper 21B)**

This paper was for information only and no tentative decisions were made.

Unusual or infrequent items **(Agenda Paper 21C)**

The Board tentatively decided to:

a. require separate disclosure of information about unusual or infrequent items regardless of whether an entity chooses to disclose a management performance measure. Eight of 14 Board members agreed and six disagreed with this decision.
b. require separate disclosure of unusual or infrequent items in the notes to the financial statements and require that those items be attributed to line items in the statement(s) of financial performance. Ten of 14 Board members agreed and four disagreed with this decision.
c. develop principle-based guidance to help entities identify unusual or infrequent items. Ten of 14 Board members agreed and four disagreed with this decision.

Presentation of the results of integral and non-integral associates and joint ventures in the statement(s) of financial performance **(Agenda Paper 21D)**

At its January and February 2018 meetings, the Board tentatively decided to require separate presentation of:

a. the share of the profit or loss of ‘integral’ and ‘non-integral’ associates and joint ventures in the statement(s) of financial performance; and
b. the cash flows of ‘integral’ and ‘non-integral’ associates and joint ventures in the investing section of the statement of cash flows.

At this meeting, the Board suggested that—subject to drafting improvements—the following indicators could help preparers decide whether an associate or joint venture is ‘integral’:

a. the existence of integrated lines of business across the entity and the associate or joint venture that lead to dependency on the associate or joint venture;
b. the associate or joint venture’s critical supplier or customer status;
c. the reporting entity and the associate’s or joint venture’s sharing of a name or brand; and
d. the sharing of capital or borrowing sources, such that the financing for the entity and the associate or joint venture is interrelated.

In addition, the Board tentatively decided to:

a. state that the proposed list of indicators should not be prioritised in any way. All 14 Board members agreed with this decision.

b. state that the classification of an associate or joint venture as integral or non-integral shall be changed only if the relationship between the reporting entity and the associate or joint venture changes. Eight of 14 Board members agreed and six disagreed with this decision.
c. amend the disclosure requirements of IFRS 12 *Disclosure of Interests in Other Entities* to reflect the introduction of the integral and non-integral categorisation of associates and joint ventures by requiring:
    i. the disclosure in paragraph 20 to be split between ‘integral’ and ‘non-integral’ associates and joint ventures;
    ii. additional disclosure of the factors considered when determining whether associates and joint ventures are ‘integral’ or ‘non-integral’; and
    iii. additional disclosure where an equity accounted investment has been reclassified in the period, to indicate how its relationship with the reporting entity has changed.

    Nine of 14 Board members agreed and five disagreed with this decision.

***Project proposal—moving the project to the standard-setting programme* (Agenda Paper 21E)**

The Board discussed whether to move the Primary Financial Statements project from the research programme to the standard-setting programme. The Board decided to:

a. add the Primary Financial Statements project to its standard-setting programme; and
b. continue using the expertise of existing advisory bodies instead of establishing a dedicated consultative group for the project.

All 14 Board members agreed with this decision.

Next steps

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

Classification of Liabilities as Current or Non-current (Agenda Paper 22)

The Board met on 20 September 2018 to resume discussions on proposed amendments to classification requirements in paragraphs 69–76 of IAS 1 *Presentation of Financial Statements*.

The Board received an update on the status of the project and further work planned by staff. The Board was not asked to make any decisions.

Next steps

The Board will resume its discussion of comments received on the Exposure Draft *Classification of Liabilities*, published in February 2015.

Disclosure Initiative—Targeted Standards-level Review of Disclosures (Agenda Paper 11)

The Board met on 20 September 2018 to discuss an approach to drafting disclosure objectives and requirements to be tested as part of the Board's Targeted Standards-level Review of Disclosures.

Guidance for the Board (Agenda Paper 11A)

The Board reviewed a summary of draft guidance for the Board to use when developing and drafting disclosure objectives and requirements. The Board tentatively approved the draft guidance and asked the staff to move on to testing the guidance on IAS 19 *Employee Benefits* and IFRS 13 *Fair Value Measurements*.

All 14 Board members agreed with this decision.

Next steps

The Board expects to continue its discussion about testing the guidance for the Board to use when developing and drafting disclosure requirements at future meetings.