IASB Update November 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 IFRS Foundation *Due Process Handbook*.

The Board met on Wednesday 14 and Thursday 15 November 2018 at the IFRS Foundation's offices in London.

The topics, in order of discussion, were:

- IFRS 17 *Insurance Contracts*
- Primary Financial Statements
- IFRS Implementation Issues
- Management Commentary
- Classification of liabilities as current or non-current (Amendments to IAS 1)
- Updating a reference to the Conceptual Framework (Amendments to IFRS 3)
- Rate-regulated Activities

Insurance Contracts—Implications of exploring amendments to IFRS 17 for effective dates (Agenda Paper 2)

The Board met on 14 November 2018 to discuss the implications of exploring amendments to IFRS 17 *Insurance Contracts* on:

a. the effective date of IFRS 17; and
b. the expiry date of the temporary exemption from applying IFRS 9 *Financial Instruments* in IFRS 4 *Insurance Contracts.*

Given plans to consider whether to explore amendments to IFRS 17, and given the criteria for assessing any such potential amendments, the Board tentatively decided that:

a. the mandatory effective date of IFRS 17 should be deferred by one year, so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022. All 14 Board members agreed with this decision.

b. consequently, the fixed expiry date for the temporary exemption in IFRS 4 from applying IFRS 9 should be amended so that all entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2022. Thirteen of 14 Board members agreed and one disagreed with this decision.

Next steps

The Board will continue its discussions at its December 2018 meeting.

Primary Financial Statements (Agenda Paper 21)

The Board met on 14 November to discuss:

a. earnings before interest, tax, depreciation and amortisation (EBITDA);
b. whether to develop templates and examples to assist preparers of financial statements; and
c. possible amendments to the presentation requirements in IAS 1 *Presentation of Financial Statements* for minimum line items in the statement(s) of financial performance.

***EBITDA* (Agenda Paper 21A)**

The Board tentatively decided not to require presentation of EBITDA in the statement(s) of financial performance, and not to require its disclosure in the notes. Thirteen of 14 Board members agreed with this decision. One member was absent.

The Board asked staff to come back with a proposed description or definition of EBITDA with a view to adding EBITDA to the list of measures that are not considered to be management performance measures. The Board suggested that the description or definition of EBITDA could be based on the proposed operating profit subtotal, adjusted for the effect of depreciation and amortisation.

***Templates or examples* (Agenda Paper 21B)**

The Board tentatively decided:

a. to develop non-mandatory examples to illustrate the Board’s decisions regarding this project. All 14 Board members agreed with this decision.
b. to develop illustrative examples of:
    i. the statement(s) of financial performance for different types of entities;
    ii. the statement of cash flows for a financial entity and a non-financial entity based on the current illustrative examples in IAS 7; and
    iii. any notes that are introduced or amended by the project.

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

c. to include illustrative examples for the statement(s) of financial performance for the following types of entity:
    i. a non-financial entity (both by function and by nature);
    ii. an investment property company;
    iii. an insurer;
    iv. a traditional bank with no material investing activities;
    v. a bank engaged in both investing and customer financing activities;
    vi. a bank-insurer;
    vii. a manufacturer that conducts investing activities; and
    viii. a manufacturer that provides financing to customers.

Thirteen of 14 Board members agreed and one disagreed with this decision. The Board noted that this list of entity types may need to be revised following further discussion of the application of the Board's tentative decisions to financial entities.

Minimum line items **(Agenda Paper 21C)**

The Board tentatively decided:

a. to clarify that the line items that are required to be presented in the statement(s) of financial performance may need to be presented in more than one section of that statement. All 14 Board members agreed with this decision.
b. not to add 'other finance income' and 'other finance expenses' to the list of line items required to be presented in the statement(s) of financial performance. Eleven of 14 Board members agreed and three disagreed with this decision. The Board asked the staff to clarify in drafting that items that meet the definition of 'other finance income' and 'other finance expenses' should, if material, be disaggregated from the required line items included in the financing section of the statement of profit or loss.
c. to remove the requirement in paragraph 82(b) of IAS 1 to present 'finance costs' in the statement(s) of financial performance. All 14 Board members agreed with this decision.
d. to clarify that when line items are required to be presented in the statement(s) of financial performance, that requirement necessitates separate presentation, regardless of the method of analysis of expenses in the operating profit section. Twelve of 14 Board members agreed and two disagreed with this decision.

Next steps

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

Implementation (Agenda Paper 12)

The Board met on 14 November 2018 to discuss its implementation and maintenance projects.

Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) (Agenda Papers 12A–12C)

The Board discussed how to proceed with the project *Property, Plant and Equipment—Proceeds before Intended Use*, having considered the feedback on the proposed amendments to IAS 16 *Property, Plant and Equipment*.

The proposed amendments would prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Board tentatively decided to proceed with the proposed amendments with some modifications. Those modifications might include:

a. clarifications on how entities identify the costs related to sales of items produced before an item of property, plant and equipment is capable of operating in the manner intended by management; and
b. disclosure and presentation requirements.

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

Next steps

The Board will discuss the modifications to the proposed amendments at a future meeting.

Cryptocurrencies (Agenda Paper 12D)

The Board considered information provided by the IFRS Interpretations Committee (Committee) about how an entity might apply existing IFRS Standards to account for holdings of cryptocurrencies and initial coin offerings.

The Board also considered the Committee's advice on whether standard-setting is necessary for holdings of cryptocurrencies.

The Board decided not to add to its work plan a project on holdings of cryptocurrencies or initial coin offerings at this time. Instead, the Board decided to monitor the development of cryptoassets.

All 14 Board members agreed with this decision.

The Board also decided to ask the Committee to consider publishing an agenda decision that would explain how entities apply existing IFRS Standards to holdings of cryptocurrencies.

Seven of 14 Board members agreed and seven disagreed with this decision. The Chair used his additional casting vote, making the vote eight-seven in favour of the decision.

Next steps

The Committee will consider the Board's request at a future Committee meeting.

Onerous Contracts—Cost of Fulfilling a Contract (Agenda Paper 12E)

The Board tentatively decided to permit early application of the proposed amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

All 14 Board members agreed with this decision.

Next steps

The Board plans to publish an exposure draft in December 2018.

Management Commentary (Agenda Paper 15)

The Board met on 14 November 2018 to discuss the objective of management commentary and guidance supporting the objective.

***The objective of management commentary* (Agenda Paper 15A)**

The staff recommended that the objective of management commentary should be to give context for the financial statements by providing primary users with historical financial and operational information and analysis that is useful in assessing the prospects for the entity's future net cash inflows, and its management's stewardship of the entity's economic resources.

The Board did not formally vote at this meeting but agreed in broad terms with that objective, and with the staff's recommendations for guidance to support it. However, the Board asked the staff to consider whether it is possible to provide further clarity on:

a. the roles that historical information and forward-looking information play in management commentary; and
b. the difference between the objective of management commentary and the objective of financial statements.

In its analysis and discussion, the Board considered the staff research presented in Agenda Paper 15B.

Next steps

The Board expects to discuss the application of materiality in management commentary and principles of management commentary in January 2019 and at subsequent Board meetings. The second meeting of the Management Commentary Consultative Group will take place on 11 January 2019. The Board will discuss feedback from that meeting at subsequent Board meetings.

Classification of liabilities as current or non-current (Agenda Paper 29)

The Board met on 15 November 2018 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*.

The Board tentatively decided that, as proposed in the Exposure Draft, IAS 1 should require an entity to classify a liability as current if the entity does not have a right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period.

Thirteen of 14 Board members agreed with this decision. One member was absent.

The Board tentatively decided to add to IAS 1 a reminder that an entity's right to defer settlement must have substance.

Twelve of 14 Board members agreed and one disagreed with this decision. One member was absent.

The Board tentatively decided to clarify in IAS 1 that:

a. an entity's right to defer settlement is not affected by:
    i. management's expectations about whether the entity will exercise that right; and
    ii. settlement of a liability between the end of the reporting period and the date the financial statements are authorised for issue; and
b. although these factors do not affect the classification of a liability, an entity may need to disclose information about them to comply with the disclosure requirements of IFRS Standards.

Twelve of 14 Board members agreed and one disagreed with this decision. One member was absent.

The Board discussed differences between the requirements of IAS 1 and proposed requirements on the classification of debt being developed by the US Financial Accounting Standards Board and tentatively decided not to consider further amendments to IAS 1.

Twelve of 14 Board members agreed with this decision. Two members were absent.

Next steps

The Board will discuss classification of liabilities with equity-settlement features at a future meeting.

Updating a reference to the *Conceptual Framework* (Amendments to IFRS 3) (Agenda Paper 10)

Paragraph 11 of IFRS 3 *Business Combinations* refers to the *Framework for the Preparation and Presentation of Financial Statements* issued by the International Accounting Standards Committee in 1989 and adopted by the Board in 2001.

The Board met on 15 November 2018 to decide whether and, if so, how to update IFRS 3 so that the Standard instead refers to the *Conceptual Framework for Financial Reporting*, which the Board issued in March 2018.

The Board tentatively concluded that updating the reference without making any other amendments to IFRS 3 could create a conflict between the requirements of IFRS 3 and the requirements for identifying liabilities in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IFRIC 21 *Levies*. But the update would not create any other significant conflicts in practice.

Twelve of 14 Board members agreed and one disagreed with this conclusion. One member was absent.

The Board tentatively decided to begin the updating process immediately, instead of waiting for a possible future project to amend IAS 37.

Thirteen of 14 Board members agreed with this decision. One member was absent.

The Board also tentatively decided to develop proposals to avoid conflicts between IFRS 3 and IAS 37 (as interpreted by IFRIC 21) by updating the reference and adding an exception to the initial recognition requirements in IFRS 3. The exception would specify that levies within the scope of IFRIC 21 and other liabilities within the scope of IAS 37 should be recognised on acquisition only if they would be identified as liabilities applying IFRIC 21 or IAS 37 respectively.

Twelve of 14 Board members agreed and one disagreed with this decision. One member was absent.

Next steps

The Board will consider how proposals to amend IFRS 3 should be developed and whether transition arrangements are needed.

Rate-regulated Activities (Agenda Paper 9)

The Board met on 15 November 2018 to discuss the accounting model being developed for activities subject to ‘defined rate regulation’. Agenda Paper 9A provided a summary of the Board’s tentative decisions to date for information only.

Interactions between the model and IFRS Standards (Agenda Paper 9B)

Exceptions to the requirements of other IFRS Standards

The Board tentatively decided that the measurement requirements of IAS 36 *Impairment of Assets* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* should not be applied to regulatory assets and regulatory liabilities.

Thirteen of 14 Board members agreed with this decision. One member was absent.

The Board discussed aspects of the interaction between the model and IFRS 3 *Business Combinations* and asked the staff to conduct further analysis for discussion at a future meeting.

Guidance on applicability of other IFRS Standards

The Board tentatively decided that the model should include application guidance about its interaction with IAS 12 *Income Taxes*, similar to the application guidance in paragraph B10 of IFRS 14 *Regulatory Deferral Accounts*. However, the Board tentatively decided against including an explicit statement—similar to that made in paragraph 16 of IFRS 14 in relation to regulatory deferral items—that other IFRS Standards apply to regulatory assets, regulatory liabilities, regulatory income and regulatory expense in the same way as they apply to other assets, liabilities, income and expenses.

Thirteen of 14 Board members agreed with these decisions. One member was absent.

Isolation of regulatory items through presentation and disclosure requirements

The Board tentatively decided that the model should not carry forward the presentation and disclosure requirements in IFRS 14 for an entity to isolate, using subtotals, regulatory items from the assets, liabilities and net income and expense recognised using other IFRS Standards.

Thirteen of 14 Board members agreed with this decision. One member was absent.

Location of requirements and guidance on interactions with other IFRS Standards

The Board tentatively decided that any requirements and application guidance on interactions between the model and other IFRS Standards should be included in a future Standard on rate-regulated activities, rather than added to those other Standards.

Thirteen of 14 Board members agreed with this decision. One member was absent.

Presentation and disclosure (Agenda Papers 9C–9E)

The Board continued its discussions from July 2018 on presentation and disclosure requirements for the model.

Presentation (Agenda Paper 9C)

Statement of financial position

The Board tentatively decided that an entity should:

a. present regulatory assets and regulatory liabilities as separate line items in addition to the line items required by IAS 1 *Presentation of Financial Statements*;
b. applying IAS 1, classify regulatory assets and regulatory liabilities as current or noncurrent, except when a presentation based on liquidity is used; and
c. offset regulatory assets and regulatory liabilities only if they are expected to lead to adjustments to the same future rate(s) charged to customers and, consequently:
    i. they have the same pattern and timing of reversal;
    ii. they arise in the same regulatory regime; and
    iii. the entity has a legally enforceable right to offset them.

Thirteen of 14 Board members agreed with these decisions. One member was absent.

The Board also tentatively decided that although offsetting would be permitted when the conditions in subparagraphs c(i)–(iii) are met, it should not be required.

Ten of 14 Board members agreed and three disagreed with this decision. One member was absent.

Profit or loss section of the statement(s) of financial performance

The Board tentatively decided that an entity should:

a. present all regulatory income and regulatory expense in profit or loss, and not in other comprehensive income;
b. present regulatory income and regulatory expense netted as a separate line item (regulatory income or regulatory expense line item) in addition to the line items required by IAS 1; and
c. present the regulatory income or regulatory expense line item immediately below the revenue line item(s) required by IAS 1.

Thirteen of 14 Board members agreed with these decisions. One Board member was absent.

The Board also tentatively decided that an entity should include regulatory interest income and regulatory interest expense within the regulatory income or regulatory expense line item.

Twelve of 14 Board members agreed and one disagreed with this decision. One member was absent.

The Board tentatively decided not to prohibit an entity from disaggregating the required line items and presenting additional line items or subtotals in the primary financial statements when such presentation would be relevant to an understanding of the entity’s financial position and/or financial performance, as required by IAS 1.

Eleven of 14 Board members agreed and two disagreed with this decision. One member was absent.

***Disclosure objectives and requirements* (Agenda Paper 9D) and *Illustrative disclosures* (Agenda Paper 9E)**

Disclosure objectives

The Board tentatively decided that:

a. the overall disclosure objective for defined rate regulation should be focused on the effects that the transactions or other events that give rise to regulatory timing differences have on an entity's financial performance and financial position. The objective should not be broadened to include the provision of information about the general regulatory and economic environment; nor to include information about all the effects of defined rate regulation on the entity's financial performance, financial position and cash flows.
b. the specific disclosure objectives should focus on information to help users of financial statements:
    i. to understand the effects of regulatory timing differences on the entity's financial performance by distinguishing between: (1) fluctuations in revenue and expenses compensated for through the rate-adjustment mechanism; and (2) fluctuations in revenue and expenses for which there is no such compensation;
    ii. to understand and assess the amount, timing and uncertainty of (prospects for) future cash flows that will result from the entity's regulatory assets and regulatory liabilities; and
    iii. to understand how the entity's financial position was affected during the period by transactions or other events that caused changes in the carrying amounts of regulatory assets and regulatory liabilities.

Thirteen of 14 Board members agreed with this decision. One member was absent.

Disclosure requirements

The Board tentatively decided that an entity should disclose:

a. a breakdown of the regulatory income or regulatory expense line item in profit or loss into the following components:
    i. originations of regulatory assets, together with qualitative and quantitative information about the reasons for their amounts;
    ii. originations of regulatory liabilities, together with qualitative and quantitative information about the reasons for their amounts;
    iii. recovery of regulatory assets;
    iv. fulfilment of regulatory liabilities; and
    v. changes in the carrying amount of regulatory assets and regulatory liabilities due to changes in estimates, together with qualitative and quantitative information about the reasons for those changes;
b. a maturity analysis of the carrying amounts of regulatory assets and of regulatory liabilities at the end of the period, and an explanation of how the future recovery of regulatory assets or the future fulfilment of regulatory liabilities is affected by risks and uncertainty;
c. the discount rate or ranges of discount rates used to discount the estimated cash flows reflected in the carrying amounts of regulatory assets and of regulatory liabilities at the end of the period and, if different, the related regulatory interest or return rate(s) approved by

the regulator, together with qualitative and quantitative information about the reasons for those differences; and

d. a reconciliation of the carrying amount of regulatory assets and of regulatory liabilities from the beginning to the end of the period.

The Board also tentatively decided that an entity should assess whether the information provided through the disclosure requirements in paragraphs a–d is sufficient to meet the overall disclosure objective. If not, the entity should disclose any additional information needed to meet that objective.

Thirteen of 14 Board members agreed with these decisions. One member was absent.

Next steps

The Board expects to continue its discussions on other aspects of the model at a future meeting.