



IASB and joint IASB—FASB Update June 2018

This IASB *Update* highlights preliminary decisions of the International Accounting Standards Board (IASB). The IASB'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 IASB met from 20–21 June 2018 at the IFRS Foundation's offices in London.

The topics, in order of discussion, were:

- Disclosure Initiative (Principles of Disclosure, Targeted Standards-level Review of Disclosures, Definition of Material)
- Dynamic Risk Management
- Research programme: Update
- IBOR reform: research project proposal
- Primary Financial Statements
- Insurance Contracts
- Implementation
- Islamic Finance Consultative Group Update
- Business Combinations under Common Control

In addition, the IASB held a joint meeting with the Financial Accounting Standards Board (FASB) on 19 June 2018, also at the IFRS Foundation's London office.

Topics, in order of discussion, were:

- Segment reporting
- Primary Financial Statements
- Disclosure Framework / Disclosure Initiative
- Fair Value Measurement
- Goodwill and Impairment

- Implementation (Revenue, Leases)
- Update on all projects not otherwise covered

Click here to read the joint *Update*.

IASB meeting

Disclosure Initiative—Principles of Disclosure, Targeted Standards-level Review of Disclosures and Definition of Material (Agenda Paper 11)

The IASB met on 20 June 2018 to:

- a. review the interaction and distinction between the Better Communication in Financial Reporting projects;
- b. discuss guidance for the IASB to use when developing and drafting disclosure requirements in future, specifically, the IASB's process for developing the content of disclosure objectives and requirements;
- c. review a shortlist of Standards the IASB might select for its targeted Standards-level review of disclosures; and
- d. redeliberate the proposed amendments to the definition of material and to the definition's explanatory paragraphs.

Better Communication in Financial Reporting projects (Agenda Paper 11A)

The IASB tentatively decided that the current interaction and distinction between the Better Communication in Financial Reporting projects is appropriate.

All 14 IASB members agreed with this decision.

Guidance for the IASB—Overview (Agenda Paper 11B)

The IASB discussed a summary of the staff's proposed approach to bringing analysis and recommendations to the IASB over the coming months. The Board was not asked to make any decisions.

Guidance for the IASB—Developing disclosure requirements (Agenda Paper 11C)

The IASB tentatively decided that, when developing disclosure objectives and requirements in future, a member of the IFRS Taxonomy team will be assigned in an advisory capacity to each of the IASB's active projects. This tentative decision will form part of draft guidance for the IASB, subject to testing under the Targeted Standards-level Review of Disclosures project. The IFRS Taxonomy team will be engaged to help project teams better understand and assess:

- a. the current disclosure objectives and requirements;
- b. any issues stakeholders have with current disclosure objectives and requirements;

- c. any potential issues with the disclosure proposal(s);
- d. whether or not the disclosure proposal(s) can be incorporated into the IFRS Taxonomy;
- e. the relationship between the disclosure proposal(s), existing common reporting practice, IFRS Standards and accompanying materials such as implementation guidance and illustrative examples;
- f. whether any disclosure proposals are 'technology neutral'; and
- g. stakeholder feedback on paragraphs (a)–(f).

All 14 IASB members agreed with this decision.

The IASB also tentatively decided that it will further develop a five-step approach to developing disclosure objectives and requirements. This will involve consideration of disclosure objectives and requirements at all stages of a project by:

- a. Step 1—understanding issues;
- b. Step 2—understanding what stakeholders want and why;
- c. Step 3—understanding what disclosures would be required to support proposed recognition and measurement requirements;
- d. Step 4—performing a cost/benefit analysis; and
- e. Step 5—understanding and documenting the effects of the proposed disclosure objectives and requirements.

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

Selecting Standard(s) (Agenda Paper 11D)

The IASB received a summary of the work performed by the staff relating to the selection of one or two Standards for the IASB's Targeted Standards-level Review of Disclosures. The IASB discussed feedback received to date on a shortlist of Standards. The IASB was not asked to make any decisions.

Definition of Material—Project redeliberations (Agenda Paper 11E)

The IASB tentatively decided to confirm the proposed amendment to include the concept of 'obscuring information' in the bold definition of material. The IASB also tentatively decided to replace the proposed wording explaining 'obscuring information' in the explanatory paragraphs with a clearer description and examples.

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

The IASB tentatively decided to confirm the proposed amendment(s):

- a. that align terminology in the definition of material with terminology in the Conceptual Framework for Financial Reporting; and
- b. that will replace the term 'could influence' with 'could reasonably be expected to influence' in the definition of material.

All 14 IASB members agreed with this decision.

The IASB tentatively decided to replace the definition of material in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* with a reference to the definition of material and explanatory paragraphs in IAS 1 *Presentation of Financial Statements*.

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

The IASB tentatively decided that the effective date of amendments be for annual periods beginning on or after 1 January 2020 with early application permitted.

All 14 IASB members agreed with this decision.

The IASB tentatively decided that, at this time, no further action would be taken in response to feedback about:

- a. the use of the terms 'immaterial' and 'not material';
- b. the different uses of the term 'material' in IFRS Standards; and
- c. incorporating any of the Materiality Practice Statement into IAS 1 or the Conceptual Framework, including via reference.

All 14 IASB members agreed with this decision.

Next step

The IASB expects to continue its discussions on which Standard(s) to select for the targeted Standards-level review of disclosures and guidance for the IASB to use when developing and drafting disclosure requirements at future meetings.

The IASB expects to review the due process on the Definition of Material project and, if necessary, discuss any sweep issues that arise at a future meeting.

Dynamic Risk Management (Agenda Paper 4)

The IASB met on 20 June 2018 to discuss the dynamic risk management (DRM) research project. Agenda Paper 4A provided a summary of discussions to date for information only.

Derivatives used for DRM Purposes (Agenda Paper 4B)

The IASB discussed the derivative financial instruments that will be addressed in the first phase of the DRM project. The IASB also discussed designation and de-designation of derivatives. The IASB tentatively decided:

- a. the DRM model should permit the use of interest rate swaps, including basis swaps and forward starting swaps, in addition to forward rate agreements;
- b. options would be considered in the second phase of the model depending on the feedback received;
- c. the DRM model should require formal designation and documentation of derivatives; and

- d. the DRM model should require all designated derivatives to have a counterparty external to the reporting entity.

All 14 IASB members agreed with this decision.

Financial Performance (Agenda Paper 4C)

Agenda paper 4C started the discussion of financial performance in the context of the DRM accounting model. The IASB tentatively decided the following:

- a. perfect alignment is achieved when the asset profile, in conjunction with the designated derivatives, equal the target profile. All 14 IASB members agreed with this decision.
- b. the results reported in the statement of profit or loss should reflect the entity's target profile in the case of perfect alignment. Deferral and reclassification are the mechanisms by which the DRM accounting model ensures that the statement of profit or loss reflects the entity's target profile. Thirteen of 14 IASB members agreed with this decision and one member abstained.
- c. reclassification should occur over the time horizon of the target profile such that, in conjunction with the asset profile, the results reported in the statement of profit or loss reflect the entity's target profile. All 14 IASB members agreed with this decision.
- d. to apply the DRM accounting model, entities must demonstrate the existence of a continuing economic relationship, but the model will not propose a bright-line test. In addition, the IASB instructed the staff to further amplify the term 'economic relationship' to specify that the DRM accounting model requires more than 'better alignment'. All 14 IASB members agreed with this decision.
- e. if an entity chooses to discontinue the DRM accounting model, and the cash flows from the designated assets and liabilities still exist and future transactions are still expected to occur, the amount recognised in other comprehensive income should be reclassified over the life of the target profile such that, in conjunction with the asset profile, the results reported in the statement of profit or loss reflect the entity's target profile. All 14 IASB members agreed with this decision.

Regarding the principle that reclassification should occur over the time horizon of the target profile, the IASB queried whether amounts could be deferred past the contractual maturity of a derivative. The proposed mechanics—the pull to par effect on the derivative combined with the reclassification of interest accruals to the statement of profit or loss—would ensure that no balance was deferred beyond the contractual maturity of the derivative.

Next step

In future meetings, the IASB plans to continue discussing performance in the context of the DRM accounting model.

Research Programme update (Agenda Paper 8)

The IASB met on 20 June 2018 to receive an update on developments in its research programme since February 2018. (Information on the IASB's work plan, including its research programme, is available [here](#).)

The IASB was not asked to make decisions.

Next step

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

IBOR reform and the effects on financial reporting (Agenda Paper 19)

The IASB met on 20 June 2018 to discuss a proposal for a research project on interbank offered rate (IBOR) reform and its effects on financial reporting.

The IASB noted the urgency of the IBOR reform and decided to add a research project on the topic to its active research agenda.

All 14 IASB members agreed with this decision.

Next step

The IASB will discuss preliminary findings of the project at future meetings.

Primary Financial Statements (Agenda Paper 21)

The IASB met on 21 June 2018 to discuss:

- a. an analysis of the project areas in which the tentative Board decisions applying to non-financial entities could apply with little or no change to financial entities, including decisions about:
 - i. management performance measures;
 - ii. aggregation and disaggregation; and
 - iii. other comprehensive income.
- b. an analysis of project areas in which the Board would need to adjust the tentative decisions to apply them to financial entities, including decisions about:
 - i. profit before financing and income tax;
 - ii. income and expenses from investments; and
 - iii. the statement of cash flows.
- c. a summary of research on reporting practices for a sample of financial entities.

The IASB was not asked to make decisions.

Insurance Contracts (Agenda Paper 2)

The IASB met on 21 June 2018 to discuss possible minor changes to IFRS 17 *Insurance Contracts* as part of the IASB's annual improvements to IFRS Standards.

Annual improvements (Agenda Paper 2A)

The IASB tentatively decided to propose the following minor amendments to IFRS 17 (and other Standards amended by IFRS 17):

- to amend the terminology in paragraph 27 of IFRS 17 to include insurance acquisition cash flows relating to insurance contracts in the group yet to be issued. All 14 IASB members agreed with this decision.
- to amend the terminology in paragraph 28 of IFRS 17 to achieve the intended timing of recognition of contracts within a group. All 14 IASB members agreed with this decision.
- to remove requirements that could result in double-counting of the risk-adjustment for non-financial risk in the insurance contracts reconciliation disclosures and revenue analyses. All 14 IASB members agreed and with this decision.
- to correct the terminology in the sensitivity analysis disclosures. All 14 IASB members agreed with this decision.
- to exclude business combinations under common control from the scope of the requirements for business combinations in IFRS 17. All 14 IASB members agreed with this decision.
- to amend IFRS 3 *Business Combinations* so that the amendment made by IFRS 17 on the classification of insurance contracts applies prospectively. All 14 IASB members agreed with this decision.
- to amend IFRS 7 *Financial Instruments: Disclosures*, IFRS 9 *Financial Instruments* and IAS 32 *Financial Instruments: Presentation* to achieve the intended scopes of these financial instruments Standards and the scope of IFRS 17, particularly with respect to insurance contracts held. All 14 IASB members agreed with this decision.
- to add an explanation that, in Example 9 of the Illustrative Examples on IFRS 17, the time value of the guarantee changes over time. All 14 IASB members agreed with this decision.

Annual improvement on coverage units (Agenda Paper 2B)

The IASB tentatively decided to propose to clarify the definition of the coverage period for insurance contracts with direct participation features. The proposed amendment would clarify that the coverage period for such contracts includes periods in which the entity provides investment-related services. 13 of 14 IASB members agreed and 1 disagreed with this decision.

Next step

The IASB will propose these amendments in the next publication of annual improvements to IFRS Standards. The timing of the proposed annual improvements will depend on the identification of other matters for inclusion in the next publication.

The IASB will continue its discussions on IFRS 17 at a future meeting.

Implementation (Agenda paper 12)

Availability of a Refund—Amendments to IFRIC 14

The IASB received an update on work performed on the proposed amendments to IFRIC 14 IAS 19—*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, and discussed next steps for this project.

No decisions were made.

Next step

The IASB will continue its discussions at a future meeting.

Islamic Finance Consultative Group update (Agenda Paper 28)

The IASB met on 21 June 2018 for an update on the meeting of the Islamic Finance Consultative Group held in Dubai in March 2018. The IASB was not asked to make decisions.

Find out more about the Islamic Finance Consultative Group.

Business Combinations under Common Control (Agenda Paper 23)

The IASB met on 21 June 2018 to discuss the research project on Business Combinations under Common Control.

The IASB continued from its April and May meetings the discussion of current value approaches for business combinations under common control that affect non-controlling shareholders.

The IASB directed the staff to develop an approach based on the acquisition method set out in IFRS 3 *Business Combinations* and to consider whether and how that method should be modified to provide the most useful information about business combinations under common control that affect non-controlling shareholders. Possible modifications could include requirements for the receiving entity to do one or more of the following:

- a. provide additional disclosures;
- b. recognise any excess identifiable net assets acquired as a contribution to equity, instead of recognising that excess as a gain; or
- c. recognise any excess consideration as a distribution from equity instead of including it implicitly in the initial measurement of goodwill. That excess could be measured, for example, by comparison with the fair value of the acquired business (called the 'ceiling approach' in Agenda Paper 23) or by applying the mechanics of the impairment test in IAS 36 *Impairment of Assets* (called the 'revised ceiling approach' in Agenda Paper 23).

All 14 IASB members agreed with this decision.

The IASB decided not to explore the 'full fair value approach'. Under that approach, a receiving entity would recognise:

- a. a contribution to equity, or a distribution from equity, measured as the difference between the fair value of the consideration transferred and the fair value of the acquired business; and
- b. goodwill measured as the excess of the fair value of the acquired business over the identifiable net assets acquired.

All 14 IASB members agreed with this decision.

Next step

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

Joint FASB and IASB meeting

The FASB met with the IASB on 19 June 2018 for an educational session on:

- a. the IASB project, Improvements to IFRS 8 *Operating Segments* and IAS 34 *Interim Financial Reporting*, and the FASB segment reporting project (Agenda Paper 27). The boards' discussion focused on the FASB project and its planned extended outreach.
- b. the IASB project on Primary Financial Statements and the FASB project on Financial Performance Reporting (Agenda Paper 21). The two boards discussed their experiences and feedback about their projects, including:
 - i. the relationship between requiring further disaggregation and defining subtotals on the face of the statement(s) of financial performance;
 - ii. the relationship between transparency and comparability; and
 - iii. the application of their respective projects to financial entities.
- c. the IASB Disclosure Initiative project and the FASB Disclosure Framework project (Agenda Paper 11). The discussion included how disclosure requirements are developed and

drafted, and the use of disclosure objectives.

- d. the IASB's PIR of IFRS 13 *Fair Value Measurement* and amendments to the FASB's *Topic 820, Fair Value Measurement* disclosure requirements that stemmed from the FASB's Disclosure Framework project (Agenda Paper 6).
- e. Goodwill and Impairment projects (Agenda Paper 18). The boards discussed various aspects of accounting for goodwill.
- f. respective activities supporting implementation of the new revenue recognition standards (IFRS 15 *Revenue from Contracts with Customers* and *Topic 606, Revenue from Contracts with Customers*) and leases standards (IFRS 16 *Leases* and *Topic 842, Leases*) (Agenda Paper 12).
- g. a summary of projects not otherwise discussed during the day (Agenda Paper 15), with a focus on:
 - i. the IASB's recently issued *Conceptual Framework for Financial Reporting* and the FASB's Conceptual Framework project;
 - ii. the IASB's project on Financial Instruments with Characteristics of Equity and the FASB's Liabilities and Equity project; and
 - iii. the IASB's research pipeline project on variable and contingent consideration and the FASB's project on Improving the Accounting for Asset Acquisitions and Business Combinations.

The boards were not asked to make decisions.