IASB Update July 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 in July 2018 at the IFRS Foundation's offices in London.

The topics, in order of discussion, were:

- Rate-regulated Activities
- Management Commentary
- Business Combinations under Common Control
- Conceptual Framework
- Implementation
- Goodwill and Impairment
- Disclosure Initiative
- Accounting Policies and Accounting Estimates
- Emerging Economies Group update

Rate-regulated Activities (Agenda Paper 9)

The Board met on 17 July 2018 to discuss the accounting model (model) being developed for activities subject to 'defined rate regulation'. Agenda Paper 9A provided a summary of tentative decisions to date for information only.

Measurement (Agenda Papers 9B and 9D)

The Board continued its discussion from May 2018 on the measurement of regulatory assets.

Estimating future cash flows

The Board tentatively decided that, for each regulatory asset recognised, an entity should:

a. estimate future cash flows using either the 'most likely amount' method or the 'expected value' method, depending on which method the entity concludes would better predict the amount of the cash flows arising from a particular timing difference; and

b. apply the same method consistently from the origination of the timing difference until its reversal.

The Board also discussed how an entity should determine whether to consider the outcome of each timing difference separately or together with one or more other timing differences. The Board tentatively decided such determinations should be based on the approach that would better predict the amount of the resulting future cash flows.

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

Significant financing component and discount rate

No explicit financing component

The Board tentatively decided that, if a regulatory agreement does not provide explicit compensation for the effects of time between the origination and reversal of a timing difference, an entity should use judgement to determine whether the financing component of the timing difference is significant. Such judgement should be based on the entity's facts and circumstances.

If the entity concludes the financing component is not significant, discounting the future cash flows is not required. However, if the entity concludes the financing component is significant, the entity should use a 'reasonable rate' to discount the estimated future cash flows and recognise any loss in profit or loss immediately.

The Board asked the staff to develop guidance on factors to consider when determining a 'reasonable rate'.

Explicit financing component

The Board tentatively decided that, when a financing component is explicit, an entity should measure the regulatory asset by discounting the estimated future cash flows using the interest rate or return rate established by the regulatory agreement for those cash flows. However, that requirement would not apply where clear evidence shows that the regulatory interest rate or return rate is set at a level that provides an excess or deficit in compensation because of an identifiable event or decision. In this circumstance, an entity should recognise the excess or deficit in compensation in the period in which the identifiable event or decision occurs.

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

Changes in estimated cash flows, including changes caused by changes in the discount rate

The Board tentatively decided that the model should adopt the treatment required by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to account for changes in estimated future cash flows. Consequently:

a. the effect of a change in estimated future cash flows should be recognised prospectively in profit or loss in:

    i. the period of change, if the change affects only that period; or
    ii. the period of change and future periods, if the change affects both; and
b. if the change gives rise to a change in a regulatory asset, the change should be recognised by adjusting the carrying amount of the related asset in the period of change.

When a regulator changes the interest rate or return rate used to compensate an entity for the period between the origination and reversal of a timing difference, the Board tentatively decided that the entity should:

a. measure the outstanding regulatory asset balance using the revised interest rate or return rate to discount the estimated future cash flows; and
b. recognise any resulting change in the carrying amount of the regulatory asset in the period of change.

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

Measurement of regulatory liabilities

The Board also tentatively decided that the model should apply the same measurement requirements for regulatory liabilities and regulatory assets.

All 14 Board members agreed with this decision.

Suggestions for drafting

The Board asked the staff to develop suggestions to simplify, clarify and add guidance to the tentative decisions made at this meeting when describing the model.

Presentation and disclosure objective **(Agenda Paper 9C)**

The Board started its discussions about an objective to guide the development of presentation and disclosure requirements for the model.

The Board was not asked to make any decisions.

Next Step

The Board expects to continue its discussions on presentation and disclosure at a future meeting.

Management Commentary (Agenda Paper 15)

The Board met on 17 July 2018 to receive an update on the status of the Management Commentary project. The Board was not asked to make any decisions.

Next Steps

The first meeting of the Management Commentary Consultative Group will take place in October 2018. The Board will continue its discussion following the first meeting of the Management Commentary Consultative Group.

Business Combinations under Common Control

The Board met on 17 July 2018 to receive an update on the research project on Business Combinations under Common Control, including a summary of the discussion at the July meeting of the Accounting Standards Advisory Forum.

The Board was not asked to make any decisions.

Next Step

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

Conceptual Framework (Agenda Paper 10)

The Board met on 17 July 2018 to discuss when and how preparers of financial statements should refer to the *Conceptual Framework for Financial Reporting* for assistance in developing accounting policies.

The Board was not asked to make decisions.

Implementation (Agenda Paper 12)

The Board met on 17 July 2018 to discuss implementation and maintenance projects.

IFRIC® *Update* (Agenda Papers 12A and 12B)

The Board received an update on the May and June 2018 meetings of the IFRS Interpretations Committee (Committee). Details of these meetings were published in IFRIC® *Update* (Agenda Papers 12A and 12B).

The Board was not asked to make any decisions.

***Costs considered in assessing whether a contract is onerous (IAS 37)—possible narrow-scope standard-setting* (Agenda Paper 12C)**

The Board discussed the Committee's recommendation to propose a narrow-scope amendment to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The proposed amendment relates to the assessment of whether a contract is onerous, and would:

a. specify that the 'cost of fulfilling' a contract in paragraph 68 of IAS 37 comprises the 'costs that relate directly to the contract';
b. provide examples of costs that do, and do not, relate directly to a contract to provide goods or services.
c. make no new requirements for entities to disclose information about onerous contracts.
d. make specific transition requirements for entities already reporting using IFRS Standards. Such entities would be required to apply a 'modified retrospective' approach whereby they would apply the proposed amendments to contracts existing at the date of initial application—the beginning of the annual reporting period in which the entity first applies the amendments.
e. make no specific transition requirements for entities adopting IFRS Standards for the first time.

All Board members agreed with the Committee's recommendation.

Next step

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

***Transactions involving commodities and cryptocurrencies—potential new research project* (Agenda Paper 12D)**

The Board discussed transactions involving commodities and cryptocurrencies.

The discussion focused on the prevalence of transactions involving commodities and cryptocurrencies for entities that report using IFRS Standards and possible narrow-scope standard-setting activities the Board might undertake.

The Board decided:

a. to consider at a future meeting the feasibility of a possible narrow-scope standard-setting project to address commodity loans; and
b. not to add to its work plan a project to develop an investment standard at this time.

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

The Board also decided to ask the Committee to provide further information about how an entity might apply existing IFRS Standards in determining its accounting for holdings of cryptocurrencies and Initial Coin Offerings.

All Board members agreed with this decision.

Next steps

The Board will discuss at a future Board meeting the feasibility of a narrow-scope standard-setting project to address commodity loans.

The Board will consider at a future meeting the information about cryptocurrencies to be provided by the Committee.

Goodwill and Impairment (Agenda Paper 18)

The Board met on 18 July 2018 to continue its discussions on the Goodwill and Impairment research project. The Board discussed the objectives of its follow up work in the light of findings from the research.

In particular, the Board tentatively decided:

a. not to pursue the objective of removing the differences between accounting requirements for internally generated intangible assets and those for intangible assets acquired in a business combination.

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

b. to explore whether disclosures could be improved to enable investors to assess more effectively whether a business combination was a good investment decision and whether the acquired business is performing after the acquisition as was expected at the time of the acquisition.

   All 14 Board members agreed with this decision.

c. to pursue improving the calculation of value in use by removing from IAS 36 *Impairment of Assets:*

   i. the restriction that excludes from the calculation cash flows that are expected to result from a future restructuring or from a future enhancement; and
   ii. the requirement to use pre tax inputs in the calculation.

   Twelve of 14 Board members agreed and two disagreed with this decision.

d. to retain the existing model for impairment testing in IAS 36, instead of changing it to focus on assessing whether the carrying amount of acquired goodwill is recoverable.

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

e. in pursuing the objective of simplifying the accounting for goodwill:

   i. not to consider requiring an entity to write off goodwill immediately on initial recognition.

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

   ii. to explore whether to reintroduce amortisation of goodwill.

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

   iii. to pursue possible relief from the mandatory annual quantitative impairment testing of goodwill.

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

The Board also tentatively decided to issue a discussion paper as the research project's next step. (The Board noted that this decision would not preclude it from issuing an exposure draft on, for example, targeted improvements to the value in use calculation.)

All 14 Board members agreed with this decision.

Next step

The Board will continue its discussions on how to achieve the objectives discussed in this meeting.

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

The Board met on 18 July 2018 to discuss:

a. whether staff can begin the balloting process on the Definition of Material project;
b. the approach to drafting disclosure objectives and requirements to be tested as part of the Board's Targeted Standards-level Review of Disclosures;
c. which Standard(s) should be the subject of the Board's Targeted Standards-level Review of Disclosures; and
d. the remaining steps of the Principles of Disclosure research project.

Amendments to IAS 1 and IAS 8—due process steps and balloting **(Agenda Paper 11A)**

The Board decided not to re-expose the proposed amendments to the definition of material and accompanying explanatory paragraphs.

All 14 Board members agreed with this decision.

The Board is satisfied that the due process requirements have been met and that it has undertaken sufficient consultation and analysis to begin the balloting process for the proposed amendments.

All 14 Board members agreed with this decision.

The Board agreed with the proposed timetable and gave permission for the staff to prepare the proposed amendments for balloting.

All 14 Board members agreed with this decision.

No Board members plan to dissent from issuing the amendments.

Guidance for the Board—Disclosure objectives **(Agenda Paper 11C)**

On the use of language, the Board tentatively decided that, when drafting disclosure objectives and requirements in future, the Board should:

a. use prescriptive language (ie 'shall') to require entities to comply with disclosure objectives in the Standards. All 14 Board members agreed with this decision.
b. use less prescriptive language (eg 'shall consider') when referring to specific items of information for disclosure. Nine of 14 Board members agreed and five disagreed with this decision.
c. take the following steps to maximise the use of consistent language across disclosure requirements in the Standards:
    i. consider defining terms and concepts introduced for the first time in the disclosure section of an IFRS Standard.
    ii. avoid using the same term in different ways across the Standards. If different meanings for the same term are unavoidable, consider drafting additional guidance to explain the different uses of the term and clearly link each use of the term to the relevant explanation.
    iii. state the intended location when using the terms 'present' and 'disclose' in disclosure requirements in IFRS Standards.
    iv. seek advice, including from the IFRS Taxonomy team, at the drafting stage to help identify any inconsistencies between the way terms are described in the disclosure proposal(s) and in other places in the Standards.

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

On the use of formatting and presentation, the Board tentatively decided that, when drafting disclosure objectives and requirements, the Board should:

a. if appropriate, present 'catch-all' objectives at the end of each disclosure section. Ten of 14 Board members agreed and four disagreed with this decision.
b. present specific disclosure objectives in bold type. All 14 Board members agreed with this decision.
c. organise disclosure sections in the Standards based on similar information needs that disclosure objectives and requirements are intended to satisfy. In many cases, it is expected that this approach would result in disclosure sections that are organised in groups of similar or related disclosure objectives. All 14 Board members agreed with this decision.

The Board tentatively decided that, when drafting disclosure objectives and requirements in future, the Board should:

a. seek advice, including from the IFRS Taxonomy team, to identify relationships between the disclosure proposal(s) and requirements in IFRS Standards or guidance in other Board publications (at both the development and drafting stages). All 14 Board members agreed with this decision.
b. minimise duplication across disclosure requirements when drafting IFRS Standards. Where more than one Standard has similar disclosure requirements, the requirements should be

linked, to the extent possible, instead of duplicated. All 14 Board members agreed with this decision.

c. make no reference to materiality in the disclosure sections of individual IFRS Standards. Eleven of 14 Board members agreed and three disagreed with this decision.

Selecting Standard(s) **(Agenda Paper 11D)**

The Board tentatively decided to select IAS 19 *Employee Benefits* and IFRS 13 *Fair Value Measurement* to test the draft guidance for the Board to use when developing and drafting disclosure requirements.

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

Project next steps—accounting policy disclosure **(Agenda Paper 11E)**

The Board tentatively decided to develop guidance and examples for inclusion in IFRS Practice Statement 2 *Making Materiality Judgements* to explain and demonstrate the application of the four-step materiality process to accounting policy disclosure.

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

Project next steps—location of information **(Agenda Paper 11F)**

The Board tentatively decided not to develop requirements about IFRS information provided outside the financial statements.

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

The Board also tentatively decided not to develop requirements about non-IFRS information provided within financial statements.

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

Technology and digital reporting **(Agenda Paper 11G)**

The Board tentatively decided to respond to feedback about technology and digital reporting in relation to the Disclosure Initiative by including relevant considerations in the guidance for the Board to use when developing and drafting disclosure objectives and requirements. The Board also tentatively decided to take no further action within the Principles of Disclosure project to consider the effect of technology and digital reporting on accounting policy disclosures and on the location of information.

All 14 Board members agreed with this decision.

The Board tentatively decided to consider issues relating to the broader implications of technology for financial reporting as part of the IFRS Foundation's Technology Initiative.

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.

At a future meeting, the Board expects to discuss amendments to Practice Statement 2 *Making Materiality Judgments* to explain and demonstrate the application of the four-step materiality process to accounting policy disclosure. Furthermore, the Board will consider the need for amendments to the requirements on accounting policy disclosures in IAS 1 as it develops the guidance and examples for inclusion in IFRS Practice Statement 2.

Accounting Policies and Accounting Estimates (Agenda Paper 26)

The Board received a summary of feedback from ASAF members on particular aspects of the proposed amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The Board was not asked to make any decisions.

Next step

The Board will continue its discussions at a future meeting.

Emerging Economies Group (Agenda Paper 28)

The International Accounting Standards Board (Board) met on 18 July 2018 for an update on the engagement with the Emerging Economies Group after its May 2018 meeting in Kuala Lumpur. The Board was not asked to make decisions.

Find out more about the Emerging Economies Group.