



IASB Update April 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 9 to Thursday 11 April 2019 at the IFRS Foundation's offices in London.

The topics, in order of discussion, were:

- Amendments to IFRS 17 *Insurance Contracts*
- Business Combinations under Common Control
- Accounting Policies and Accounting Estimates (Amendments to IAS 8)
- Implementation matters
- Disclosure Initiative—Accounting Policies
- Research programme update
- Management Commentary
- Primary Financial Statements
- Goodwill and Impairment
- Dynamic Risk Management

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

The Board met on 9 April 2019 to consider possible amendments to IFRS 17 *Insurance Contracts*. The Board addressed the possible amendments in the following order:

- overview of the amendments to IFRS 17—Agenda Paper 2A;
- due process steps, including permission for balloting—Agenda Paper 2B;
- sweep issues—Agenda Paper 2C; and
- Annual Improvements—Agenda Paper 2D and Agenda Paper 2E.

Overview of the amendments to IFRS 17; and due process steps, including permission for balloting (Agenda Paper 2A–2B)

The Board:

- a. considered the proposed amendments to IFRS 17 as a whole;
- b. evaluated each of the proposed amendments against the criteria the Board set in October 2018;
- c. considered the likely effects of the proposed amendments to IFRS 17;
- d. considered the due process steps undertaken by the Board in completing the narrow-scope project on the amendments to IFRS 17 and confirmed that it wishes to publish an exposure draft setting out the proposed amendments to IFRS 17; and
- e. confirmed there are no planned dissents at this stage.

The Board also confirmed its tentative decisions from the November 2018 meeting relating to the mandatory effective date of IFRS 17 and the fixed expiry date for the temporary exemption in IFRS 4 from applying IFRS 9 *Financial Instruments*.

All Board members confirmed these matters.

Sweep issues (Agenda Paper 2C)

The Board discussed additional stakeholder concerns relating to IFRS 17 (and IFRS 9) which have arisen in relation to the proposed amendments to IFRS 17.

The Board tentatively decided that the effective date of the proposed amendments should be aligned with the effective date of IFRS 17 so that entities would be required to apply IFRS 17, and any proposed amendments, for annual periods beginning on or after 1 January 2022. The Board also tentatively decided that entities would be permitted to apply IFRS 17, together with any proposed amendments, for earlier periods.

All Board members agreed with this decision.

Annual Improvements (Agenda Paper 2D and Agenda Paper 2E)

The Board discussed the recommendations for other minor changes that would fall within the scope of Annual Improvements, but which could also be addressed in the exposure draft of proposed amendments to IFRS 17, set out in Agenda Paper 2D. The Board also received a supplementary paper summarising the feedback from the Transition Resource Group for IFRS 17 meeting held on 4 April 2019 on some of these Annual Improvements.

The Board tentatively decided to:

- amend paragraph B96(c) of IFRS 17 to exclude changes relating to the time value of money and financial risk from the adjustment to the contractual service margin. All Board members agreed with this decision.
- amend paragraph B96(d) and B97(a) of IFRS 17 to address disaggregation of changes in the risk adjustment for non-financial risk. All Board members agreed with this decision.
- amend paragraph B118 of IFRS 17 to clarify that an entity can discontinue the use of the risk mitigation option to a group of insurance contracts only if the eligibility criteria for the group cease to apply. All Board members agreed with this decision.

- clarify the definition of an investment component. All Board members agreed with this decision.
- amend paragraph 11(b) of IFRS 17 to ensure IFRS 17 applies to investment contracts with discretionary participation features. All Board members agreed with this decision.
- amend paragraph 48(a) and paragraph 50(b) of IFRS 17 to adjust the loss component for changes in the risk adjustment for non-financial risk. All Board members agreed with this decision.
- amend paragraph B128 of IFRS 17 to clarify that changes in the measurement of a group of insurance contracts caused by changes in underlying items should, for the purposes of IFRS 17, be treated as changes in investments and hence as changes related to the time value of money or assumptions that relate to financial risk. All Board members agreed with this decision.

Next steps

The staff plan to seek permission from the Due Process Oversight Committee for a reduced comment period for the exposure draft of proposed amendments to IFRS 17. The staff also plan to ask the Board to set the comment period at its May 2019 meeting. The Board will also consider any additional sweep issues at that meeting.

The staff expect that the exposure draft of proposed amendments to IFRS 17 will be published at the end of June 2019.

Business Combinations under Common Control (Agenda Paper 23)

The Board met on 10 April 2019 to discuss the research project on Business Combinations under Common Control (BCUCC).

Update on the staff's approach (Agenda Paper 23A)

The Board directed the staff to continue developing measurement approaches for transactions within the scope of the project by considering:

- a. whether and how transactions within the scope of the project can be different from business combinations that are not under common control;
- b. what information would be useful to various primary users of the receiving entity's financial statements;
- c. whether the benefits of providing particular information would justify the costs of providing that information; and
- d. complexity and structuring opportunities that could arise under various approaches.

All 14 Board members agreed with the decision.

Update on lenders and other creditors in BCUCC (Agenda Paper 23B)

The Board tentatively decided that it need not pursue a single measurement approach for all transactions within the scope of the project. Specifically, the Board could pursue:

- a. a current value approach for all or some transactions that affect non-controlling shareholders in the receiving entity; and
- b. a different approach, such as a form of predecessor approach, for transactions that affect lenders and other creditors in the receiving entity but do not affect non-controlling shareholders.

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

Next step

The Board expects to continue its discussions on measurement approaches for transactions within the scope of the project at future meetings.

Accounting Policies and Accounting Estimates (Agenda Paper 26)

The Board met on 10 April 2019 to discuss the staff's analysis of feedback on the Exposure Draft *Accounting Policies and Accounting Estimates* (Proposed amendments to IAS 8); and to discuss the staff's preliminary views on the project's direction.

The Board was not asked to make any decisions.

Next step

The Board will continue to discuss the project at future meetings.

Implementation matters (Agenda Paper 12)

The Board met on 10 April 2019 to discuss implementation matters.

IFRIC[®] Update (Agenda Papers 12A–12B)

The Board received an update on the January and March 2019 meetings of the IFRS Interpretations Committee. Details of these meetings were published in IFRIC *Update* (Agenda Papers 12A–12B).

The Board was not asked to make any decisions.

Disclosure Initiative—Accounting Policies (Agenda Paper 11)

The Board met on 10 April 2019 to discuss whether staff can begin the balloting process for the exposure draft of proposed amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*.

Proposed amendments to IAS 1 and IFRS Practice Statement 2—due process steps and permission to begin the balloting process (Agenda Paper 11A)

The Board tentatively decided to permit early application of the proposed amendments; and that they should be applied prospectively.

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

The Board decided to allow 120 days for comment on the exposure draft.

All 14 Board members agreed with this decision.

The Board is satisfied that it has complied with the applicable due process requirements and that it has undertaken sufficient consultation and analysis to begin the balloting process for the exposure draft.

All 14 Board members agreed with this decision.

Mr Martin Edelmann plans to dissent from issuing the exposure draft.

Next step

The Board plans to issue an exposure draft of proposed amendments to IAS 1 and IFRS Practice Statement 2 in the second half of 2019.

Research programme update (Agenda Paper 8)

The Board met on 10 April 2019 to receive an update on its research programme. (Information on the Board's work plan, including its research programme, is available here.)

The Board noted that the staff expect to start work on:

- a. the Post-implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* in the second quarter of 2019; and
- b. the pipeline research project on the Equity Method in the second or third quarter of 2019.

The Board was not asked to make any decisions.

Next step

The Board expects to receive the next update on its research programme in the third quarter of 2019.

Management Commentary (oral update)

The Board met on 10 April 2019 to receive an update on the project and the main messages from the Management Commentary Consultative Group meeting held in April 2019. The Board was not asked to make any decisions.

Next step

The Board expects to continue discussions on the project at the May Board meeting.

Primary Financial Statements (Agenda Paper 21)

The Board met on 11 April to discuss:

- a. amendments to the Board's proposals on management performance measures; and
- b. outstanding issues related to the project proposals for financial entities, mostly concerning the classification of income and expenses in the statement(s) of financial performance.

Amending proposals for management performance measures (Agenda Paper 21A)

The Board tentatively decided to clarify that management performance measures are subject to the general requirement that information included in financial statements must provide a faithful representation. Twelve of 14 Board members agreed and two disagreed with this decision.

The Board also tentatively decided to specify that management performance measures should faithfully represent the financial performance of the entity to the users of financial statements. Eleven of 14 Board members agreed and three disagreed with this decision.

Consequently, the Board also tentatively decided:

- a. it would be unnecessary to make an explicit statement prohibiting misleading management performance measures. Thirteen of 14 Board members agreed and one disagreed with this decision.
- b. to place no additional constraints on how management performance measures should be calculated, for example, by prohibiting the use of tailor-made accounting policies. Thirteen of 14 Board members agreed and one disagreed with this decision.

The Board also tentatively decided:

- a. to specify that an entity may only identify a measure as a management performance measure in its financial statements if it uses the same measure in its other public

communications with users. All 14 Board members agreed with this decision.

- b. to issue no requirement for an entity to identify any items of income or expenses that meet the definition of unusual items that are excluded from the entity's management performance measures. Ten of 14 Board members agreed and four disagreed with this decision.

Outstanding issues for financial entities (Agenda Paper 21B)

The Board tentatively decided to:

- a. require an entity to include income from cash and cash equivalents in operating profit if, in the course of its main business activities, the entity invests in financial assets that generate a return individually and largely independently of other entity resources. Thirteen of 14 Board members agreed and one disagreed with this decision.
- b. require an entity to include in operating profit expenses related to liabilities arising from investment contracts with participation features it issues that are within the scope of IFRS 9 *Financial Instruments*. Thirteen of 14 Board members agreed and one Board member was absent.
- c. clarify and illustrate the types of entity the Board had in mind when developing the requirements that refer to 'main business activities' along the lines of paragraphs 63 and 64 of Agenda Paper 21B. All 14 Board members agreed with this decision.
- d. specify that when a business activity constitutes a separate reportable segment applying IFRS 8 *Operating Segments*, this indicates the activity may be a main business activity. All 14 Board members agreed with this decision.
- e. clarify that income, expenses and dividend cash flows from associates and joint ventures not accounted for using the equity method should be classified in the same way as income, expenses and dividend cash flows from other investments. All 14 Board members agreed with this decision.

Next step

The Board will discuss at a future meeting which type of consultative document it should publish to seek feedback on the project proposals.

Goodwill and Impairment (Agenda Paper 18)

The Board met on 11 April 2019 to discuss:

- a. how the ideas being explored as part of the Goodwill and Impairment project could help achieve the objectives set by the Board at its July 2018 meeting; and
- b. how to improve disclosure requirements for business combinations.

Understanding how the ideas being explored interconnect (Agenda Paper 18A)

The Board discussed the ideas being explored and whether they could help achieve the project objectives. These ideas include requiring better disclosures for business combinations, reintroducing amortisation, providing relief from the mandatory annual impairment test and improving how value in use is calculated.

The Board was not asked to make any decisions.

Better disclosures for business combinations (Agenda Paper 18B)

One objective of the Goodwill and Impairment project is to identify better disclosures for business combinations. The Board discussed potential improvements to the disclosure objectives and disclosure requirements of IFRS 3 *Business Combinations* including:

- a. clarifying the IFRS 3 disclosure objectives and adding a new disclosure objective for entities to provide information on the subsequent performance of the acquired, or combined, business;
- b. adding requirements for entities to disclose whether the key objectives of the business combination have been achieved; and
- c. making other targeted improvements.

The Board was not asked to make any decisions.

Next steps

The Board will discuss which preliminary views on achieving the project objectives to include in the discussion paper. The Board plans to publish the discussion paper in the second half of 2019.

Dynamic Risk Management (Agenda Paper 4)

The Board met on 11 April 2019 to discuss the Dynamic Risk Management (DRM) research project. Agenda Paper 4A provided a summary of discussions to date for information only.

Certain strategies and the target profile (Agenda Paper 4B)

The Board discussed whether the DRM model should preclude an entity from designating specific types of strategies within the target profile. The Board tentatively decided that:

- a. the DRM model should not permit negative balances to be defined within the target profile.
- b. when changes in risk management strategy are frequent, an entity should discontinue the DRM model prospectively.
- c. an entity's risk management strategy should be clearly documented with the time horizon specified. If a strategy is defined in a way that is contingent on future events, the occurrence of those contingent events should be treated as a change in strategy.

Some Board members asked the staff to provide examples of events that could give rise to a change in an entity's risk management strategy.

All 14 Board members agreed with these decisions.

Presentation (Agenda Paper 4C)

The Board discussed how derivatives designated within the DRM model should be presented in financial statements. The Board tentatively decided that:

- a. the DRM model should not require presentation of the designated derivatives in a separate line item on the face of the statement of financial position; but this information should be clearly communicated to users in the notes to the financial statements.
- b. the DRM model should not require presentation of changes in fair value of designated derivatives in a separate line item in other comprehensive income; but this information should be clearly communicated to users in the notes to the financial statements.

Twelve Board members agreed and two disagreed with these decisions.

Regarding the statement of profit or loss, the Board tentatively decided that:

- a. the aligned portion of the designated derivatives should be communicated in a way that makes it clear it is related to interest revenue and expense; and presented as a separate line on the face of the statement of profit or loss.
- b. the misaligned portion of the designated derivatives should be communicated in a way that makes it clear it is not related to interest revenue, interest expense, and the aligned portion.

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

In addition, the Board tentatively decided that the DRM model should not require presentation of the misaligned portion in a separate line item on the face of the statement of profit or loss; but it should be clearly communicated to users in the notes to the financial statements. The notes should specify the line item in profit or loss where misalignment is presented.

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