

Welcome to the *IASB Update*

The IASB met in public on 22—25 June 2015 at the IASB offices in London, UK.

The topics for discussion were:

- **Insurance Contracts**
- **Financial Instruments with Characteristics of Equity (FICE)**
- **Pollutant Pricing Mechanisms (formerly Emissions Trading Schemes)**
- **Revenue from Contracts with Customers**
- **Research Programme**
- **Disclosure Initiative**
- **IFRS Implementation Issues**
- **The Equity Method of Accounting**

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Future IASB meetings

The IASB meets at least once a month for up to five days.

The next IASB meetings are:

20 to 24 July 2015

22 to 25 September 2015

To see upcoming and past IASB meetings, [click here](#).

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Insurance Contracts (Agenda Paper 2)

(IASB education session)

The IASB met on 23 June 2015 to discuss at an education session:

- a. the interaction of the effective date of IFRS 9 *Financial Instruments* with the forthcoming insurance contracts Standard; and
- b. hedging of risks relating to insurance activities.

Effective date of IFRS 9 and the forthcoming insurance contracts Standard (Agenda Papers 2E-2F)

At this education session, the IASB considered:

- i. the accounting implications for entities applying IFRS 9 in conjunction with the existing IFRS 4 *Insurance Contracts*;
- ii. the methods that already exist in IFRS 4 that could be used to reduce any increased accounting mismatches or volatility in profit or loss arising from the application of IFRS 9 before the forthcoming insurance contracts Standard;
- iii. potential amendments to IFRS 4 that could be considered to address those consequences; and
- iv. the complexities that would arise if the IASB were to defer the effective date of IFRS 9 for the insurance industry until the effective date of the forthcoming insurance contracts Standard.

No tentative decisions were made.

Hedging of risks relating to insurance activities (Agenda Paper 2D)

At this education session, the IASB explored one consequence of the variable fee approach that the IASB will consider in Agenda Papers 2A-2C on Thursday 25 June. If an entity were to apply the variable fee approach, accounting mismatches could arise when the entity uses derivatives to minimise economic risk. The IASB considered possible approaches that could be explored for minimising those accounting mismatches if the IASB were to decide to require the variable fee approach for some insurance contracts.

No tentative decisions were made.

(IASB decision-making session)

The IASB met on 25 June 2015 to continue its discussions on the accounting for insurance contracts. In particular, the IASB considered the variable fee approach for insurance contracts with direct participation features.

Variable fee approach for direct participation contracts (Agenda Paper 2B)

The IASB tentatively decided that, for insurance contracts with direct participation features, it would modify its general measurement model for accounting for insurance contracts so that changes in the estimate of the fee that the entity expects to earn from the contract are adjusted in the contractual service margin. The fee

that the entity expects to earn from the contract is equal to the entity's expected share of the returns on underlying items, less any expected cash flows that do not vary directly with the underlying items.

Thirteen IASB members agreed with this decision and one IASB member disagreed.

The IASB tentatively decided that contracts with direct participation features should be defined as contracts for which:

- a. the contractual terms specify that the policyholder participates in a defined share of a clearly identified pool of underlying items;
- b. the entity expects to pay to the policyholder an amount equal to a substantial share of the returns from the underlying items; and
- c. a substantial proportion of the cash flows that the entity expects to pay to the policyholder should be expected to vary with the cash flows from the underlying items.

Nine IASB members agreed with this decision and five IASB members disagreed.

Recognition of contractual service margin in profit or loss for contracts with participation features (Agenda Paper 2C)

The IASB tentatively decided that for all insurance contracts with participation features, an entity should recognise the contractual service margin in profit or loss on the basis of the passage of time.

Twelve IASB members agreed with this decision and two IASB members disagreed.

Next steps

The IASB will continue its discussion on insurance contracts at the July 2015 meeting.

Financial Instruments with Characteristics of Equity (Agenda Paper 5)

The IASB met on 23 June 2015 to discuss the research project on Financial Instruments with Characteristics of Equity.

The IASB discussed:

- a. what features of a claim against an entity would be relevant to users of financial statements. A claim against an entity could be a liability or equity.
- b. how information about claims against the entity is provided in IFRS financial statements, through classification, recognition, measurement, and disclosure.
- c. which features of claims against the entity are currently used to distinguish between classes of claims in the *Conceptual Framework*, IAS 32 *Financial Instruments: Presentation*, and other relevant IFRS.

No tentative decisions were made.

Next steps

At a future meeting, the IASB will discuss the relevance of each of the identified features of claims for assessments that users might make using different parts of financial statements.

Pollutant Pricing Mechanism (Agenda Paper 6)

The IASB met on 25 June to discuss possible accounting approaches that could be developed for one particular type of pollutant pricing mechanism; namely a cap-and-trade type of emissions trading scheme. Other types of pollutant pricing mechanisms will be considered at a later stage in the project.

IASB members provided the staff with views on how to progress the project.

No decisions were made.

Next steps

In future meetings, the IASB will consider more detailed information about cap-and-trade emissions trading schemes that exist and operate around the world. This information will provide background to future IASB discussion of possible accounting models.

Revenue from Contracts with Customers (Agenda Paper 7)

(Joint session with FASB)

Principal versus agent considerations (Agenda Paper 7A)

The IASB and the FASB (the Boards) met to discuss implementation questions about the guidance on principal versus agent considerations in IFRS 15 *Revenue from Contracts with Customers* and Topic 606, *Revenue from Contracts with Customers*. Those issues emerged from meetings of the Transition Resource Group for Revenue Recognition.

The IASB confirmed its May 2015 tentative decisions relating to clarifications to the Application Guidance and Illustrative Examples. The IASB also tentatively decided to propose further amendments with respect to that guidance. Furthermore, the FASB tentatively decided to propose some amendments to clarify the principal versus agent considerations guidance in Topic 606. As a result, the IASB and the FASB have tentatively agreed to similar amendments for IFRS 15 and Topic 606, respectively.

The following paragraphs set out the IASB's and the FASB's tentative decisions reached in May and June 2015 with respect to the guidance on principal versus agent considerations.

Principle for determining whether an entity's promise is to provide or to arrange

The Boards reaffirmed the principle in IFRS 15 and Topic 606 that an entity's promise is to provide a specified good or service to a customer (ie the entity is a principal) when it controls the specified good or service before that good or service is transferred to the customer. In contrast, the entity's promise is to arrange for another party to provide that good or service (ie the entity is an agent) when it does not control the specified good or service before it is transferred to the customer. All IASB and all FASB members agreed.

Unit of account for the principal versus agent evaluation

The Boards tentatively decided to amend the guidance on principal versus agent considerations to clarify that a specified good or service is a distinct good or service (or a distinct bundle of goods or services). Depending on the circumstances, a specified good or service may be a right to an underlying good or service to be provided by another party. All IASB and all FASB members agreed.

Application of the control principle

The Boards tentatively decided to amend the guidance on principal versus agent considerations to clarify the application of the control principle in the context of services. All IASB and all FASB members agreed.

Control indicators

The Boards tentatively decided to amend the guidance on principal versus agent considerations to clarify the role of the indicators in paragraph B37 of IFRS 15 and paragraph 606-10-55-39 of Topic 606. In particular, those amendments would clarify:

- a. that the indicators assist in the evaluation of control, rather than overriding or replacing the control evaluation.
- b. how each indicator relates to the control principle.
- c. that one or more indicators may be more or less relevant to the control evaluation in different contracts.

The Boards also tentatively decided to reframe the indicators to indicate when an entity is a principal, rather than when an entity is an agent. All IASB and all FASB members agreed.

Illustrative Examples

The Boards tentatively decided to amend the principal versus agent examples in IFRS 15 and Topic 606, and to include some additional examples, to clarify the application of the principal versus agent guidance. All IASB and all FASB members agreed.

Next steps

The IASB decided to incorporate its tentative decisions about the guidance on principal versus agent considerations within the Exposure Draft of proposed clarifications to IFRS 15 that the IASB plans to publish in July 2015.

The FASB plans to include the proposed amendments to the principal versus agent considerations in a single Exposure Draft together with the topic of estimating gross revenue as a principal, which it will discuss at a future board meeting.

(IASB-only session)

Clarifications to IFRS 15—Summary of due process (Agenda Paper 7B)

The IASB met on 25 June 2015 to consider the following in relation to the Exposure Draft of proposed clarifications to IFRS 15 that it plans to publish in July 2015:

- a. transition requirements;
- b. comment period; and
- c. due process steps taken by the IASB before the publication of the Exposure Draft.

Transition requirements

The IASB tentatively decided to require entities to apply the proposed amendments to IFRS 15 retrospectively. Thirteen IASB members agreed and one disagreed.

Comment period

The IASB decided that the Exposure Draft should have a comment period of 90 days. All IASB members agreed.

Due process steps

The IASB reviewed the due process steps that the IASB has taken in developing the Exposure Draft. All IASB members confirmed that they are satisfied that the IASB has completed the necessary due process steps on the project to date and therefore instructed the staff to commence the balloting process for the Exposure Draft. One IASB member indicated an intention to dissent from the publication of the proposed clarifications to IFRS 15.

Next steps

The staff will start the balloting process of the proposed clarifications to IFRS 15.

Research Programme (Agenda Paper 8)

Overview

The IASB decided to implement a revised approach to describing the status of the projects on the research programme. In particular, projects that arise as a result of post-implementation reviews will be added to the research programme as Development Phase projects rather than in a category of their own.

Development Phase projects are those that the IASB has decided warrant further investigation. Generally, the IASB will have established that there is a financial reporting problem to be addressed by the project.

However, the IASB will not yet have made a decision about whether a revised or new IFRS will be required. Thus, the main focus of Development Phase projects will be on assessing whether the IASB can identify a cost-beneficial solution to the financial reporting problem. The next step from a Development Phase project is likely to be the development of a Research or Discussion Paper within the research programme. In some cases, a Development Phase project could be moved directly to the Standards Programme.

In contrast, Assessment Phase projects are being researched to identify and assess practical application issues to understand *if* there is a financial reporting problem, and then to determine what further action, if any, is needed.

The IASB decided that it would classify the projects on the Equity Method of accounting (see Agenda Paper 13) and Business Combinations Under Common Control as Development Phase rather than Assessment Phase projects.

Performance reporting

The IASB considered the issues it would need to address in the performance reporting project, including a range of issues that extend beyond performance reporting.

All IASB members agreed that the title of the project should be changed to 'Primary Financial Statements' and that the project should examine the purpose, structure and content of the primary financial statements, including the relationship between the individual statements.

Next steps

The IASB intends to further clarify the interrelationship between the Primary Financial Statements project, the Disclosure Initiative and the *Conceptual Framework* for Financial Reporting at a future meeting.

Disclosure Initiative (Agenda Paper 11)

The IASB met on 24 June to discuss the proposed amendments to IAS 7 *Statement of Cash Flows* project and the Principles of Disclosure project as part of its Disclosure Initiative.

Agenda Paper 11A: Proposed amendments to IAS 7—feedback summary

The IASB discussed a summary of the overall feedback received in response to the Exposure Draft *Disclosure Initiative* (Proposed amendments to IAS 7). The summary also included the feedback received in response to the proposed changes to both the IFRS Taxonomy and the IFRS Taxonomy due process.

No decisions were made at this meeting.

Agenda Paper 11B: Amendments to IAS 7—final amendments to changes in 'debt'

The IASB discussed the staff's analysis of the feedback on the proposals to require the disclosure of a reconciliation of the components of financing activities. The IASB directed the staff to provide further analysis on the discussions within the feedback summary (Agenda Paper 11A) about the interaction with the

Leases project and the application of the proposals to financial institutions.

No decisions were made at this meeting.

Agenda Paper 11C: Education session—overview of the Principles of Disclosure project

The IASB was provided with an overview of the *Principles of Disclosure* project, summarising the tentative decisions the IASB had made on the form and content of the *Principles of Disclosure* Discussion Paper.

No decisions were made at this meeting.

Agenda Paper 11D: Review of IAS 8—Restatement of comparatives for mandatory changes in accounting policies and Agenda Paper 11E—Guidance issued after 2005: high level summary of application and transitional provisions (background information to Agenda Paper 11D)

The IASB tentatively decided to retain the existing requirement to restate all comparative information within IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, when an entity makes a change in accounting policy upon initial application of an IFRS.

All thirteen IASB members present agreed with this decision.

Agenda Paper 11F: Principles of Disclosure—Comparability of disclosures

The IASB tentatively decided that a general disclosure Standard (IAS 1 *Presentation of Financial Statements* or equivalent) should not include any additional guidance on the concept of comparability. The IASB noted that comparability of information is primarily considered by the IASB when developing Standards and therefore the description in the *Conceptual Framework* is sufficient for this purpose.

All thirteen IASB members present agreed with this decision.

Agenda Paper 11G: Principles of Disclosure—Non-IFRS Information

The IASB observed that the use of the term 'alternative performance measures' is confusing and that the discussion in the *Principles of Disclosure* Discussion Paper should instead focus on describing how performance measures can more generally be fairly presented in financial statements (see paragraph 48 of Agenda Paper 11G).

The IASB also decided that the *Principles of Disclosure* Discussion Paper should discuss guidance on non-recurring, unusual and infrequent items (see paragraph 54(a) of Agenda paper 11G).

All thirteen IASB members present agreed with this decision.

Next steps

At its July 2015 meeting the IASB will continue its re-deliberation of the proposed amendments to IAS 7.

IFRS Implementation Issues (Agenda Paper 12)

Draft IFRIC Interpretation—Foreign Currency Transactions and Advance Consideration Due process document (Agenda Paper 12A)

At its meeting on 23 June 2015, the IASB considered proposals for a draft IFRIC Interpretation—*Foreign Currency Transactions and Advance Consideration*, which has been developed by the Interpretations Committee. The draft Interpretation proposes guidance on how to determine the date of the transaction for the purposes of IAS 21 *The Effects of Changes in Foreign Exchange Rates* when an entity recognises a non-monetary prepayment asset or non-monetary deferred income liability before it recognises the related asset, expense or income (or part of it). The date of the transaction determines the spot exchange rate used to translate a foreign currency transaction on initial recognition of that asset, expense or income.

The IASB reviewed the due process followed and the technical matters agreed by the Interpretations Committee relating to the development and publication of the draft IFRIC Interpretation. All IASB members confirmed that they are satisfied that the IASB has undertaken sufficient due process steps and therefore instructed the staff to start the balloting process. The IASB agreed that the draft Interpretation should have a comment period of no less than 90 days. No IASB members indicated an intention to object to the publication of the draft IFRIC Interpretation.

Next steps

The publication of the draft Interpretation is expected in Q3 2015.

IAS 12 Income Taxes—Exposure Draft Recognition of Deferred Tax Assets for Unrealised Losses (Agenda Paper 12B)

In August 2014, the IASB published for comment the Exposure Draft ED/2014/3 *Recognition of Deferred Tax Assets for Unrealised Losses* (Proposed amendments to IAS 12) to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The comment period ended on 18 December 2014.

At its March 2015 meeting, the IFRS Interpretations Committee (the 'Interpretations Committee') decided to propose to the IASB that it should proceed with the proposed amendments, subject to some changes to the proposed wording.

At its meeting on 23 June 2015, the IASB was presented with a summary and an analysis of the 68 comment letters received on the Exposure Draft as well as the recommendations from the Interpretations Committee.

The IASB decided that it should proceed with finalising the proposed amendments, subject to some revisions to the proposed wording as follows:

- a. revise the example illustrating paragraph 26(d) to clarify that the debt instrument is measured at fair value and remove information that is superfluous to the objective of the example, and add an explanation about the identification of the tax base in paragraph BC6.
- b. clarify the transition requirements.
- c. revise the proposed guidance relating to recovery of an asset for more than its carrying amount in a way that enhances understanding and reduces the risk of an arbitrary estimate of probable future

taxable profit.

- d. clarify that 'taxable profit excluding tax deductions' used for assessing the utilisation of deductible temporary differences is different from 'taxable profit on which income taxes are payable'.
- e. shorten Illustrative Example 7 and amend it to be consistent with the guidance in paragraph 63 on allocation of deferred tax between profit or loss and other comprehensive income.

All IASB members agreed with the decisions.

Next steps

At the July 2015 meeting, the IASB will consider the due process steps that the IASB has taken to date before issuing the final amendments to IAS 12.

Post-implementation Review of IFRS 8 Operating Segments—Summary of due process (Agenda Paper 12C)

On 23 June the IASB reviewed the due process steps that had been taken to date in preparation for the publication an Exposure Draft *Clarifications arising from the Post-implementation Review* (Proposed Amendments to IFRS 8). That Exposure Draft would include seven proposed amendments that the IASB had tentatively approved at its May 2015 meeting.

One IASB member indicated that they might dissent from the proposals. All IASB members confirmed that they are satisfied that the IASB has completed all of the necessary due process steps on the project to date.

They therefore instructed the staff to commence the balloting process for the Exposure Draft.

Next steps

The IASB expects to issue an Exposure Draft on *Clarifications arising from the Post-implementation Review* (Proposed Amendments to IFRS 8) in Q3 of 2015.

The Equity Method of Accounting (Agenda Paper 13)

On 24 June 2015 the IASB met to consider the planned scope of, and approach to, its research project on the equity method of accounting. The IASB tentatively decided:

- a. to undertake a limited-scope research project that seeks to address application problems arising from the equity method requirements IAS 28 *Investments in Associates and Joint Ventures*.

Nine of the thirteen IASB members present agreed with this decision and four disagreed.

- b. that the methodology for the limited scope research project should assume that:
 - control is the appropriate basis for determining the reporting group;
 - associate and joint venture entities are not part of the group and therefore their assets and liabilities should not be recognised separately in the financial statements; and

- the unit of account is the investment as a whole.

Nine of the thirteen IASB members present agreed with this decision and four disagreed.

- c. the limited-scope project should seek to address the matters currently being considered by the Interpretations Committee in developing a narrow-scope amendments to IAS 28. The application date of the amendment issued in September 2014 to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures (2011): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* will be deferred.

Eleven of the thirteen IASB members present agreed with this decision and two disagreed.

- d. to assess separately the equity method of accounting as applied to subsidiaries in separate financial statements; and

Ten IASB of the thirteen members present agreed with this decision and three disagreed.

- e. to consider the need for a wider research project on the equity method of accounting after completion of the Post implementation Reviews of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*.

Ten IASB of the thirteen members present agreed with this decision and three disagreed.

Next steps

The staff will present a more detailed analysis of the equity method of accounting and possible changes in the method as currently applied in IAS 28 to the IASB in the third quarter of 2015.

Work plan-projected targets as at 30 June 2015

The work plan reflecting decisions made at this meeting was updated on the IASB website on 30 June 2015.

[View it here.](#)

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