# IASB® Update

From the International Accounting Standards Board®

October 2015

## Welcome to the October *IASB Update*

The IASB met in public from 20-22 October 2015 at the IASB offices in London, UK.

The topics for discussion were:

- **Leases**
- **Pollutant pricing mechanisms**
- **Update on Impairment Transition Group**
- **Financial Instruments with Characteristics of Equity**
- **Disclosure Initiative**
- **Insurance Contracts**
- **Different effective dates of IFRS 9 and the new Insurance Contracts Standard**
- **IFRS Implementation Issues**
- **Goodwill and Impairment**
- **Definition of a business**

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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:

16 to 20 November 2015
14 to 18 December 2015

To see upcoming and past IASB meetings, **click here**.

**Archive of *IASB Update* Newsletter**

For archived copies of past issues of *IASB Update* on the IFRS website, **click here**.

**Podcast summaries**

To listen to a short Board meeting audio summary (Podcast) of previous Board meetings, **click here**.

## Leases (Agenda Paper 3)

The IASB met on 20 October 2015 to finalise deliberations on the new Leases Standard. The IASB specifically discussed:

a. sweep issues that arose as part of the drafting process; and
b. the effective date of the new *Leases* Standard.

***Agenda Paper 3A: Sweep Issues***

The IASB tentatively decided that:

a. a lessee (and a lessor holding a finance lease) should account for a lease modification that extends the use of an underlying asset as the continuation of the existing lease. Such a lease modification should not be accounted for as a separate new lease.
b. for a floating interest rate lease, a lessee should update the discount rate whenever the lease payments are updated because of a change in the interest rate used to determine those payments.
c. a lessee should account for restoration obligations associated with a lease in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. A lessee should include an initial estimate of costs to be incurred in the measurement of the right-of-use asset, and should account for any changes in the obligation as an adjustment to the carrying amount of the right-of-use asset in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.
d. IFRS 3 *Business Combinations* should not require an acquirer to recognise assets or liabilities for short-term leases and leases of low-value assets in which the acquiree is the lessee.

All fourteen IASB members agreed with these decisions.

***Agenda Paper 3C: Disclosure requirements for leases within the scope of IFRS 5—Sweep issue***

The IASB tentatively decided not to require any disclosures for leases within the scope of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* beyond those required by that Standard.

All fourteen IASB members agreed with this decision.

***Agenda Paper 3B: Effective Date***

The IASB tentatively decided:

a. to require an entity to apply the new *Leases* Standard for annual periods beginning on or after 1 January 2019; and
b. to permit an entity to apply the new *Leases* Standard early if the entity also applies IFRS 15 *Revenue from Contracts with Customers* at or before the date of early application.

All fourteen IASB members agreed with these decisions.

***Next steps***

This meeting concluded the deliberations on the new *Leases* Standard. The staff will proceed to balloting the new Standard.

## Pollutant pricing mechanisms (Agenda Paper 6)

The IASB held an education session on 20 October to discuss the issues to be included in a planned Discussion Paper for this research project.

IASB members highlighted some issues of particular interest, including:

a. the information needs of users of financial statements;
b. the rights and obligations created by the schemes and how these could be reflected in any possible accounting models;
c. whether, in other contexts, intangible assets exist that include rights similar to those created by these schemes; and
d. the interaction of the liability recognition issues with the proposed definition of a liability in the Exposure Draft *Conceptual Framework for Financial Reporting*.

The IASB was not asked to make any decisions.

***Next steps***

The IASB will continue its discussion at future meetings.

## Update on Impairment Transition Group (Agenda Paper 20)

The IASB considered a paper summarising the activities of the Transition Resource Group for Impairment of Financial Instruments ('ITG') to date. It also considered an issue raised at the September ITG meeting relating to the measurement of expected credit losses in respect of the undrawn portion of revolving credit facilities.

Some ITG members had noted that many banks allow customers to make drawdowns in excess of their contractually agreed credit limit. Because IFRS 9 *Financial Instruments* restricts the estimation of future drawdowns to the contractual credit limit, this could give rise to a potential disconnect between the accounting and credit risk management view. The IASB noted the issue and concluded that the requirements of IFRS 9 were clear. Consequently, the IASB does not intend to take any further action on this issue.

## Financial Instruments with Characteristics of Equity (Agenda Paper 5)

The IASB met on 21 October 2015 to discuss the research project on Financial Instruments with Characteristics of Equity.

The IASB discussed an analysis of:

i. the challenges associated with accounting for derivatives on 'own equity'; and
ii. how IAS 32 *Financial Instruments: Presentation* deals with those challenges.

The IASB acknowledged that any approach to classifying derivatives on ‘own equity’ will require a compromise between reflecting the underlying exchange of equity and non-equity instruments and the operational challenges of doing so.

In developing approaches to the distinction between liabilities and equity, the IASB directed the staff to:

i. consider how the existing requirements for classifying derivatives on ‘own equity’ in IAS 32 would fit with the underlying rationale of those approaches identified in September 2015; and
ii. identify potential areas in which the existing requirements might be improved.

No decisions were made.

***Next steps***

The IASB will continue its discussion at a future meeting.

## Disclosure Initiative (Agenda Paper 11)

The IASB met on 21 October 2015 to discuss the proposed amendments to IAS 7 *Statement of Cash Flows* and the Principles of Disclosure project as part of its Disclosure Initiative.

***Agenda Paper 11A: Principles of Disclosure—due process and permission to ballot***

The IASB reviewed the due process steps that it has taken in developing the *Principles of Disclosure* Discussion Paper ('the DP'). All fourteen 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 DP.

The IASB also decided that the comment period for the DP should be 150 days. Ten out of the fourteen IASB members agreed with this decision and four disagreed.

***Agenda Paper 11B: Amendments to IAS 7—cash disincentives***

The IASB decided not to include disclosures on cash and cash equivalents in the amendments to IAS 7 *Statement of Cash Flows* related to the reconciliation of liabilities from financing activities (the 'reconciliation'). The IASB noted that, as a consequence, the reconciliation would be finalised as a stand-alone amendment to IAS 7.

Eight out of the fourteen IASB members agreed with this decision and six disagreed.

The IASB decided that it would discuss the scope of a broader examination of liquidity disclosures at a future meeting, taking into consideration the feedback received in this project and in the responses to the Agenda Consultation.

All fourteen IASB members agreed with this decision.

***Agenda Paper 11C: Amendments to IAS 7—due process steps and balloting***

The IASB reviewed the due process steps that it has taken in developing the amendment to IAS 7 related to the reconciliation. All fourteen IASB members present 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 final amendments to IAS 7. One IASB member indicated that he intended to dissent from the issuing of the amendment to IAS 7.

The IASB tentatively decided that the effective date for the final amendments should be for annual periods beginning on or after 1 January 2017. The IASB also tentatively decided not to require entities to restate comparative information for any preceding annual period.

Thirteen out of the fourteen IASB members agreed with these decisions and one disagreed.

## Insurance Contracts (Agenda Paper 2)

***(Decision-making sessions)***

The IASB met on 21 October 2015 to continue its discussions on the transition reliefs on first application of the new insurance contracts Standard for the classification and measurement of financial assets accounted for in accordance with IFRS 9 *Financial Instruments* (IFRS 9), accounting for contracts with participation features and presentation and disclosure.

***Classification and measurement of financial assets on transition to the new insurance contracts Standard (Agenda Paper 2A)***

*Transition reliefs*

The IASB tentatively decided that when an entity first applies the new insurance contracts Standard:

a. the entity is permitted, but not required, to newly assess the business model for managing financial assets that are accounted for in accordance with IFRS 9;

b. that such an assessment of the business model for managing financial assets would apply only to financial assets that an entity designates as related to contracts within the scope of IFRS 4 *Insurance Contracts* (IFRS 4) or within the scope of the new insurance contracts Standard;
c. if the entity newly assesses the business model for managing financial assets, or designates or de-designates financial assets under the fair value option (FVO) or the other comprehensive income (OCI) presentation election for investments in equity instruments (together 'transition reliefs'), that entity should apply those transition reliefs based on the facts and circumstances that exist on the date of initial application of the new insurance contracts Standard; that is, at the beginning of the latest period presented, and
d. the entity should apply the classifications resulting from the transition reliefs retrospectively (ie as if the financial assets had always been so classified) and the cumulative effect of any changes in classification and measurement of financial assets that result from applying those transition reliefs should be recognised in the opening balance of retained earnings or accumulated OCI.

All fourteen IASB members agreed with these decisions.

*Disclosure requirements*

The IASB tentatively decided that:

a. when an entity applies the transition relief for the assessment of the business model for managing financial assets, the entity should disclose its policy for designating financial assets to which that transition relief is applied;
b. when the classification and measurement of financial assets changes as a result of applying any of the transition reliefs in the new insurance contracts Standard, an entity should disclose for those financial assets by class:
    i. the measurement category and carrying amount immediately before the first application of the new insurance contracts Standard;
    ii. the new measurement category and carrying amount determined as a result of applying the transition provisions in the new insurance contracts Standard;
    iii. the amount of any financial assets in the statement of financial position that were previously designated under the FVO but are no longer so designated, distinguishing between those that an entity was required to de-designate and those that an entity elected to de-designate;
    iv. qualitative information that would enable users of financial statements to understand how an entity applied the transition provisions in the new insurance contracts Standard to those financial assets whose classification has changed as a result of initially applying that Standard, including:
        1. the reasons for any designation or de-designation of financial assets under the FVO; and
        2. an explanation of why the entity came to a different conclusion in the new assessment of its business model.

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

***Restatement of comparative information on initial application of the new insurance contracts Standard (Agenda Paper 2B)***

The IASB tentatively decided to confirm the proposal in the 2013 Exposure Draft *Insurance Contracts* (‘the 2013 ED’) that, on first application of the new insurance contracts Standard, all entities are required to restate comparative information about insurance contracts. All thirteen IASB members present agreed with this decision. One IASB member was absent.

The IASB tentatively decided that on first application of the new insurance contracts Standard, an entity that has previously applied IFRS 9 and chooses to apply any of the transition reliefs for the classification and measurement of financial assets is permitted (but not required) to restate comparative information about those financial assets only if it is possible without hindsight. All fourteen IASB members agreed with this decision.

***Should the new insurance contracts Standard retain the mirroring approach? (Agenda Paper 2C)***

*Mirroring Approach*

The IASB tentatively decided that the mirroring approach proposed in paragraphs 33-34 of the 2013 ED should not be permitted or required. All fourteen IASB members agreed with this decision.

***Presentation and disclosures for insurance contracts (Agenda Paper 2D)***

*Presentation in the financial statements*

The IASB tentatively decided to confirm the 2013 ED proposals related to presentation of line items relating to insurance contracts in the financial statements. Thirteen IASB members present agreed with this decision and one disagreed.

*Disclosures*

The IASB tentatively decided to confirm the disclosures proposed in paragraphs 69-95 of the 2013 ED, with the following changes:

a. to add a requirement that an entity that measures contracts using the variable fee approach, and chooses to recognise changes in the value of the guarantee embedded in the insurance contract in profit or loss, should disclose the value of the guarantee that has been recognised in profit or loss in the reporting period;
b. to add a requirement that an entity that chooses to disaggregate investment interest expense into an amount presented in profit or loss and an amount presented in OCI should disclose an explanation of the method that an entity uses to calculate the cost information presented in profit or loss;
c. to add a requirement that an entity that chooses to disaggregate investment interest expense into an amount presented in profit or loss and an amount presented in OCI, and uses the simplified approach at transition that results in the accumulated balance in OCI for the insurance contract being zero, should disclose a reconciliation from the opening to closing balance of the accumulated balance of OCI for financial assets relating to contracts within the scope of the new insurance contracts Standard that are measured at fair value through other comprehensive income (FVOCI) in accordance with paragraph 4.1.2A of IFRS 9. The reconciliation should be provided at the date of transition and in each subsequent reporting period. The entity would designate financial assets (that are classified in the FVOCI measurement category) as relating to contracts within the scope of the new insurance contracts Standard at the date of initial application;

d. to add a requirement that an entity should disclose:
    i. changes in the fulfilment cash flows that adjust the contractual service margin;
    ii. an explanation of when the entity expects to recognise the remaining contractual service margin in profit or loss either on a quantitative basis using the appropriate time bands or by using qualitative information;
    iii. the amounts in the financial statements determined at transition using simplified approaches, both on transition and in subsequent periods; and
    iv. any practical expedients that an entity used.
e. to delete the proposed requirements that an entity should disclose:
    i. a reconciliation of revenue recognised in profit or loss in the period to premiums received in the period (paragraph 79 of the 2013 ED); and
    ii. an analysis of total interest expense included in total comprehensive income disaggregated at a minimum into:
        1. interest accretion at the discount rate that applied at initial recognition of insurance contracts reported in profit or loss for the period; and
        2. the movement in other comprehensive income for the period (a tentative decision from March 2014).

All fourteen IASB members agreed with these decisions.

***Next steps***

The IASB will continue its discussions on insurance contracts at a future meeting.

## Different effective dates of IFRS 9 and the new Insurance Contracts Standard (Agenda Paper 14)

***(Decision-making sessions)***

The IASB met on 21 October 2015 to continue its discussions on the forthcoming Exposure Draft of amendments to IFRS 4 *Insurance Contracts*. That Exposure Draft is intended to address the possible accounting consequences of the different effective dates of IFRS 9 *Financial Instruments* and the new Insurance Contracts Standard.

***Comment Letter Period (Agenda Paper 14A)***

The IASB tentatively decided that the forthcoming Exposure Draft to amend IFRS 4 should have a comment period of 60 days.

All thirteen IASB members present agreed with this decision. One IASB member was absent.

***Applicability of the Deferral and Overlay Approaches for First-time Adopters of IFRS (Agenda Paper 14B)***

The IASB tentatively decided that a first-time adopter of IFRS should be prohibited from applying the deferral and overlay approaches.

All fourteen IASB members agreed with this decision.

***Next steps***

The IASB expects to publish the Exposure Draft of amendments to IFRS 4 in December 2015.

## IFRS Implementation Issues (Agenda Paper 12)

***IFRIC Update (Agenda Paper 12)***

The IASB received an update from the September 2015 meeting of the IFRS Interpretations Committee ('the Interpretations Committee'). Details of this meeting were published in the *IFRIC Update*, which is available here.

***Annual Improvements—IAS 23* Borrowing Costs*—Borrowing costs on completed qualifying assets (Agenda Paper 12A)***

The IASB discussed a recommendation from the Interpretations Committee to amend IAS 23 *Borrowing Costs* to clarify the calculation of the capitalisation rate on general borrowings to be applied to qualifying assets. Specifically, the IASB considered whether specific borrowings should be transferred to the general borrowings pool once the construction of a qualifying asset has been completed.

The IASB agreed with the Interpretations Committee's conclusion that such specific borrowings should be included in the general borrowings pool and that an amendment should be made to IAS 23 to require this treatment.

The IASB also decided that:

a. the amendment should be included in the next cycle of annual improvements (2015–2017); and
b. the proposed amendment should be applied prospectively with early application permitted.

All fourteen IASB members agreed with these decisions.

***Next steps***

The amendment will be included in the Exposure Draft *Annual Improvements to IFRS 2015–2017 Cycle*.

***IFRS 11* Joint Arrangements*—Remeasurement of previously held interests (Agenda Papers 12B—12E)***

The IASB received an update on the recent discussions by the Interpretations Committee on the remeasurement of previously held/retained interests in various transactions.

*Agenda Paper 12C: Acquisition of control over a joint operation*

The IASB discussed a recommendation from the Interpretations Committee to amend IFRS 3 *Business Combinations* to clarify that previously held interests should be remeasured when an entity obtains control over a joint operation that meets the definition of a business.

The IASB agreed with the Interpretations Committee's conclusion that:

a. the transaction represents a significant economic event;
b. remeasurement is consistent with the requirements in IFRS 3; and
c. the wording in paragraphs 41–42 of IFRS 3 should be clarified to reflect the conclusion.

All fourteen IASB members agreed with these decisions.

*Agenda Paper 12D: 'Change of interests' transaction resulting in obtaining joint control*

The IASB discussed a recommendation from the Interpretations Committee to amend IFRS 11 *Joint Arrangements* to clarify that previously held interests should *not* be remeasured when an entity that was previously a party to a joint operation obtains *joint* control over a joint operation that meets the definition of a business.

The IASB agreed with the Interpretations Committee's conclusion that:

a. the transaction does not represent a significant economic event;
b. not remeasuring previously held interests is consistent with the requirements in IFRS 11; and
c. the wording in IFRS 11 should be clarified to reflect the conclusion.

All fourteen IASB members agreed with these decisions.

*Agenda Paper 12E: Loss of control*

The IASB discussed a request from the Interpretations Committee for guidance on whether the Interpretations Committee should continue or postpone its discussions on whether previously held interests should be remeasured in a transaction that:

a. results in the entity losing control over a group of assets, but
b. retaining an interest in a joint operation, either as a joint operator or as a party to a joint operation.

The Interpretations Committee noted that such a transaction has similarities with a sale or contribution of assets to a joint venture or an associate, which the IASB is reviewing as part of the research project on the equity-method of accounting.

The IASB was not asked to make any decisions.

***Next steps***

The IASB will consider the transition provisions and the due process undertaken on the proposed narrow-scope amendments to IFRS 3 and IFRS 11 at a future meeting. The IASB intends that the proposed amendments will be exposed with any proposed amendments relating to the Definition of a Business project.

Feedback received from the IASB on Agenda Paper 12E will be provided to the Interpretations Committee at a future meeting.

## Goodwill and Impairment (Agenda Paper 18)

The IASB met on 22 October 2015 to discuss its Goodwill and Impairment project, which responds to some of the findings from the IASB's Post-implementation Review (PIR) of IFRS 3 *Business Combinations*. In particular, the IASB discussed the following two topics:

- subsequent accounting for goodwill (including the relative merits of an impairment-only approach and an amortisation and impairment approach)
- improving the impairment test in IAS 36

The IASB asked the staff to perform additional work to understand better what information investors want to receive about goodwill and impairment to inform the IASB's future discussions.

No decisions were made.

***Next steps***

The IASB will continue its discussion on these topics after considering the additional information requested about the investors' perspectives. The IASB will discuss the third topic in its Goodwill and Impairment project relating to identification and measurement of intangible assets at a future meeting.

## Definition of a business (Agenda Paper 13)

The IASB met on 22 October 2015 to discuss an analysis of the Financial Accounting Standard Board's (FASB's) proposals on how to clarify the definition of a business and related application guidance, and to consider whether the same proposals should be made to IFRS 3 *Business Combinations*. The IASB tentatively decided:

- to clarify that to be considered a business, an acquired set of activities and assets (a set) must include, at a minimum, an input and a substantive process that together contribute to the ability to create outputs;
- to remove the requirement that a set is a business if market participants can replace the missing elements and continue to produce outputs;
- to not consider as a business a set in which substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets;
- to revise the definition of outputs to focus on goods and services provided to customers;
- to add examples to help preparers to interpret what is considered a business; and
- that an entity would be required to apply the proposed amendments to IFRS 3 prospectively.

All thirteen IASB members present agreed with this decision. One member was absent.

***Next steps***

At its December 2015 meeting, the IASB plans to review the due process steps taken to date before issuing the *Definition of a Business* Exposure Draft.

## Work plan—projected targets as at 26 October 2015

The work plan reflecting decisions made at this meeting was updated on the IASB website on 26 October 2015. **View it here**.


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