

Welcome to the February IASB Update

This IASB Update highlights preliminary decisions of the International Accounting Standards Board (the Board). The Board's final decisions on Standards, Amendments and IFRIC® Interpretations are formally balloted as set forth in the IFRS® Foundation and IFRS Interpretations Committee *Due Process Handbook*.

The Board met in public on Wednesday 22 and Thursday 23 February 2017 at the IFRS Foundation's offices in London, UK.

The topics for discussion were:

- **Insurance Contracts**
- **Financial Instruments with Characteristics of Equity**
- **Symmetric Prepayment Options**
- **Post-implementation review of IFRS 13 Fair Value Measurement**
- **Definition of a Business**
- **Research Programme**
- **Rate-regulated Activities**
- **The Conceptual Framework for Financial Reporting**
- **Modifications and exchanges of financial liabilities**
- **IFRS Implementation Issues—IFRS 9 Impairment**

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Future IASB meetings

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

Upcoming IASB meetings:

20 to 24 March 2017
24 to 28 April 2017
15 to 19 May 2017

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

Archive of IASB Update Newsletter

For past issues of IASB Update [click here](#).

Podcast summaries

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

Insurance Contracts (Agenda Paper 2)

The Board met on 22 February 2017 to discuss the findings from a recent external editorial review of a draft of IFRS 17 *Insurance Contracts* and sweep issues.

Changes to the contractual service margin (Agenda Paper 2A)

The Board tentatively decided:

- for contracts measured under the general model*—that all changes in estimates of the present value of future cash flows arising from non-financial risks are adjusted against the contractual service margin.
- for contracts measured under the variable fee approach*—that all changes in estimates of the present value of future cash flows that are unrelated to the underlying items and that arise from non-financial risks are adjusted against the contractual service margin.
- that the changes in estimates adjusted against the contractual service margin include changes directly caused by experience adjustments. There are two exceptions: (i) where the change relates to incurred claims, and (ii) where any increases in estimates exceed the carrying amount of the contractual service margin, or any decreases are allocated to a loss component.
- to revise the definition of an experience adjustment to exclude investment components.
- that the amount of the contractual service margin for a group of insurance contracts recognised in profit or loss in each period is determined by allocating the carrying amount of the contractual service margin after all other adjustments have been made to the carrying amount of the contractual service margin at the start of the period.

All 12 Board members agreed with these decisions.

Narrow exemption for the grouping of regulatory-affected pricing of insurance contracts (Agenda Paper 2B)

The Board tentatively decided that an entity should be exempt from the requirement to divide a portfolio into groups of contracts—a group that is onerous at inception, not significantly likely to be onerous, and other contracts—if, and only if, applying that requirement would result in the entity dividing the contracts of a portfolio into such groups because there are specific constraints in law or regulation on an entity's practical ability to set price or benefit levels that vary according to policyholder characteristics. When this is the case, the entity may include those contracts in the same group and should disclose that fact. This exemption should not be extended by analogy to any other regulatory-affected transactions.

Eleven of 12 Board members agreed and one disagreed with this decision.

Responding to the external editorial review (Agenda Paper 2C)

All 12 Board members agreed with recommendations in Agenda Paper 2C on the remaining sweep issues. Board members did not raise any other topics for consideration at a future meeting.

Financial Instruments with Characteristics of Equity (Agenda Paper 5)

The Board met on 22 February 2017 to discuss two topics in the Financial Instruments with Characteristics of Equity research project.

The Board was also given a summary of discussions to date (Agenda Paper 5A, which was provided for information only). No decisions were made.

The Board discussed:

- a. contractual terms and their interaction with legal and regulatory requirements; and
- b. accounting within equity.

Contractual terms (Agenda Paper 5B)

The Board discussed the scope of contractual rights and obligations an entity should consider when applying the Gamma approach to a financial instrument. The Board tentatively decided:

- a. to require an entity to apply the Gamma approach to the contractual terms of a financial instrument consistently with IAS 32 *Financial Instruments: Presentation* and IFRS 9 *Financial Instruments*. Ten of 12 Board members agreed and two disagreed with this decision.
- b. to consider whether it should take any action to address the accounting for mandatory tender offers, including potential disclosure requirements. Eleven of 12 Board members agreed and one disagreed with this decision.
- c. not to reconsider IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments*, given that it is not aware of any challenges to its application. Eleven of 12 Board members agreed and one disagreed with this decision.

Accounting within equity (Agenda Paper 5C)

The Board discussed application guidance and illustrative examples that will help clarify how its decisions on the Gamma approach would apply to accounting within equity. The discussion concerned transactions that have been challenging in practice when applying the existing IAS 32 requirements, including put options written on an entity's own equity.

No decisions were made.

Next steps

At a future meeting, the Board will discuss:

- a. application of the Gamma approach to the classification of derivatives on non-controlling interests with an exercise price denominated in a foreign currency; and
- b. a summary of interactions with other IFRS Standards, IFRIC Interpretations and the *Conceptual Framework in Financial Reporting*.

Symmetric Prepayment Options (Agenda Paper 3)

The Board met on 22 February 2017 and discussed the forthcoming Exposure Draft regarding the classification of instruments that contain symmetric prepayment options under IFRS 9 *Financial Instruments*. The Board tentatively decided to allow 30 days for comments on the amendment to IFRS 9.

All 12 Board members agreed with this decision.

All 12 Board members confirmed they were satisfied that the Board had complied with the necessary due process for developing the amendment and gave the staff permission to begin the balloting process. One Board member indicated that he may dissent from the proposed amendment to IFRS 9.

Next Steps

The Board expects to publish the Exposure Draft of the proposed amendment to IFRS 9.

Post-implementation Review of IFRS 13 *Fair Value Measurement* (Agenda Paper 7)

The Board met on 22 February 2017 to discuss the comment period for the Request for Information and the due process steps followed during the first phase of the Post-implementation Review of IFRS 13 *Fair Value Measurement*.

The Board decided:

- a. that the response period for the RFI on the PIR of IFRS 13 would be 120 days at a minimum. All 12 Board members agreed.
- b. that they are satisfied that all required due process steps have been completed for the first phase of the PIR of IFRS 13. All 12 Board members agreed.

Next steps

The Board plans to have a completed RFI ready for publication in May 2017.

Definition of a Business (Agenda Paper 13)

The Board met on 22 February 2017 to discuss a summary of comments received on proposed amendments to IFRS 3 *Business Combinations* relating to the definition of a business. These proposals were published in June 2016 in the Exposure Draft *Definition of a Business and Accounting for Previously Held Interests* (proposed amendments to IFRS 3 and IFRS 11).

The Board was not asked to make any decisions.

Next steps

The Board will discuss an analysis of these comments received at a future meeting.

Research Programme (Agenda Paper 8)

The Board met on 22 February 2017 to receive an update on its research programme. The update highlighted developments since the Board's October 2016 meeting. Information on the IASB work plan, including its research programme, is available [here](#).

The Board noted that:

- a. work on the Goodwill and Impairment project is now restarting;
- b. work on the Business Combinations under Common Control project is likely to restart in the second quarter of 2017;
- c. an education session on Dynamic Risk Management is planned for March 2017; and
- d. the staff do not expect to start work on any of the projects in the research pipeline in the next few months.

The Board was not asked to make any decisions.

Next steps

The Board is due to receive the next update on the research programme in about three months.

Rate-regulated Activities (Agenda Paper 9)

The Board met on 23 February 2017 to consider proposals for a new accounting model for rate-regulated activities. In an education session at its December 2016 meeting, the Board discussed an overview of the proposed model and how concerns expressed by members of the Accounting Standards Advisory Forum are addressed in the model.

General approach in the model (Agenda Paper 9A)

The Board examined how the principle proposed in the model, as well as its general approach, make use of principles in IFRS 15 *Revenue from Contracts with Customers* and of the Board's latest thinking in the *Conceptual Framework* project. The Board tentatively decided that the staff should continue developing the model using the general approach. However, it asked the staff to rework the analysis describing the principles supporting the approach.

Eleven of 12 Board members agreed and one disagreed with this decision.

Scope of the model (Agenda Paper 9B)

The Board tentatively decided that scope criteria for the model should focus on enforceable rights and obligations created through a formal regulatory pricing (ie rate-setting) framework but exclude other features of rate regulation described in the paper. Other features would instead be used as indicators for the existence and enforceability of the regulatory rights and obligations.

Ten of 12 Board members agreed and two disagreed with this decision.

Recognition of regulatory assets and regulatory liabilities (Agenda Paper 9C)

The Board discussed whether a regulatory asset or regulatory liability should be recognised only when:

- a. the regulatory adjustment represents a right or obligation arising from the extent to which the performance of the entity exceeds, or has been exceeded by, the performance of the customer base, ie the extent to which the regulatory agreement is no longer executory;
- b. the resulting regulatory asset or regulatory liability has not already been recognised as an asset or a liability by applying other IFRS Standards; and
- c. it is highly probable that there will be no significant reversal in the cumulative compensation recognised.

The Board asked for the analysis supporting the criteria in a. and b. to be refined while the description of the principles supporting the general approach is reworked. The Board also asked for the reversal criterion in c. to be reconsidered in the wider context of uncertainty and its effect on recognition and measurement.

Illustrative examples (Agenda Paper 9D)

The Board considered five numerical examples illustrating how the recognition criteria are applied. The Board was not asked to make any decisions about the examples.

Next steps

At a future meeting, the Board plans to discuss detailed analyses of measurement, presentation and disclosure in the proposed model.

The Conceptual Framework for Financial Reporting (Conceptual Framework) (Agenda Paper 10)

The Board met on 23 February 2017 to discuss the *Conceptual Framework* project, concentrating on an appendix on cash-flow-based measurement techniques, and on minor comments on the concepts supporting the asset and liability definitions from the May 2015 Exposure Draft *Conceptual Framework for Financial Reporting* (the Exposure Draft). Further, the Board discussed:

- a. the review for inconsistencies between the revised *Conceptual Framework* and existing IFRS Standards;
- b. assessing the effects of the revised *Conceptual Framework*; and
- c. the due process steps for developing the revised *Conceptual Framework*.

Measurement Appendix A: Cash-flow-based measurement techniques (Agenda Paper 10B)

The Board tentatively decided that the revised *Conceptual Framework* would include main points from an appendix that describes cash-flow-based measurement techniques.

All 12 Board members agreed with this decision.

Review of existing Standards for potential inconsistencies with the revised Conceptual Framework (Agenda Paper 10C)

The Board discussed work identifying inconsistencies between the revised *Conceptual Framework* and existing Standards.

No decisions were made.

Effects of the revised Conceptual Framework (Agenda Paper 10D)

The Board tentatively decided that the work assessing the effects of the revised *Conceptual Framework* is sufficient.

All 12 Board members agreed with this decision.

Minor comments on concepts supporting asset and liability definitions (Agenda Paper 10E)

The Board discussed the minor comments received on concepts supporting the definitions of asset and liability. The Board noted that these comments either do not give rise to action or can be addressed in drafting.

All 12 Board members agreed with this decision.

Due process summary for the Conceptual Framework for Financial Reporting (Agenda Paper 10F)

The Board reviewed the due process steps taken so far in developing the *Conceptual Framework* and also considered the re-exposure criteria in the *Due Process Handbook*.

All 12 Board members confirmed that they are satisfied that the Board has completed all the necessary due process steps on the project to date and instructed the staff to commence the drafting process. No Board member expressed the intention to dissent from the publication of the revised *Conceptual Framework*.

The Board tentatively decided that the Board and the IFRS Interpretations Committee will start using the revised *Conceptual Framework* as soon as it is issued. All 12 Board members agreed with this decision.

Modifications and exchanges of financial liabilities (Agenda Paper 12A)

The Board met on 22 February 2017 to consider the IFRS Interpretations Committee's (the Interpretations Committee) tentative decision to develop a draft Interpretation. Paragraph 7.10 of the IFRS Foundation *Due Process Handbook* requires the Board to consider whether a draft Interpretation should be published. The draft Interpretation would have addressed modifications and exchanges of financial liabilities measured at amortised cost that do not result in derecognition of the financial liability. The Interpretations Committee had concluded at its November 2016 meeting that the requirements in paragraph B5.4.6 of IFRS 9 *Financial Instruments* apply to all revisions of estimated payments or receipts—including changes in cash flows arising from modifications or exchanges of financial assets and financial liabilities that do not result in the derecognition of the financial asset or financial liability. This conclusion is consistent with the definition of amortised cost in Appendix A of IFRS 9. Applying paragraph B5.4.6, an entity recalculates the amortised cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate. The entity recognises any adjustment to the amortised cost of the financial liability in profit or loss as income or expense at the date of the modification or exchange.

All 12 Board members agreed with the Interpretations Committee's technical conclusions on the matter. However, the Board expressed concerns about issuing a draft Interpretation in this situation. The Board concluded that the principles and requirements in IFRS 9 provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities. Accordingly, a draft Interpretation would have been used principally as a means of highlighting the accounting already required by IFRS 9. The Board concluded that, in this situation, standard-setting is not required. However, given the importance of the matter, other means should be used to highlight the relevant accounting.

Consequently, the Board objected to issuing a draft Interpretation. All 12 Board members agreed with this decision.

Next steps

The Board recommended that the Interpretations Committee proceed with proposing an educative agenda decision on the matter, which would explain the accounting for modifications and exchanges of financial liabilities that do not result in derecognition applying IFRS 9. The Board will also consider other ways to highlight this matter—for example, within a webcast.

IFRS Implementation Issues—IFRS 9 Impairment (Agenda Paper 12B)

The Board met on 22 February 2017 to discuss an implementation question relating to the impairment requirement in paragraph B5.5.40(c) of IFRS 9 *Financial Instruments*. The paragraph concerns the requirement to consider the expected credit risk management actions in determining the period of credit risk exposures of particular types of financial instruments such as credit card facilities.

The discussion reiterated the relevant requirements in IFRS 9 and observations made in the meetings of the Transition Resource Group for Impairment of Financial Instruments. The Board was also informed of the staff's intention to create educational materials relating to this question and other implementation challenges should the need arise.

The Board was not asked for any decisions.

Work plan—projected targets as at 27 February 2017

The work plan reflecting decisions made at this meeting was updated on the IASB website on 27 February 2017.

[View it here.](#)

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