IASB Update

From the International Accounting Standards Board

January 2014

Welcome to the *IASB Update*

The IASB met in public from 21–23 January 2014 at the IASB offices in London, UK. The FASB joined the IASB for some of the sessions via video from its offices in Norwalk.

The topics for discussion were:

- **The use of information by capital providers**
- **Agriculture: Bearer plants**
- **Financial Instruments: Classification and Measurement (Limited amendments)**
- **Insurance Contracts**
- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)—sweep issue**
- **Elimination of gains from 'downstream' transactions (Proposed amendments to IAS 28 *Investments in Associates and Joint Ventures*)**
- **Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11 *Joint Arrangements*)—sweep issues**
- **Amendments to IAS 1**
- **Financial Instruments: Impairment**
- **Leases**

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Future board meetings

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

The next board meetings are:

13–21 February
13–21 March
22–25 April

To see all board meetings for 2014, **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**.

The Use of Information by Capital Providers

The IASB held an education session on an academic literature review *The Use of Information by Capital Providers*, published by the

European Financial Reporting Advisory Group (EFRAG) and the Institute of Chartered Accountants of Scotland (ICAS). The session was led by academics who had prepared the review.

No decisions were made.

Agriculture: Bearer plants

The IASB discussed a summary of the feedback received on the IASB Exposure Draft ED/2013/8 *Agriculture: Bearer Plants* (Proposed amendments to IAS 16 and IAS 41). The meeting was educational in nature and the IASB was not asked to make any decisions.

Financial Instruments: Classification and Measurement (Limited amendments)

The IASB discussed the remaining aspects of its proposals in the Exposure Draft ED/2012/4 *Classification and Measurement: Limited Amendments to IFRS 9* (Proposed amendments to IFRS 9 (2010)) (the 'Limited amendments ED').

Agenda Paper 6A: Interaction between the classification and measurement of financial assets and the accounting for insurance contracts liabilities

The IASB discussed the interaction between the classification and measurement of financial assets under IFRS 9 *Financial Instruments* (including the tentative decisions made in redeliberating the Limited Amendments ED) and the accounting for insurance contracts liabilities under the Exposure Draft ED/2013/7 *Insurance Contracts* (the '2013 Insurance Contracts ED'), including the feedback received on that interaction. The IASB noted that the proposals in the Limited Amendments ED that were tentatively reaffirmed in the redeliberations – specifically the introduction of the fair value through other comprehensive income (FVOCI) measurement category for financial assets that reflects the 'hold and sell' business model and the extension of the fair value option to financial assets that would otherwise be measured at FVOCI – are relevant to many entities that hold insurance contracts and result in an improved interaction. These tentative decisions also provide a 'toolkit' that the IASB can consider when finalising the accounting model for insurance contracts liabilities. The IASB also noted that it will consider the feedback related to the accounting model for the insurance contracts liabilities, and whether that model should be modified to reflect the interaction with the classification and measurement for financial assets, when redeliberating the 2013 Insurance Contracts ED.

Agenda Paper 6B: Presentation and Disclosure

The IASB discussed the presentation and disclosure proposals in the Limited amendments ED and the feedback received on those proposals. The IASB tentatively decided to confirm those proposals, specifically:

a. paragraph 12B of IFRS 7 *Financial Instruments: Disclosures* will be extended to reclassifications into and out of the FVOCI measurement category;
b. paragraph 12C of IFRS 7 will be extended to reclassifications from the fair value through profit or loss (FVPL) measurement category into the FVOCI measurement category;
c. paragraph 12D of IFRS 7 will be extended to:
    i. reclassifications from the FVPL measurement category into the FVOCI measurement category; and
    ii. reclassifications from the FVOCI measurement category into the amortised cost measurement category.
d. paragraph 82 in IAS 1 *Presentation of Financial Statements* will be amended to require the presentation of any cumulative gain or loss previously recognised in other comprehensive income that is reclassified to profit or loss when a financial asset

is reclassified from the FVOCI measurement category into the FVPL measurement category; and

e. the judgement involved in the assessment of a financial asset's contractual cash flow characteristics will be added to paragraph 123 of IAS 1 as an example of a judgement that could have a significant effect on the amounts recognised in the financial statements.

Sixteen IASB members agreed.

Agenda Paper 6C: Transition to IFRS 9—presentation of comparative information by first-time adopters of IFRS and the early application of IFRS 9

The IASB discussed the presentation of comparative information by first-time adopters of IFRS (FTAs) and tentatively decided that:

a. FTAs will not be required to present comparative information that complies with the completed version of IFRS 9 if the beginning of their first IFRS reporting period is earlier than the mandatory effective date of IFRS 9 plus one year; and
b. if an FTA chooses to present comparative information that does not comply with the completed version of IFRS 9, it will be required to provide the same disclosures that were required by IFRS 1 *First-time Adoption of International Financial Reporting Standards* for an FTA that transitioned to IFRS 9 (2009) or IFRS 9 (2010) and that chose not to present comparative information that complied with those new Standards. Those disclosures are set out in paragraph E2 of IFRS 1.

Sixteen IASB members agreed.

The IASB discussed the early application by both existing IFRS preparers and FTAs of both the completed and the previous versions of IFRS 9 and tentatively decided that

a. entities will be permitted to early apply the completed version of IFRS 9; and
b. entities will not be permitted to early apply a previous version of IFRS 9 if their date of initial application is six months or more after the completed version of IFRS 9 is issued. (However, if an entity has early applied a previous version of IFRS 9 before the 'six month window' expires, the entity is permitted to continue to apply that version until the completed version of IFRS 9 becomes mandatorily effective.)

Fourteen IASB members agreed.

Agenda Paper 6D: Transition to IFRS 9—application of particular classification and measurement requirements and a transition issue on impairment

The IASB discussed the transition to the completed version of IFRS 9 and tentatively decided that:

a. if it is impracticable (as defined by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors)* on transition to IFRS 9 for an entity to assess a modified time value of money component of an asset's interest rate based on the facts and circumstances that existed at the initial recognition of the financial asset, then the entity must assess the contractual cash flow characteristics of that financial asset without taking into account the specific requirements related to the modification of the asset's interest rate. In addition, in those cases, the entity will be required to disclose the carrying value of the financial assets until those assets are derecognised.
b. if it is impracticable (as defined by IAS 8) on transition to IFRS 9 for an entity to assess whether the fair value of a prepayment feature was insignificant at the initial recognition of a financial asset that was originated (or acquired) with a significant premium or discount and is prepayable at par (plus accrued and unpaid interest), an entity shall assess the contractual cash flow characteristics of that financial asset without taking into account the specific exception for prepayment features. In addition, in those cases the entity will be required to disclose the carrying value of the financial assets until those assets are derecognised.
c. entities that have already applied a previous version of IFRS 9 and are subsequently applying the completed version of IFRS 9 will be:

    i. required to revoke previous fair value option designations if an accounting mismatch no longer exists at initial application of the completed version of IFRS 9 as a result of the amended classification and measurement requirements, but are not permitted to revoke previous fair value option designations if an accounting mismatch continues to exist; and
    ii. permitted to apply the fair value option to new accounting mismatches that are created by the initial application of the amended classification and measurement requirements in the completed version of IFRS 9, but are not permitted to newly apply the fair value option to accounting mismatches that already existed before the initial application of the completed version of IFRS 9.
d. the transition provisions on the initial application of the expected credit loss model that the IASB tentatively decided to require for existing IFRS preparers (see December *IASB Update*) should also be required for FTAs.

Sixteen IASB members agreed.

Next steps

The IASB will consider whether it has complied with its due process requirements. The IASB expects to issue the completed version of IFRS 9, which will include the limited amendments to the classification and measurement requirements, in the first half of 2014.

Insurance Contracts

The IASB and the FASB discussed summaries of the feedback from comment letters, outreach (including with users of financial statements) and fieldwork on both the IASB's Exposure Draft ED/2013/7 *Insurance Contracts* and the FASB's Exposure Draft *Insurance Contracts*.

No decisions were made by the IASB or the FASB.

Next steps

The FASB will continue its discussions on its project on insurance contracts in February and the IASB will continue its discussions in March.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)—sweep issue

The IASB considered a sweep issue related to the proposed amendment *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28).

The issue related to how the amendments to IFRS 10 should be applied when a parent loses control of a subsidiary (that does not contain a business) but retains an interest in the former subsidiary that is accounted for using the equity method. The issue is whether the gain or loss related to the remeasurement at fair value of the retained interest in the former subsidiary should be recognised:

a. in full;
b. only to the extent of the unrelated investors' interests in the former subsidiary; or
c. should not be recognised.

The IASB decided that the gain or loss resulting from the remeasurement at fair value of the investment retained in the former subsidiary should be recognised to the extent of unrelated investors' interests in that former subsidiary.

Eleven IASB members agreed.

Next steps

The IASB intends to issue the amendments to IFRS 10 and IAS 28 in the first quarter of 2014.

Elimination of gains from 'downstream' transactions (Proposed amendments to IAS 28 *Investments in Associates and Joint Ventures*)

The IASB staff explained the due process steps undertaken by the IASB in advance of publishing an Exposure Draft of proposed amendments to IAS 28 on the 'Elimination of gains from 'downstream' transactions'.

Agenda Paper 12B: Narrow-scope amendment: IAS 28

Due process consideration

All IASB members agreed that:

a. the Exposure Draft should have a comment period of 120 days; and
b. the due process requirements to date have been complied with.

One IASB member indicated that he intends to dissent from the publication of the Exposure Draft.

Next steps

The IASB plans to publish the Exposure Draft in Q1 2014.

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11 *Joint Arrangements*)—sweep issues

The IASB discussed two sweep issues relating to the proposed amendments to IFRS 11 from the project Accounting for Acquisitions of Interests in Joint Operations.

The IASB tentatively decided that:

a. the amendments to IFRS 11 should clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while retaining joint control; and
b. a scope exclusion should be added to specify that the amendments to IFRS 11 do not apply when the parties sharing joint control, including the reporting entity, are under the common control of the same ultimate controlling party.

All IASB members agreed.

Next steps

The IASB plans to issue *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11) in the first quarter of 2014.

Amendments to IAS 1

The IASB met on 23 January 2014 to discuss the transition provisions and due process for the proposed narrow-focus amendments to IAS 1 *Presentation of Financial Statements*.

Agenda Paper 8A: Amendments to IAS 1: Disclosure Initiative amendments—transition and due process

Agenda Paper 8B: Due process and transition—presentation of items of other comprehensive income arising from equity accounted investments

The IASB tentatively decided that the proposed amendments to IAS 1 should be applied from the effective date of the amendments, with earlier application permitted, and that no specific transition provisions are necessary.

The IASB confirmed that it is satisfied that all due process steps applicable so far have been complied with and that the staff has permission to prepare a ballot draft of the Exposure Draft *Amendments to IAS 1* with a comment period of 120 days.

All IASB members agreed.

No IASB members indicated that they intend to dissent from the proposals.

Next steps

The staff will prepare a ballot draft of the Exposure Draft *Amendments to IAS 1*.

Financial Instruments: Impairment

The IASB met on 23 January 2014 to conclude its redeliberations on the clarifications and enhancements to the proposals in the Exposure Draft ED/2013/3 *Financial Instruments: Expected Credit Losses* (the 'Exposure Draft').

At this meeting, the IASB considered the proposed presentation and disclosure requirements in the Exposure Draft.

Agenda Paper 5A: Presentation and Disclosure

The IASB discussed the feedback received on the proposed presentation and disclosure requirements, and considered whether any changes to the requirements should be made.

Reconciliation

The IASB tentatively confirmed the proposals in the Exposure Draft to require a reconciliation between the opening balance to the closing balance of the loss allowance.

The IASB tentatively decided to retain the requirement to provide a reconciliation between the opening balance and closing balance of the gross carrying amount of financial assets. However, the IASB also tentatively decided to clarify that the objective of the reconciliation is to provide information only about the key drivers for changes in the gross carrying amount to the extent that the changes relate to changes in the loss allowance during the period.

Sixteen IASB members agreed with this decision.

Collateral

The IASB tentatively confirmed the proposals in the Exposure Draft for disclosures about collateral or other credit enhancements, subject to clarifications that:

a. qualitative information should be disclosed about how collateral and other credit enhancements have been incorporated into the measurement of expected credit losses on all financial instruments; and
b. quantitative information about the extent to which collateral or other credit enhancements affects the expected credit loss allowance (or provision) does not require providing information about the fair value of collateral.

Sixteen IASB members agreed with this decision.

Other disclosures

The IASB tentatively confirmed the other disclosures proposed in the Exposure Draft subject to the following modifications and clarifications:

Disclosure objectives

Enhance the objectives by expanding them to emphasise that the information provided should enable a user of the financial statements to understand:

a. how an entity manages credit risk in the context of an expected credit loss impairment model;
b. the methods, assumptions and information used to estimate expected credit losses;
c. an entity's credit risk profile (the credit risk inherent in the financial instruments), including significant credit concentrations; and
d. changes, and the reasons for the changes, in the estimate of expected credit losses during the period.

Qualitative disclosures

a. no longer require the discount rate disclosures concerning the use of the effective interest rate or an approximation thereof included in paragraph 39 (c) of the Exposure Draft;
b. include an explanation of the policy for the modification of financial instruments, including how an entity assesses that the credit risk of modified financial assets is no longer considered to be 'significantly increased' as compared to what it was at initial recognition; and
c. following the September 2013 tentative decision to emphasise that macroeconomic information need to be considered when assessing whether there has been a significant increase in credit risk, an explanation of how such information has been incorporated in the estimates of expected credit losses also needs to be included.

Quantitative disclosures

a. **Modification disclosures:**
    i. only require the disclosure of the gross carrying amount of financial assets that were previously modified and for

which the measurement of the loss allowance changes from lifetime to 12-month expected credit losses during the period. (paragraph 38(a) in the Exposure Draft); and

   ii. clarify the requirement in paragraph 38(b) of the Exposure Draft to refer to the *deterioration rate* (ie the percentage) of financial assets previously disclosed in accordance with paragraph 38(a) for which credit risk has subsequently increased significantly, resulting in the measurement of the loss allowance reverting to lifetime expected credit losses.

b. **Write-off policy disclosures:**
   i. clarify that the term 'nominal amount' refers to the contractual amount outstanding; and
   ii. clarify that the requirement in paragraph 37 of the Exposure Draft to disclose the nominal amount of assets subject to enforcement activity only applies to financial assets that have been written-off during the period, while narrative information is provided about financial assets previously written-off but still subject to enforcement activity.

c. **Credit risk disaggregation disclosures:**
   i. modify the requirement in paragraph 44 of the Exposure Draft to permit the use of an aging analysis for financial assets for which delinquency information is the only borrower-specific information available to assess significant increases in credit risk; and
   ii. delete the requirement in paragraph 44 of the Exposure Draft that an entity should disaggregate its financial instruments across at least three credit risk rating grades to understand its exposure to credit risk, but instead require credit risk disaggregation to be aligned with how credit risk is managed internally and that a consistent approach be applied over time.

Sixteen IASB members agreed with this decision.

Next steps

This meeting concluded the IASB's redeliberations on the technical aspects of the Exposure Draft. The IASB will discuss the mandatory effective date of IFRS 9, and any sweep issues before considering compliance with its due process requirements. Additionally, the IASB will consider whether re-exposure is necessary, and the staff will request permission to ballot.

Leases

The FASB and the IASB began their redeliberations of the proposals included in the May 2013 Exposure Draft ED/2013/6 *Leases*. The objective of the meeting was to have an in-depth discussion of the following topics:

a. lessor accounting model;
b. accounting for “Type A” leases by lessors;
c. lessee accounting model; and
d. lessee small-ticket leases.

Next steps

The IASB and the FASB were not asked to make any decisions. They directed the staff to perform further analysis on those topics for discussion at a future meeting.

Work plan—projected targets as at 27 January 2014

Major IFRS				
Next major project milestone				
	2014 Q1	**2014 Q2**	**2014 Q3**	**2014 Q4**
IFRS 9: *Financial Instruments* (replacement of IAS 39)				
Classification and Measurement (Limited amendments)		Target IFRS		
Impairment		Target IFRS		
Accounting for Macro Hedging	Target DP			
	2014 Q1	**2014 Q2**	**2014 Q3**	**2014 Q4**
Insurance Contracts	Redeliberations			
Leases	Redeliberations			
Rate-regulated Activities				
Interim IFRS	Target IFRS			
Rate Regulation		Target DP		
Revenue Recognition	Target IFRS			
IFRS for SMEs: Comprehensive Review 2012–2014—see **project page**				

Implementation				
Next major project milestone				
Narrow-scope amendments	**2014 Q1**	**2014 Q2**	**2014 Q3**	**2014 Q4**
Acquisition of an Interest in a Joint Operation (Proposed amendments to IFRS 11)	Target IFRS			
Annual Improvements 2012–2014 [Comment period ends 13 March 2014]		Redeliberations		
Annual Improvements 2013–2015			Target ED	
Bearer Plants (Proposed amendments to IAS 41)	Redeliberations			
Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed amendments to IAS 16 and IAS 38)	Target IFRS			
Disclosure Initiative				
Amendments to IAS 1 (Disclosure Initiative)	Target ED			
Elimination of gains arising from 'downstream' transactions (Proposed amendments to IAS 28)	Target ED			
Equity Method: Share of Other Net Asset Changes (Proposed amendments to IAS 28)		Target IFRS		

Fair Value Measurement: Unit of Account	Target ED			
Put Options Written on Non-controlling Interests (Proposed amendments to IAS 32)	Next steps TBD			
Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to IAS 12)		Target ED		
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Proposed amendments to IFRS 10 and IAS 28)	Target IFRS			
Separate Financial Statements (Equity Method) (Proposed amendments to IAS 27) [Comment period ends 3 February 2014]	Redeliberations			

Post-implementation reviews	**2014 Q1**	**2014 Q2**	**2014 Q3**	**2014 Q4**
IFRS 3 *Business Combinations*	Publish Request for Information			

Conceptual Framework

Next major project milestone

	2014 Q1	**2014 Q2**	**2014 Q3**	**2014 Q4**
Conceptual Framework (chapters addressing elements of financial statements, measurement, reporting entity and presentation and disclosure) [comment period ended 14 January 2014]	Redeliberations			

Research Projects

Research projects involve preliminary research to help the IASB evaluate whether to add a topic to its work plan. The IASB will begin research on the following topics in due course.

Research projects on which preliminary work has commenced:	
Business combinations under common control	
Disclosure Initiative	
Discount rates	
Emissions trading schemes	
Equity method of accounting	
Extractive activities	
Financial instruments with characteristics of equity	
Intangible assets	
Research projects on which preliminary work is not expected to commence until after the 2015 agenda consultation:	
Income taxes	

Post-employment benefits (including pensions)	
Share-based payments	
Research projects for which the timing of preliminary work has not yet been confirmed:	
Financial reporting in high inflationary economies	
Foreign currency translation	
Liabilities—amendments to IAS 37	

Completed IFRS

Major projects	Issued date	Effective date	Year that post-implementation review is expected to start*	
Amendments to IAS 19 *Employee Benefits*	June 2011	1 January 2013	2015	
IFRS 10 *Consolidated Financial Statements*	May 2011	1 January 2013	2016	
IFRS 11 *Joint Arrangements*	May 2011	1 January 2013	2016	
IFRS 12 *Disclosure of Interests in Other Entities*	May 2011	1 January 2013	2016	
IFRS 13 *Fair Value Measurement*	May 2011	1 January 2013	2015	
IFRS 9 *Financial Instruments*	November 2013	TBD (available for application)	TBC	

*A Post-implementation Review normally begins after the new requirements have been applied internationally for two years, which is generally about 30–36 months after the effective date.

Narrow-scope amendments	Issued date	Effective date	
Annual Improvements 2009–2011 • IFRS 1 *First-time Adoption of International Financial Reporting Standards*: ○ **Repeated application of IFRS 1** ○ **Borrowing costs** • IAS 1 *Presentation of Financial Statements* ○ **Clarification of the requirements for comparative information** • IAS 16 *Property, Plant and Equipment* ○ **Classification of servicing equipment** • IAS 32 *Financial Instruments: Presentation* ○ **Tax effect of distribution to holders of equity instruments** • IAS 34 *Interim Financial Reporting* ○ **Interim financial reporting and segment information for total assets and**	May 2012	1 January 2013	

liabilities			

Annual Improvements 2010–2012
 	
• IFRS 2 *Share-based Payment*
  ○ **Definition of vesting condition**
• IFRS 3 *Business Combination*
  ○ **Accounting for contingent consideration in a business combination**
• IFRS 8 *Operating Segments*
  ○ **Aggregation of operating segments**
  ○ **Reconciliation of the total of the reportable segments' assets to the entity's assets**
• IFRS 13 *Fair Value Measurement*
  ○ **Short-term receivables and payables**
• IAS 16 *Property, Plant and Equipment*
  ○ **Revaluation method—proportionate restatement of accumulated depreciation**
• IAS 24 *Related Party Disclosures*
  ○ **Key management personnel services**
• IAS 38 *Intangible Assets*
  ○ **Revaluation method—proportionate restatement of accumulated amortisation**
	December 2013	1 July 2014	

Annual Improvements 2011–2013
 	
• IFRS 1 *First-time Adoption of International Financial Reporting Standards*
  ○ **Meaning of 'effective IFRSs'**
• IFRS 3 *Business Combinations*
  ○ **Scope exceptions for joint ventures**
• IFRS 13 *Fair Value Measurement*
  ○ **Scope of paragraph 52 (portfolio exception)**
• IAS 40 *Investment Property*
  ○ **Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property**
	December 2013	1 July 2014	

Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	June 2012	1 January 2013	

(Amendments to IFRS 10, IFRS 11, and IFRS 12)			
Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	December 2011	1 January 2013	
Government Loans (Amendments to IFRS 1)	March 2012	1 January 2013	
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	December 2011	1 January 2014	
Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	October 2012	1 January 2014	
Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)	June 2013	1 January 2014	
Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)	May 2013	1 January 2014	
IFRS 9 *Financial Instruments*—Mandatory Effective Date of IFRS 9 and Transition Disclosures	December 2011	TBD (available for application)	
Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)	November 2013	1 July 2014	
Interpretations	**Issued date**	**Effective date**	
IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*	October 2011	1 January 2013	
IFRIC 21 *Levies*	May 2013	1 January 2014	

Agenda consultation

Next major project milestone

	2013	2014	2015
Three-yearly public consultation [Feedback Statement published 18 December 2012] [Next consultation scheduled 2015]			Initiate second three-yearly public consultation

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