

Welcome to the *IASB Update*

The IASB met in public from 22-24 September 2014 at the IASB offices in London, UK.

The topics for discussion were:

- **Disclosure Initiative (Agenda Paper 11)**
- **Research Project (Agenda Paper 8)**
- **Insurance Contracts (Agenda Paper 2)**
- **Conceptual Framework (Agenda Paper 10)**
- **IFRIC Update (Agenda Paper 12A)**
- **IAS 21 *The Effects of Changes in Foreign Exchange Rates*—Foreign exchange restrictions and hyperinflation (Agenda Paper 12B)**
- **IAS 1 Presentation of Financial Statements—Classification of liabilities (Agenda Paper 12C)**
- **Distinction between a change in accounting policy and a change in accounting estimate (Agenda Paper 12D)**
- **Classification of a hybrid financial instrument by the holder (Agenda Paper 12E)**
- **Post-implementation Review: IFRS 3 *Business Combinations* (Agenda Papers 12F-12G)**

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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:

16-24 October
13-21 November
14-18 December 2015

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

Archive of *IASB Update* Newsletter

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Podcast summaries

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Disclosure Initiative (Agenda Paper 11)

The IASB met on 22 September to discuss the following projects as part of its Disclosure Initiative:

- a. materiality, including significant accounting policies;
- b. amendments to IAS 7 *Statement of Cash Flows*; and
- c. amendments to IAS 1 *Presentation of Financial Statements*.

Materiality, including significant accounting policies

Responses from national standard setters (Agenda Paper 11A(a))

Presentation on issues and observations on materiality (Agenda Paper 11A(b))

The IASB held an education session on materiality, which summarised:

- a. the responses we received from national standard-setters on the application of materiality in their jurisdictions; and
- b. the research undertaken by the staff on materiality including a discussion about:
 - i. general materiality principles;
 - ii. problems applying materiality; and
 - iii. possible responses by the IASB.

No decisions were made.

Materiality—accounting policy disclosures (Agenda Paper 11A(c))

The IASB discussed the problems with accounting policy disclosures and what information about accounting policies should be disclosed.

No decisions were made.

Next steps

The IASB will discuss materiality in November 2014 and will include a discussion on accounting policy disclosures in its *Principles of Disclosure* Discussion Paper.

Amendments to IAS 7

Disclosure about restrictions on cash and cash equivalents (Agenda Paper 11B(a))

The IASB tentatively decided to propose improvements to IAS 7 regarding disclosures about cash and cash equivalents, to address concerns about the ability to use the cash and cash equivalents where and when required. It also decided to undertake further research on the topic of cash and cash equivalents as part of the Principles of Disclosure research project.

Summary of due process (Agenda Paper 11B(b))

The IASB reviewed the due process steps taken so far in developing the Exposure Draft *Disclosure Initiative: Proposed amendments to IAS 7*.

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 and therefore instructed the staff to commence the balloting process for the proposed amendments. One IASB member indicated their intention to dissent from the publication of the proposed amendments to IAS 7. In addition, the IASB tentatively decided

that there should be a comment period for the Exposure Draft of at least 120 days. All IASB members agreed with this decision.

Next steps

The staff will commence the ballot process of the proposed amendments.

Amendments to IAS 1

Feedback summary (Agenda Paper 11C)

The staff presented a summary of the feedback received on its Exposure Draft *Disclosure Initiative: Proposed amendments to IAS 1*.

No decisions were made.

Next steps

The IASB will discuss in its October 2014 meeting the significant issues raised by the respondents to the Exposure Draft.

Research Project (Agenda Paper 8)

The IASB staff provided the IASB with a general update on the research projects. More specific updates were provided on business combinations under common control and post-employment benefits.

Business combinations under common control (Agenda Paper 8B)

The staff updated the IASB on recent outreach to national-standard setters, seeking information on local requirements relating to initial public offerings of securities.

Post-employment benefits (Agenda Paper 8C)

The IASB considered a plan for the research project to review the accounting for post-employment benefits. The review will be broad-based, focusing on developing a model that provides sound financial reporting, from the perspective of the reporting entity, of plans that range from pure defined contribution to pure defined benefit. There is a growing range of hybrid plan designs that incorporate features of both defined contribution and defined benefit plans. Such plans were not envisaged when IAS 19 *Employee Benefits* was developed and are becoming problematic for IAS 19.

IASB members indicated their support for the direction of both projects.

Insurance Contracts (Agenda Paper 2)

The IASB met on 23 September 2014 to continue its discussions on insurance contracts. In particular, the IASB continued, in an education session, the discussion on the issues relating to contracts with participating features by considering the use of other comprehensive income (OCI) for presenting the effect of changes in discount rates. The staff also asked the IASB for decisions

relating to the premium allocation approach.

(IASB education session)

Determination of interest expense for contracts with participating features (Agenda Papers 2A-2D)

The IASB discussed the book yield and effective yield approaches that could be used to determine the interest expense presented in profit or loss, and the effects of changes in discount rates presented in OCI.

No tentative decisions were made.

(IASB decision-making session)

Premium-allocation approach: revenue recognition pattern (Agenda Paper 2E)

The IASB clarified that when an entity applies the premium-allocation approach to account for an insurance contract, it should recognise insurance contract revenue in profit or loss:

- a. on the basis of the passage of time; but
- b. if the expected pattern of release of risk differs significantly from the passage of time, then on the basis of expected timing of incurred claims and benefits.

All fourteen IASB members agreed with this decision.

Determination of interest expense in the premium-allocation approach (Agenda Paper 2F)

The IASB tentatively decided that when an entity applies the premium-allocation approach to contracts for which the entity:

- a. discounts the liability for incurred claims; and
- b. chooses to present the effect of changes in discount rates in OCI;

the interest expense in profit or loss for the liability for incurred claims should be determined using the discount rate that is locked in at the date the liability for incurred claims is recognised.

This tentative decision also applies to the presentation of interest expense for any onerous contract liability that is recognised when the entity applies the premium-allocation approach.

All fourteen IASB members agreed with this decision.

Next steps

The IASB will continue its redeliberations on the Insurance Contracts project at the October 2014 meeting.

Conceptual Framework (Agenda Paper 10)

On 24 September the IASB continued its redeliberations on the *Conceptual Framework*. The IASB discussed:

- measurement;

- implications of long-term investment for the *Conceptual Framework*; and
- the distinction between liabilities and equity.

Measurement—Measurement bases (Agenda Paper 10B)

The IASB discussed a revised working draft of the description and discussion of measurement bases for the Exposure Draft. The IASB instructed the staff to bring a paper to a future meeting that:

- categorises measurement bases as either historical or current. The IASB asked the staff to consider whether the distinction between historical and current measurement bases could be based on whether the measurement depends on the original transaction price; and
- describes amortised cost as a historical cost measurement.

Measurement—Use of a single or default measurement basis (Agenda Paper 10D)

The IASB tentatively reconfirmed its decision not to develop a single or default measurement basis.

Thirteen IASB members agreed with this decision.

Measurement—Selection of a measurement basis (Agenda Paper 10C)

The IASB tentatively decided that the Exposure Draft should state that:

- consideration of the objective of financial reporting, of the qualitative characteristics of useful information and of the cost-benefit constraint is likely to result in the IASB selecting different measurement bases for different assets and liabilities;
- the factors to be considered when selecting a measurement basis for an asset or liability should include:
 - how the asset or liability will contribute to future cash flows. This will depend in part on the nature of the business activities being conducted. Nevertheless, the *Conceptual Framework* need not (and should not) refer explicitly to any particular business activity, such as long-term investment; and
 - the characteristics of the asset or liability (for example, the nature or extent of the variability in the items cash flows, the sensitivity of the value of the item to changes in market factors or other risks inherent in the item);
- the relative importance of each of the factors to be considered when selecting a measurement basis will depend upon facts and circumstances; and
- it may be appropriate to use one measurement basis for the statement of financial position and a different measurement basis for the statement of profit or loss when such an approach better reflects the nature of the business activities conducted.

All IASB members agreed with these decisions.

Measurement—Initial Measurement (Agenda Paper 10E)

The IASB tentatively decided to amend the discussion of initial measurement that was included in the Discussion Paper by:

- replacing references to the three measurement bases described in the Discussion Paper with references to historical cost and current value;
- removing some Standards-level detail, to be consistent with the agreed strategy for the measurement section;
- removing the statement that, for exchanges of equal value, initial measurement issues are rarely significant; and
- clarifying that cost and fair value are only the same if transaction costs are excluded from cost or are negligible.

In addition, the IASB noted that, in general, the measurement basis used on initial recognition should be consistent with the measurement basis that is used subsequently. The IASB tentatively decided to clarify that this should not prevent:

- a. current values being used in some circumstances as a deemed cost on initial measurement; and
- b. a change in measurement basis if such a change increases the relevance of the information provided.

All IASB members agreed with these decisions.

Implications of long-term investment for the Conceptual Framework (Agenda Paper 10F)

The IASB discussed the implications of long-term investment for the *Conceptual Framework* and tentatively decided that:

- a. the IASBs tentative decisions on measurement and on profit or loss and other comprehensive income (OCI) would provide sufficient tools so that the IASB would be able to make appropriate standard-setting decisions if future projects were to consider:
 - i. how to measure the long-term investments (or liabilities) of entities whose business activities include long-term investment; and
 - ii. whether such entities should present changes in the carrying amount of those investments (or liabilities) in profit or loss or in OCI;
(The IASB has no active or planned projects on long-term investment);
- b. no other areas of the *Conceptual Framework* need to include a specific reference to reporting entities whose business activities include holding long-term investments;
- c. the *Conceptual Framework* contains sufficient and appropriate discussion of primary users and their information needs, and about the objective of general purpose financial reporting, to address appropriately the needs of long-term investors in a reporting entity; and
- d. when updated for the IASB's tentative decisions in May 2014, the *Conceptual Framework* would contain sufficient and appropriate discussion of stewardship and prudence to address appropriately the needs of long-term investors in a reporting entity.

All IASB members agreed with these decisions.

Equity and liabilities (Agenda Papers 10G 10K)

The IASB discussed the role of the definitions of a liability and of equity in distinguishing liabilities from equity claims, and considered possible amendments to the definition of a liability to implement the combined settlement and value approach. The IASB tentatively decided not to amend those definitions at this time. Nine IASB members agreed with this decision.

The IASB directed the staff to explain in the Basis for Conclusions for the *Conceptual Framework* Exposure Draft that it will further explore how to distinguish liabilities from equity claims, including considering whether to amend the definitions of a liability or of equity, in its Research Project on Financial Instruments with Characteristics of Equity. The IASB expects to discuss the scope of the Research Project further in October 2014.

Equity—Classes and accounting requirements within equity (Agenda Paper 10K)

The IASB tentatively decided that the *Conceptual Framework* should neither require nor preclude any accounting requirements for classes of claims within equity.

All IASB members agreed with this decision.

Next steps

At its October meeting the IASB plans to discuss:

- remaining aspects of measurement, including transaction costs;
- potential inconsistencies between existing Standards and the *Conceptual Framework* Exposure Draft;
- consequential amendments; and
- an update on Disclosure Initiative.

In addition, the IASB will review the due process steps undertaken on this project and decide whether the staff should begin the balloting process for the *Conceptual Framework* Exposure Draft.

IFRIC Update (Agenda Paper 12A)

The IASB received an update from the September 2014 meeting of the IFRS Interpretations Committee (the 'Interpretations Committee'). Details of this meeting were published in the IFRIC *Update*, which is available by clicking [here](#).

IAS 21 *The Effects of Changes in Foreign Exchange Rates*—Foreign exchange restrictions and hyperinflation (Agenda Paper 12B)

The IASB was informed about an issue about the application of IAS 21 to the reporting of foreign operations in Venezuela. The issue related to the question of what exchange rate should be used to translate the net investment in a foreign operation when there is a longer-term lack of exchangeability. In July 2014, the Interpretations Committee tentatively decided not to take this issue onto its agenda, primarily because it thought that addressing it would need a broader-scope project than it could address. However, the Interpretations Committee asked for this issue to be brought to the IASB's attention.

No decisions were made

Next steps

The Interpretations Committee will consider feedback received on the tentative agenda decision at its meeting in November 2014 when it will consider whether, and if so how, to finalise the agenda decision.

IAS 1 *Presentation of Financial Statements*—Classification of liabilities (Agenda Paper 12C)

The IASB reviewed the due process steps taken to date in preparation for the publication of its proposals for a narrow-scope amendment to IAS 1. These proposals would clarify when a liability should be classified as current or non-current.

All IASB members confirmed that they:

- a. agree with the staff recommendation that the proposals should be applied retrospectively;
- b. agree that earlier application should be permitted;
- c. agree that no specific relief is required for first-time adoption;
- d. agree that all required due process steps to date have been complied with; and

- e. do not intend to dissent from the publication of the Exposure Draft.

In addition all IASB members agreed that there should be a comment period for the Exposure Draft of 120 days.

They therefore instructed the staff to begin the balloting process for the Exposure Draft *Classification of Liabilities* (Proposed amendments to IAS 1).

Next steps

The staff will commence the balloting process of the proposed amendments. The IASB expects to publish the Exposure Draft in Q4 of 2014.

Distinction between a change in accounting policy and a change in accounting estimate (Agenda Paper 12D)

The IASB was informed about an issue concerning the distinction between a change in accounting policy and a change in accounting estimate in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, and the stricter criteria for assessing when changes in accounting policy occur compared to changes in accounting estimate.

In March 2014, the Interpretations Committee discussed the issue and observed that it would be helpful if there was clear guidance about the circumstances in which changes in the method of estimation may be made. The Interpretations Committee thought that a change in the method used to develop an estimate should only be made if that change produces a reliable and equally or more relevant estimate.

The IASB tentatively decided that the issue of distinguishing between a change in an accounting policy and a change in an accounting estimate, and any applicable thresholds and disclosures, should be considered as part of the Disclosure Initiative.

All IASB members agreed.

Classification of a hybrid financial instrument by the holder (Agenda Paper 12E)

The IASB was informed about an issue concerning the classification of the host contract of a hybrid financial instrument in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. The issue related to the classification of the host of such a financial instrument as an equity or as a debt instrument by the holder. In July 2014, the Interpretations Committee decided not to take the issue onto its agenda, primarily because it is not widespread and because the financial instrument described in the submission is specific. Accordingly, the Interpretations Committee thought it would not be appropriate for it to provide guidance on this particular issue. However the Interpretations Committee asked for this issue, and the comments received on the tentative agenda decision, to be brought to the IASB's attention.

No decisions were made.

Post-implementation Review: IFRS 3 *Business Combinations* (Agenda Papers 12F-12G)

On 24 September the IASB considered the feedback it had received in response to the Request for Information *Post-implementation Review: IFRS 3 Business Combinations* and an overview of the academic literature relevant to the Post-implementation Review of IFRS 3. The IASB directed the staff to prepare a Feedback Statement.

All IASB members agreed with this decision.

Next steps

At a future meeting the IASB will consider the findings of the Post-implementation Review and potential areas for further work.

Work plan—projected targets as at 26 September 2014

Major Projects				
Next major project milestone				
	2014 Q4	2015 Q1	2015 Q2	2015 Q3
Upcoming Standards				
Insurance Contracts	Redeliberations			
Leases	Redeliberations			
Comprehensive review of the IFRS for SMEs	Redeliberations			
Upcoming Exposure Drafts				
Conceptual Framework		Target ED		
Published Discussion Papers				
Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging [Comment period ends 17 October 2014]	Public consultation			
Rate-regulated Activities [Comment period ends 15 January 2015]	Public consultation			
Upcoming Discussion Papers				
Disclosure Initiative				
Principles of disclosure		Target DP		
The Disclosure Initiative is a portfolio of Implementation and Research projects.				
Implementation Projects				
Next major project milestone				
	2014 Q4	2015 Q1	2015 Q2	2015 Q3
Narrow-scope amendments				

Annual Improvements 2014–2016			Target ED	
Clarifications of Classification and Measurement of Share-based Payment Transactions (Proposed amendment to IFRS 2)	Target ED			
Classification of liabilities (Proposed amendment to IAS 1)	Target ED			
Disclosure Initiative				
Amendments to IAS 1 (Disclosure Initiative)	Redeliberations and Target IFRS			
Reconciliation of liabilities from financing activities	Target ED			
Elimination of gains or losses arising from transactions between an entity and its associate or joint venture (Proposed amendments to IAS 28)	Target ED			
Fair Value Measurement: Unit of Account [Comment period ends 16 January 2015]	Public consultation			
Investment Entities: Applying the Consolidation Exception (Proposed amendments to IFRS 10 and IAS 28) [Comment period ended 15 September 2014]	Redeliberations			
Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to IAS 12) [Comment period ends 18 December 2014]		Redeliberations		
Next major project milestone				
Post-implementation Reviews	2014 Q4	2015 Q1	2015 Q2	2015 Q3
IFRS 3 Business Combinations	Target Feedback Statement			
Research Projects				
Next major project milestone				
	2014 Q4	2015 Q1	2015 Q2	2015 Q3
Short- and medium-term projects				
Business combinations under common control	Board discussion			
Disclosure Initiative				
General disclosure review	To be determined			
Materiality	Board discussion			
Principles of disclosure		Target DP		
Discount rates	Board discussion			

Emissions trading scheme	Board discussion			
Equity method of accounting	Board discussion			
Financial instruments with characteristics of equity	Pending developments in the <i>Conceptual Framework</i> project			
Foreign currency translation/inflation	Board discussion			
Liabilities—amendments to IAS 37	Pending developments in the <i>Conceptual Framework</i> project			
Longer-term projects				
Extractive activities/Intangible assets/R&D activities				
Income taxes				
Post-employment benefits (including pensions)				
Share-based payments				
The IASB is developing its research capabilities—for further information see the Tommaso Padoa-Schloppa Memorial Lecture and IASB Research Forum page				
Completed IFRS				
Major projects	Issued date	Effective date	Year that PIR is expected to start*	
IFRS 9 <i>Financial Instruments</i>	July 2014	1 January 2018	TBC	
IFRS 14 <i>Regulatory Deferral Accounts</i>	January 2014	1 January 2016	TBC	
IFRS 15 <i>Revenue from Contracts with Customers</i>	May 2014	1 January 2017	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		
IAS 32 <i>Financial Instruments: Presentation—Offsetting Financial Assets and Financial Liabilities</i> (Amendments to IAS 32)	December 2011	1 January 2014		
<i>Investment Entities</i> (Amendments to IFRS 10, IFRS 12 and IAS 27)	October 2012	1 January 2014		
<i>Recoverable Amount Disclosures for Non-Financial Assets</i> (Amendments to IAS 36)	May 2013	1 January 2014		
<i>Novation of Derivatives and Continuation of Hedge Accounting</i> (Amendments to IAS 39)	June 2013	1 January 2014		
<i>Defined Benefit Plans: Employee Contributions</i> (Amendments to IAS 19)	November 2013	1 July 2014		
<i>Annual Improvements 2010–2012</i>	December 2013	1 July 2014		

<ul style="list-style-type: none"> • IFRS 2 <i>Share-based Payment</i> <ul style="list-style-type: none"> ○ Definition of vesting condition • IFRS 3 <i>Business Combination</i> <ul style="list-style-type: none"> ○ Accounting for contingent consideration in a business combination • IFRS 8 <i>Operating Segments</i> <ul style="list-style-type: none"> ○ Aggregation of operating segments ○ Reconciliation of the total of the reportable segments' assets to the entity's assets • IFRS 13 <i>Fair Value Measurement</i> <ul style="list-style-type: none"> ○ Short-term receivables and payables • IAS 16 <i>Property, Plant and Equipment</i> <ul style="list-style-type: none"> ○ Revaluation method—proportionate restatement of accumulated depreciation • IAS 24 <i>Related Party Disclosures</i> <ul style="list-style-type: none"> ○ Key management personnel services • IAS 38 <i>Intangible Assets</i> <ul style="list-style-type: none"> ○ Revaluation method—proportionate restatement of accumulated amortisation 			
<p>Annual Improvements 2011–2013</p> <ul style="list-style-type: none"> • IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> <ul style="list-style-type: none"> ○ Meaning of "effective IFRSs" • IFRS 3 <i>Business Combinations</i> <ul style="list-style-type: none"> ○ Scope exceptions for joint ventures • IFRS 13 <i>Fair Value Measurement</i> <ul style="list-style-type: none"> ○ Scope of paragraph 52 (portfolio exception) • IAS 40 <i>Investment Property</i> <ul style="list-style-type: none"> ○ Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property 	December 2013	1 July 2014	
<p>Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)</p>	May 2014	1 January 2016	
<p>Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)</p>	May 2014	1 January 2016	
<p>Agriculture: Bearer Plants (Proposed amendments to IAS 16 and IAS 41)</p>	June 2014	1 January 2016	
<p>Equity Method in Separate Financial Statements (Proposed amendments to IAS 27)</p>	August 2014	1 January 2016	
<p>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Proposed amendments to IFRS 10 and IAS 28)</p>	September 2014	1 January 2016	
<p>Annual Improvements 2012–2014</p> <ul style="list-style-type: none"> • IFRS 4 <i>Non-current Assets Held for Sale and Discontinued Operations</i> <ul style="list-style-type: none"> ○ Changes in methods of disposal • IFRS 7 <i>Financial Instruments: Disclosures</i> <ul style="list-style-type: none"> ○ Servicing contracts ○ Applicability of the amendments to IFRS 7 to condensed interim financial statements 	September 2014	1 January 2016	

<ul style="list-style-type: none"> • IFRS 19 <i>Employee Benefits</i> <ul style="list-style-type: none"> ○ Discount rate: regional market issue • IAS 34 <i>Interim Financial Reporting</i> <ul style="list-style-type: none"> ○ Disclosure of information elsewhere in the interim financial report 			
Interpretations	Issued date	Effective date	
IFRIC 21 <i>Levies</i>	May 2013	1 January 2014	
Agenda consultation			
The IASB is committed to carrying out regular public agenda consultations to seek formal input on the strategic direction and overall balance of our work programme. The feedback from our first formal consultation was published in December 2012.			
Next major project milestone			
	2014	2015	2016
Three-yearly public consultation		Initiate second three-yearly public consultation	

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