

## Welcome to the *IASB Update*

The IASB met in public from 18-20 May 2015 at the IASB offices in London, UK.

The topics for discussion were:

- **Insurance Contracts**
- **Accounting for Dynamic Risk Management**
- **Financial Instruments with Characteristics of Equity**
- **Revenue from Contracts with Customers**
- **Rate-regulated Activities**
- **Disclosure Initiative**
- **IFRS Implementation Issues**
- **IFRS 2 Share-based Payment Research Project**

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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:

22 to 26 June 2015

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

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### Podcast summaries

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## Insurance Contracts (Agenda Paper 2)

On 19 May 2015 the IASB held an education session in which it discussed the implications of the variable fee approach (discussed in the March 2015 papers) in the following areas:

- mutualisation;
- revenue; and
- transition requirements

In addition, the IASB also discussed:

- the accounting that would apply to contracts with participation features that would not be accounted for using the variable fee approach;
- whether to provide an accounting policy choice when an entity presents interest expense using the effective yield approach or the current period book yield approach; and
- an update from the staff on the interaction between IFRS 9 *Financial Instruments* and the Insurance Contracts project.

No decisions were made.

## **Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging (Agenda Paper 4)**

The IASB met on 20 May 2015 to discuss proposed next steps on the project. The IASB acknowledged that any solution would need to consider the information needs of constituents concerning dynamic risk management activities, and that its approach should consider disclosures, recognition and measurement to arrive at a consistent set of proposals to address those needs.

Accordingly, the IASB tentatively decided:

- that it should first consider how the information needs of constituents concerning dynamic risk management activities could be addressed through disclosures before considering those areas that need to be addressed through recognition and measurement.
- to prioritise the consideration of interest rate risk and consider other risks at a later stage in the project.
- to establish an Expert Advisory Panel at a later stage in the project.

All fourteen IASB members agreed with these decisions.

### ***Next steps***

The IASB will continue its discussions on the project at future meetings.

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

The IASB met on 20 May 2015 to discuss the Financial Instruments with Characteristics of Equity project at an education session. The IASB discussed:

- a. the main challenges with distinguishing between liabilities and equity under IAS 32 *Financial Instruments: Presentation*; and
- b. how it intends to approach those challenges as part of this project.

No tentative decisions were made.

### Next steps

The IASB will continue its discussion of the project in future meetings.

## Revenue from Contracts with Customers—Issues emerging from TRG discussions (Agenda Paper 7)

The IASB met on 19 May 2015 to discuss issues relating to the guidance on principal versus agent considerations in IFRS 15 *Revenue from Contracts with Customers*. Those issues emerged from meetings of the Transition Resource Group for Revenue Recognition (TRG).

### *Principal versus agent considerations (Agenda Paper 7A)*

#### *Control of a service in the context of the principal versus agent assessment*

The IASB tentatively decided to amend the Application Guidance in IFRS 15 to clarify the application of the control principle to services. That amendment would explain the scenarios in which an entity that is a principal can control a service to be provided by another party to the entity's customer. Seven of the thirteen IASB members present agreed and six disagreed.

#### *Identifying the specified good or service to be provided to the customer*

The IASB tentatively decided not to amend the Application Guidance in IFRS 15 regarding the identification of specified goods or services. Seven of the thirteen IASB members present agreed and six disagreed.

#### *The indicators in paragraph B37*

The IASB tentatively decided not to change the indicators in paragraph B37 of IFRS 15. All thirteen IASB members present agreed.

In respect of all three of the issues outlined, the IASB tentatively decided to amend Examples 45–48 accompanying IFRS 15, and include some additional examples, to clarify the application of the principal

versus agent guidance. Twelve of the thirteen IASB members present agreed and one disagreed.

#### **Next steps**

The IASB plans to discuss these issues relating to principal versus agent considerations together with the FASB at a future joint Board meeting.

## **Rate-regulated Activities (Agenda Paper 9)**

The IASB met on 18 May 2015 and 20 May 2015 to continue its discussions on rate regulation. At these sessions the IASB discussed implications of the tripartite relationships between:

- the rate-regulated entity and its customers;
- the rate-regulated entity and the rate regulator; and
- the rate regulator and the rate-regulated entity's customers.

The IASB noted that existing predominant practice in IFRS financial statements deals with the first of these relationships. Thus, when applying existing Standards, an entity would use the terms and conditions in the individual contracts between the entity and its customers, which includes the regulated rate. For example, existing Standards containing requirements for revenue recognition would result in an entity recognising revenue for the goods and service provided to customers using the regulated rate.

All IASB members decided that the IASB should undertake Standard-setting activity to address the other two relationships, but that the form of that Standard-setting activity would become apparent as the project progresses. All IASB members agreed that development of a second Discussion Paper would be the fastest way to progress the project.

#### **Next steps**

The IASB will continue the discussions on the project in future meetings.

## **Disclosure Initiative (Agenda Paper 11)**

The IASB met on 20 May to discuss the Principles of Disclosure project as part of its Disclosure Initiative.

*Agenda Paper 11A: distinction between changes in accounting policies and changes in accounting estimates*

The IASB discussed a paper prepared by the Italian standard-setter (OIC) about possible amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The paper proposed that the IASB should amend the existing definitions of accounting policies and changes in accounting estimates in order to clarify that:

- a. changes in the measurement bases that are specified in relevant Standards are changes in accounting policies;
- b. changes in the measurement bases include changes in cost measures. Consequently, changes in the methods used to determine different cost measures are changes in accounting policies; and
- c. changes in inputs, assumptions and methods that are used to make an accounting estimate are changes in accounting estimates.

No decisions were made at this meeting. The IASB asked the staff to further develop the proposals in the direction proposed in the paper.

The IASB tentatively agreed that when the proposed amendments are fully developed they should be published as an Exposure Draft and not as part of the forthcoming *Principles of Disclosure* Discussion Paper. Eight out of the thirteen IASB members present agreed with this decision.

*Agenda Paper 11B: changes in accounting estimates—new disclosures*

The IASB discussed a paper prepared by the Italian standard-setter (OIC) about possible amendments to the requirement to disclose the nature and amount of a change in an accounting estimate in paragraph 39 of IAS 8. These proposed amendments would require an entity to disclose the reason(s) for a change in an accounting estimate that has a material effect on its financial statements.

No decisions were made at this meeting.

*Agenda Paper 11D: disclosure of accounting policies*

The IASB tentatively decided that a general disclosure Standard (*IAS 1 Presentation of Financial Statements* or equivalent) should include further guidance on determining when accounting policies should be disclosed and that there is no need for further guidance about making the disclosure of accounting policies more entity-specific. All thirteen IASB members present agreed with these decisions.

The IASB tentatively decided that a general disclosure Standard (*IAS 1* or equivalent) or educational material should:

- a. describe the alternatives for locating accounting policy disclosures. Eleven out of the thirteen IASB members present agreed with this decision.
- b. permit cross-referencing of immaterial accounting policies from an entity's financial statements to somewhere outside of the financial statements or annual report. Eight out of the thirteen IASB members present agreed with this decision.
- c. require disclosures about judgements, assumptions and accounting estimates to be located with the related accounting policies, unless another location is more appropriate. Nine out of the thirteen IASB members present agreed with this decision.
- d. require entities to identify clearly in the financial statements the accounting policies subject to choice, those that had changed in the period or those for which the entity would need to apply of judgements or make assumptions and accounting estimates. Eleven out of the thirteen IASB members present agreed with this decision.

*Agenda Paper 11E: Presentation on the face or in the notes*

The IASB tentatively decided that it would not undertake further work on developing requirements within a general disclosure Standard (*IAS 1* or equivalent) for:

- a. specified line items to be presented in the primary financial statements or
- b. whether entities should have 'an option' to present information either in the primary financial statements or in the notes.

The IASB noted:

- a. financial statement presentation will be addressed as part of the Performance Reporting project; and
- b. whether disclosure requirements should explicitly require information to be presented either in the primary financial statements or in the notes will be addressed as part of the Disclosure Initiative's Standards-level Review of Disclosures project.

All thirteen IASB members present agreed with these decisions.

### **Next steps**

At its June 2015 meeting, as part of the Proposed amendments to IAS 7 *Statement of Cash Flows* project, the IASB plans to discuss:

- a. a summary of the feedback received on the Exposure Draft (proposed amendments to IAS 7);
- b. an analysis on amendments arising from the Disclosure Initiative; and
- c. a summary of the due process steps and a request for permission for balloting.

In June 2015, as part of its Principles of Disclosure project, the IASB plans to discuss the following topics:

- a. review of IAS 8—*transitional provisions*;
- b. non-IFRS information; and
- c. comparability.

In addition, in June 2015, the IASB plans to discuss, in an education session, an overview of the Principles of Disclosure project, including an overview of the potential amendments to IAS 1.

## **Annual Improvements to IFRS 2014—2016 Cycle (Agenda Paper 12)**

On 19 May, the IASB reviewed the due process steps that had been taken to date in preparation for the publication of the Exposure Draft *Annual Improvements to IFRS 2014—2016 Cycle*. That Exposure Draft would include two proposed amendments that the IASB had already tentatively approved:

- a. IFRS 1 *First-time Adoption of International Financial Reporting Standards*: short-term exemptions for first-time adopters. This amendment was tentatively approved by the IASB in December 2013.
- b. IAS 28 *Investments in Associates and Joint Ventures*: clarification that measuring investees at fair value through profit or loss is an investment- by- investment choice. This amendment was tentatively approved by the IASB in January 2015.

All twelve IASB members present at the meeting confirmed that they:

- a. do not intend to dissent from the publication of *Annual Improvements to IFRS 2014—2016 Cycle*;
- b. agree with the proposed comment period of 90 days; and
- c. are satisfied that the IASB has completed all of the necessary due process steps on the project to date.

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

#### **Next steps**

The IASB expects to issue an Exposure Draft on *Annual Improvements to IFRS 2014—2016 Cycle* in Q3 of 2015.

#### **IAS 40 *Investment property*—Transfers of investment property (Agenda Paper 12B)**

On 19 May, the IASB reviewed the due process steps that had been taken to date in preparation for the publication of an Exposure Draft that proposes a narrow scope amendment to IAS 40 *Transfers of Investment Property*.

All the twelve IASB members present at the meeting confirmed that they:

- a. do not intend to dissent from the publication of the proposed narrow scope amendment to IAS 40;
- b. agree with the proposed comment period of 120 days; and
- c. are satisfied that the IASB has completed all of the necessary due process steps on the project to date.

They therefore instructed the staff to commence the balloting process for this narrow scope amendment.

#### **Next steps**

The IASB expects to issue the Exposure Draft on the proposed narrow scope amendment to IAS 40 in Q3 of 2015.

#### **Post-implementation Review of IFRS 8 *Operating Segments* (Agenda Paper 12C)**

The IASB met on 19 May 2015 to discuss a proposed narrow-scope amendment to IFRS 8 *Operating Segments*. That amendment would respond to issues that had been identified for further investigation in the Report and Feedback Statement published by the IASB following its Post-implementation Review (PIR) of IFRS 8.

The IASB tentatively decided to amend IFRS 8:

- a. to include guidance that emphasises that, when operating segments are appropriately identified in accordance with the management perspective, the application of IFRS 8 facilitates the consistent description of the entity across presentations to investors, the management commentary and operating segments disclosures. This consistent description would increase the information value of each form of reporting;
- b. to explain that the chief operating decision maker ('CODM') includes both individuals and committees and to emphasise that the CODM is a function that makes operating decisions;
- c. to require the disclosure of the nature of the entity's CODM;
- d. to extend the number of examples of similar economic characteristics contained in paragraph 12 of the Standard;
- e. to provide additional guidance about the type of information that is most useful to investors, such as information about non-cash expenses, non-recurring items and other line items that affect future cash flows.

All IASB members present agreed with these tentative decisions. Twelve IASB members were present for items (a)-(d) and eleven members were present for item (e).

In addition, the IASB tentatively decided:

- a. that entities should explain the nature of reconciling and unallocated items more fully in the reconciliations than is currently required by the Standard [eight of the eleven IASB members present agreed and three disagreed].
- b. to amend IAS 34 *Interim Financial Reporting* to require that an entity present all restated interim comparative periods for the preceding year as part of its first interim report following a reorganisation [ten of the eleven IASB members present agreed and one disagreed].

### **Next steps**

All eleven IASB members present tentatively decided that the areas identified in the PIR had been adequately investigated. The IASB asked the staff to prepare proposals for a narrow-scope amendment to IFRS 8 for future public consultation.

## **IFRS 2 Share-based Payment Research Project (Agenda Paper 15)**

The IASB met on 19 May 2015 to discuss its approach to its research project on Share-based payments.

The IASB noted the objective of the project is to identify whether, and if so where, IFRS 2 *Share-based Payment* causes perceived complexity. The IASB intends to use the main application issues that arise in practice to guide its work.

The initial output of the project is expected to be a Research Paper, which would enable constituents to consider whether the IASB should do more on this subject.

All IASB members agreed with the suggested approach.



## Next steps

The IASB directed the staff to continue work towards the Research Paper.

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