

Welcome to the September 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 Interpretations are formally balloted as set forth in the IFRS[®] Foundation and IFRS Interpretation Committee *Due Process Handbook*.

The Board met in public on 20 and 22 September 2016 at the IFRS Foundation's offices in London, UK.

The topics for discussion were:

- **Changes in accounting policies and in accounting estimates**
- **IFRIC Update**
- **Conceptual Framework**
- **Financial Instruments with Characteristics of Equity**
- **2015 Agenda Consultation**

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Future IASB meetings

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

The next IASB meetings are:

17 to 21 October 2016

14 to 18 November 2016

12 to 16 December 2016

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](#).

Changes in accounting policies and in accounting estimates (Agenda Paper 26)

In April 2016, the Board discussed possible amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, in particular, the definitions of ‘accounting policies’ and of a ‘change in accounting estimates’ ([Agenda Paper 25A](#)).

At its September 2016 meeting, the Board discussed:

- wording changes in the amendments ([Agenda Paper 26A](#));
- transition ([Agenda Paper 26B](#)); and
- the due process undertaken for the amendments ([Agenda paper 26C](#)).

Agenda Paper 26A—Changes to wording

The Board tentatively decided to change the draft amendments discussed in April 2016 to:

- remove the threshold for changes in estimation techniques and in valuation techniques. That threshold, inserted in the draft amendments in April 2016, would have permitted such changes only if the resulting measurement would be equally or more representative of the amount being estimated;
- add ‘practices’ to the amended definition of accounting policies; and
- add guidance about changes in the cost formulas that paragraphs 25–27 of IAS 2 *Inventories* specify an entity should use in determining the cost of interchangeable inventories.

Eleven of the 12 Board members agreed with each of these decisions.

Agenda Paper 26B—Transition

The Board tentatively decided to require prospective application of the proposed amendments. Thus, the proposed amendments would apply to all and only those changes in accounting policies and accounting estimates that occur on or after the beginning of the first annual reporting period when the amendments become effective.

All 12 Board members agreed with this decision.

Agenda Paper 26C—Due process

All 12 Board members confirmed they are satisfied that the Board has completed the necessary due process for the project. Therefore, the Board instructed the staff to begin the balloting process for issuing an Exposure Draft of amendments to IAS 8. No Board members indicated they would dissent from the decision to issue an Exposure Draft.

All 12 Board members also decided that the comment period for the Exposure Draft should be no less than 120 days.

Next Steps

The Board expects to publish the Exposure Draft in the first quarter of 2017.

IFRIC Update (Agenda Paper 12)

The Board received an update from the July 2016 meeting of the IFRS Interpretations Committee (the Interpretations Committee). Details of this meeting were published in the IFRIC Update, [available here](#).

Long-term interests in an associate or joint venture—due process document (Agenda Paper 12A)

The Board considered proposals for a draft IFRIC Interpretation (draft Interpretation) developed by the Interpretations Committee to address a question on whether an entity applies IFRS 9 *Financial Instruments*, in addition to IAS 28 *Investments in Associates and Joint Ventures*, to long-term interests in an associate or joint venture (long-term interests are those interests that, in substance, form part of the net investment in the associate or joint venture, but to which the equity method is not applied). The draft Interpretation would have clarified the scope of IFRS 9 and specified how the requirements in IFRS 9 and IAS 28 apply to long-term interests.

The Board agreed with the Interpretation Committee's technical conclusions, but expressed concern that the draft Interpretation would have strayed into the application of the equity method in IAS 28, in addition to specifying that long-term interests were within the scope of IFRS 9.

Accordingly, 10 of 12 Board members objected to the release of the draft Interpretation. The Board instructed the staff to explore whether there is a more effective way of clarifying which Standards apply to long-term interests.

Next steps

The Board will discuss long-term interests at a future meeting.

Conceptual Framework (Agenda Paper 10)

On 22 September 2016, the Board discussed the *Conceptual Framework* project. In particular, the Board discussed concepts from the May 2015 Exposure Draft *Conceptual Framework for Financial Reporting* (the Exposure Draft) relating to the reporting entity, presentation and disclosure, asymmetry in treating gains and losses and equity. Further, an Education Session on measurement was held on 20 September 2016.

Agenda Paper 10B—The reporting entity

In the light of the comments received on the Exposure Draft's description of the reporting entity and its boundary, the Board tentatively decided to confirm:

1. the proposed description of a reporting entity as an entity that chooses or is required to prepare general purpose financial statements. All 12 Board members agreed with this decision.
2. the proposed concepts on the boundary of the reporting entity. The Board directed the staff to clarify in drafting how the proposed concepts place appropriate limitations on what may constitute a reporting entity in situations when the entity is not a legal entity. Ten Board members agreed with this decision and two Board members disagreed.
3. the proposed concepts underlying the notions of 'direct' and 'indirect' control, but not to use those specific terms in the *Conceptual Framework*. All 12 Board members agreed with this decision.
4. the proposed concepts related to the usefulness of information provided in consolidated and unconsolidated financial statements, but to improve the description of those concepts in the *Conceptual Framework*. Eleven Board members agreed with this decision and one Board member disagreed.

The Board also tentatively decided not to include in the *Conceptual Framework* the statement in paragraph 3.25 of the Exposure Draft that an entity that presents unconsolidated financial statements discloses how a user may obtain the entity's consolidated statements. Ten Board members agreed with this decision and two Board members disagreed.

Further, the Board tentatively decided to confirm, consistent with the Exposure Draft,

1. the proposed going concern assumption; and
2. the proposed statement that financial statements are prepared from the perspective of the entity as a whole.

All 12 Board members agreed with these decisions.

Agenda Paper 10C—Presentation and disclosure

In the light of the comments received on the proposed concepts for presentation and disclosure, the Board tentatively decided to:

1. confirm that the objective of the financial statements is to provide information about an entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources. All 12 Board members agreed with this decision.
2. describe the objective of the financial statements as a whole, rather than describing objectives of the financial statements' components. All 12 Board members agreed with this decision.
3. describe the scope of the financial statements by reference to their objective. All 12 Board members agreed with this decision.
4. identify no 'primary financial statements' and refrain from discussing the relationship between those statements and 'the notes'. All 12 Board members agreed with this decision.
5. refer only to the statement of financial position and the statement(s) of financial performance in the *Conceptual Framework*, and refrain from making any explicit references to the statement of cash flows and the statement of changes in equity. Seven Board members agreed with this decision and five Board members disagreed.
6. make no distinction between the terms 'present' and 'disclose' in the *Conceptual Framework*. Ten Board members agreed with this decision, one Board member disagreed and one Board member was absent.

Agenda Paper 10D—Asymmetry in treating gains and losses

The Board tentatively decided that the main body of the revised *Conceptual Framework* should acknowledge that, in some cases, income may need to be treated differently from expenses and assets differently from liabilities. The Board directed the staff to develop the wording for such an acknowledgement for discussion at a future Board meeting. Seven Board members agreed with this decision and five Board members disagreed.

Agenda Paper 10E—Definition of equity and supporting discussion

In the light of the comments received on the definition of equity, the Board tentatively confirmed the proposals in the Exposure Draft to:

1. maintain the binary distinction between liabilities and equity;
2. define equity as ‘the residual interest in the assets of the entity after deducting all its liabilities’;
3. include the discussion proposed in paragraphs 4.44–4.47 of the Exposure Draft to support that definition; and
4. include the discussion proposed in paragraphs 6.78–6.80 of the Exposure Draft about the measurement of equity.

Eleven Board members agreed with these decisions and one Board member disagreed.

Agenda Paper 10G–I—Measurement

On 20 September the Board held an Education Session on the concepts described in the staff’s proposed redraft of factors to consider when selecting a measurement basis. No tentative decisions were made.

Next steps

At the October 2016 Board meeting, the Board will discuss:

1. executory contracts;
2. derecognition;
3. liabilities;
4. asymmetry in treating gains and losses;
5. unit of account; and
6. materiality.

The Board will also discuss drafting suggestions for the acknowledgement of an asymmetric treatment of gains (or assets) and losses (or liabilities).

Further, the Board will discuss the *Updating References to the Conceptual Framework* Exposure Draft.

Financial Instruments with Characteristics of Equity (Agenda Paper 5)

The Board met on 20 September 2016 to discuss the Financial Instruments with Characteristics of Equity research project.

The Board discussed the presentation of derivatives on ‘own equity’ that are classified as liabilities, as well as disclosures of financial liabilities and equity. The Board focused on its developing Gamma approach to classification and presentation.

The Board was also given a summary of discussions to date (Agenda Paper 5A was provided for information only).

Agenda Paper 5B—Separate presentation: Derivatives on ‘own equity’ classified as liabilities

The Board discussed approaches to applying the separate presentation requirements to derivatives on ‘own equity’ that are neither completely independent nor solely dependent on the residual amount (eg the value of the entity’s share price). Such derivatives would be classified as liabilities under the Gamma approach.

The Board tentatively decided that the Discussion Paper should include a preliminary view that, if they meet particular criteria, entities should apply the separate presentation requirements to the total income and expenses arising from such derivatives. It will also analyse an alternative approach applying the separate presentation requirements only to the portion of income and expenses that depends on the residual amount.

Eight out of 12 Board members agreed with this decision.

Subject to drafting suggestions, the Board tentatively decided that application of the separate presentation requirements should be limited to specific types of derivatives with foreign currency exposure, and only under certain circumstances.

Nine out of 12 Board members agreed with this decision.

The Board tentatively decided that income and expenses arising from financial instruments that meet the separate presentation requirements, including derivatives on ‘own equity’, should be presented under other comprehensive income.

Nine out of 12 Board members agreed with this decision.

The Board tentatively decided that the Discussion Paper should include its decisions to date regarding the classification and presentation of derivatives on ‘own equity’ under the Gamma approach.

All 12 Board members agreed with this decision.

Agenda Paper 5C—Disclosure

The Board discussed the inclusion of disclosures about financial instruments with characteristics of equity in the notes to the financial statements. It tentatively decided to include a discussion of the following potential disclosures in the forthcoming Discussion Paper:

- a. the priority of claims on liquidation;
- b. the potential dilution of ordinary shares; and
- c. additional supporting information about the presentation and classification requirements of the Gamma approach.

All 12 Board members agreed with this decision.

Next steps

At a future meeting the Board will discuss:

- classification of instruments meeting the existing puttables exception;
- accounting for conditional alternative settlement outcomes; and
- recognition, derecognition and reclassification of equity instruments.

2015 Agenda Consultation (Agenda Paper 24)

Feedback Statement topics and suggested responses (Agenda Paper 24)

The Board discussed draft material for inclusion in a Feedback Statement on the *2015 Agenda Consultation*.

All 12 Board members present tentatively decided that:

- a. the staff had correctly identified the key messages for inclusion in the Feedback Statement; and
- b. the proposed structure of the Feedback Statement was appropriate.

Next steps

The Board expects to approve the Feedback Statement in October 2016, following consideration by the Trustees of the IFRS Foundation.

Work plan—projected targets as at 23 September 2016

The work plan reflecting decisions made at this meeting was updated on the IASB website on 23 September 2016.

[View it here.](#)

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