

# IASB® Update *Projects*

IFRS Week, Nairobi, Kenya  
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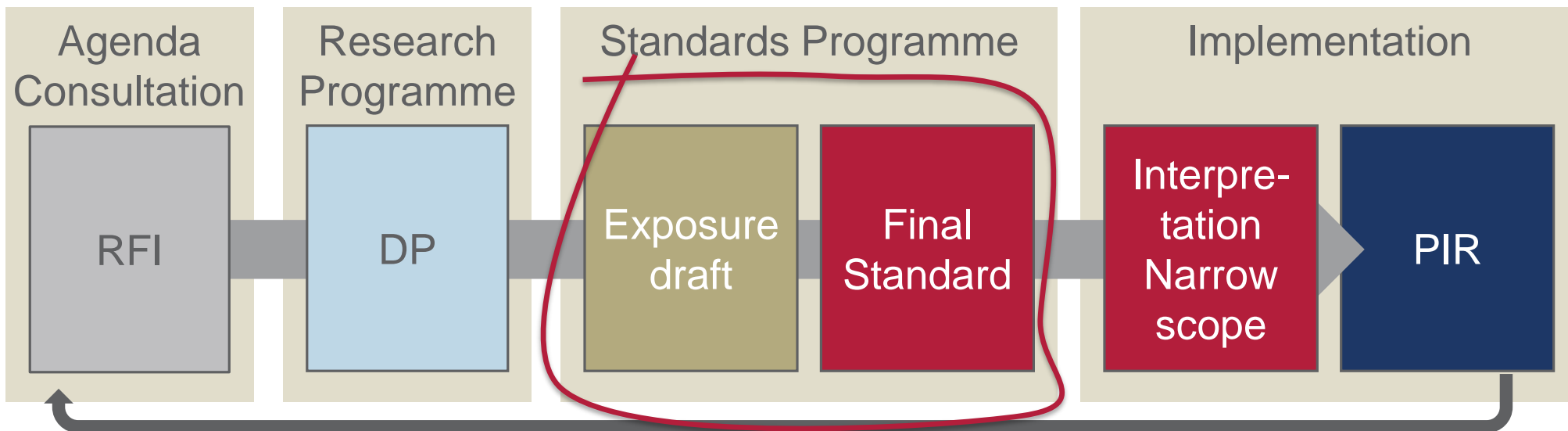
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# Major standards-level projects

# Major Standard Level projects

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# Projects

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Major Projects	Next Due Process Step	Expected date
Insurance	Final Standard	Early 2017
Dynamic Risk Management	Discussion Paper	2017
Rate Regulated Activities	Discussion Paper	2017
Conceptual Framework	Final Framework	Early 2017
Disclosure Initiative	Various	Late 2016

- **Status**: IASB completed its discussions on the model for insurance contracts in February 2016
- Existing IFRS allows a variety of approaches to be applied
- Main decisions:
  - A current measurement model for insurance contracts
  - Based on expected future cash flows
  - Single model for all contracts with a practical expedient for short term insurance
- The IASB is targeting publication in early 2017

# Insurance

## *Need for a global standard*

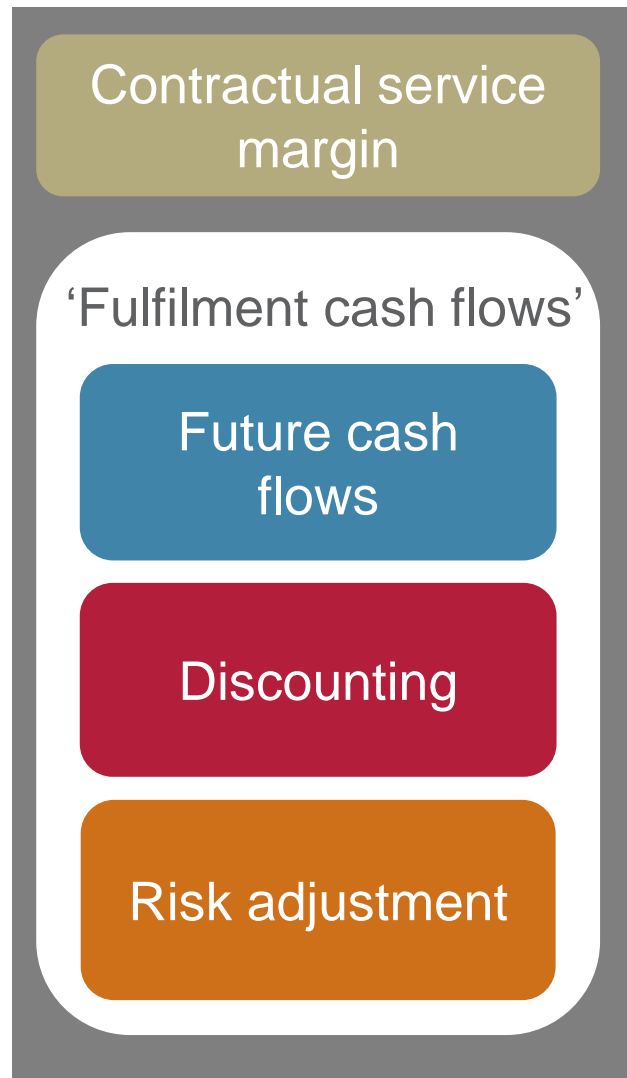
- IFRS 4 *Insurance Contracts* is an interim Standard
  - Permits continuation of wide variety of practices
  - Includes a ‘temporary exemption’ from general requirement that accounting policies should be relevant and reliable
- IFRS 4 does not provide transparent information about the effect of insurance contracts on financial statements
- Existing accounting makes comparisons difficult between products, companies and across jurisdictions

# Insurance

## *The general measurement model*

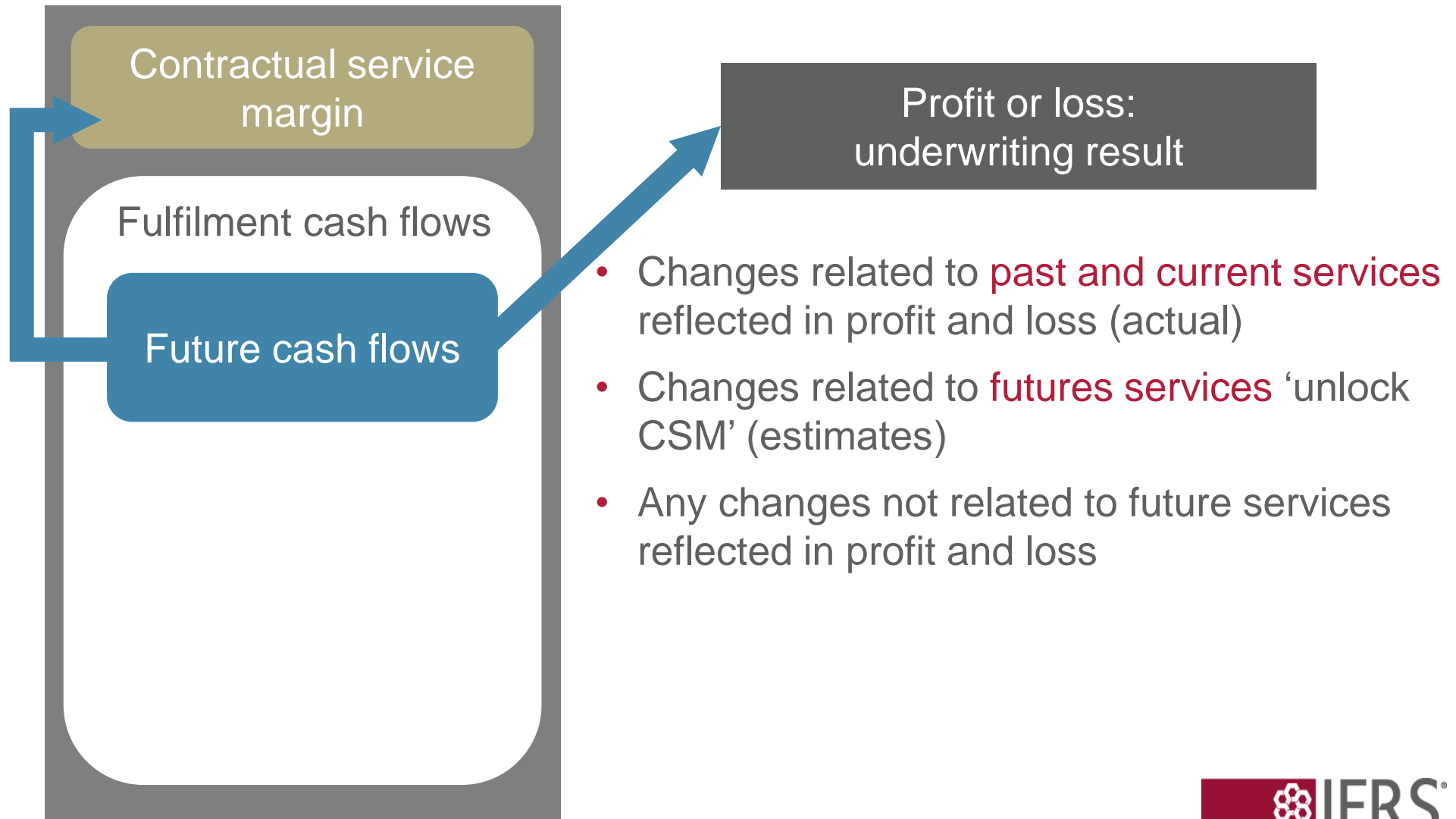
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IASB believes a **current value measure** of an insurance contract **provides the most useful information** about insurance contracts in the statement of financial position.

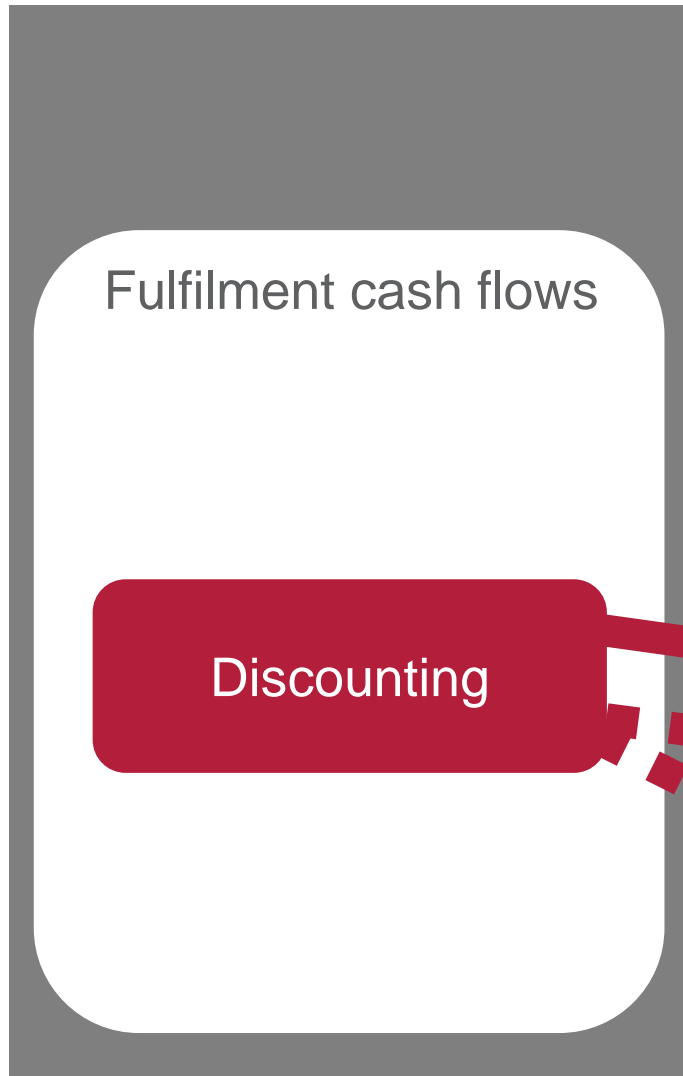


**CSM** is **adjusted by changes in estimates** and is **allocated** to profit or loss

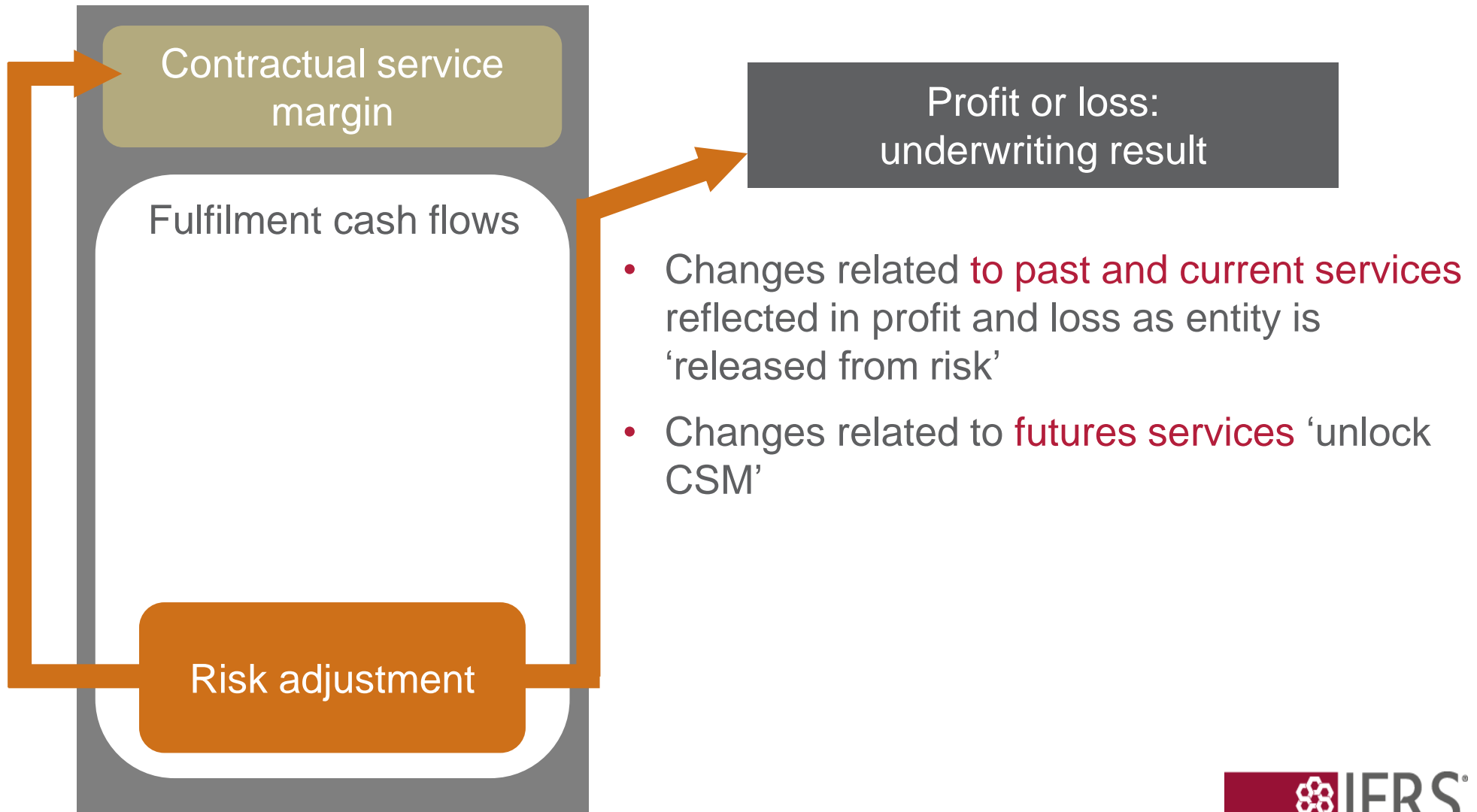
In each reporting period, an **entity remeasures the fulfilment cash flows** using updated assumptions about cash flows, discount rate and risk.

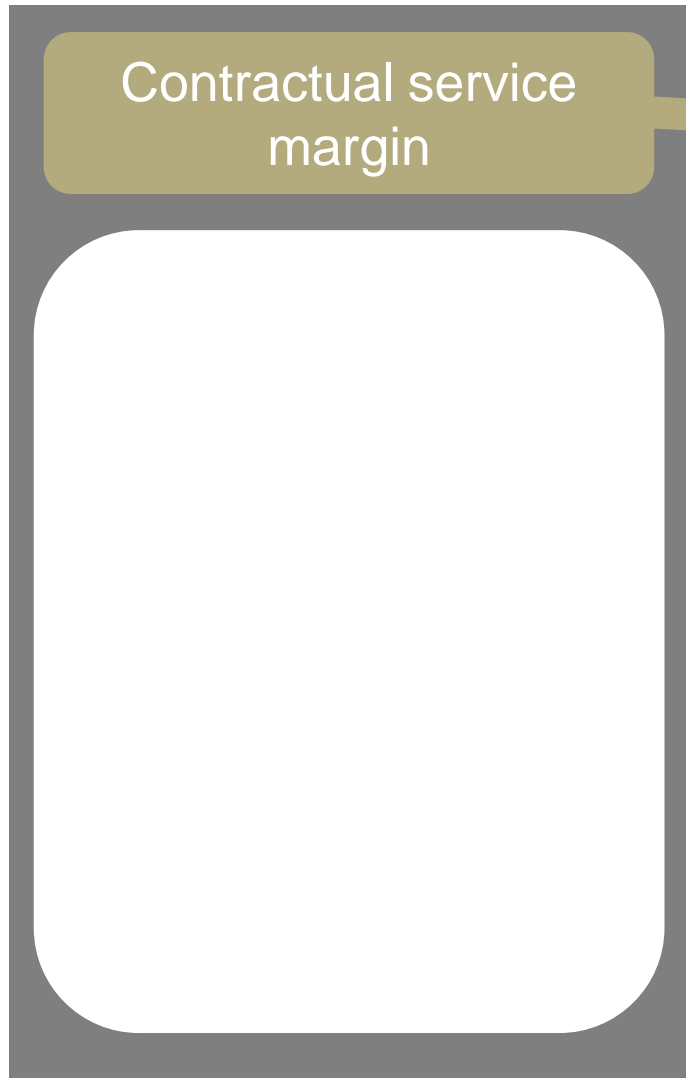






- **Unwind of the discount** (time value of money) in profit or loss
- **Option** to present the effect of change in rate on fulfilment cash flows in either:
  - OCI, or
  - Profit or loss





- **Recognise CSM** in profit or loss as entity provides coverage:
  - **Passage of time**
  - Size and duration of contracts in force

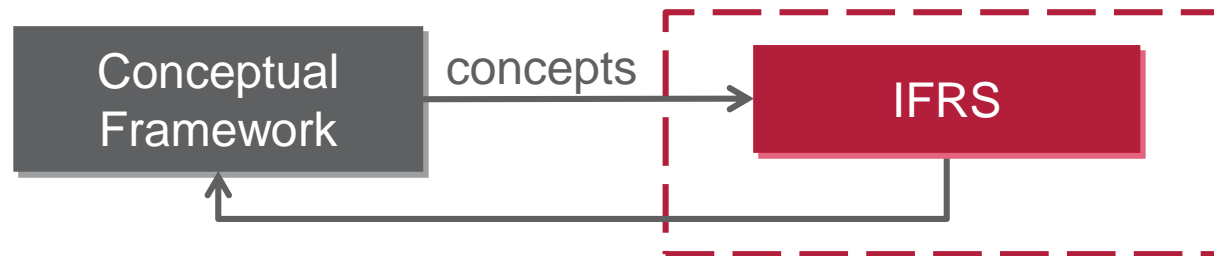
- **Status**: Ongoing deliberations toward either another discussion paper, or exposure draft,
  - first consider the information needs of constituents through disclosures and subsequently recognition and measurement
- Separated from IFRS 9 project in 2012
- DP published in 2014
  - Outlined the Portfolio Revaluation Approach, which aims to better reflect the risk management of open portfolios in entities
- Comment letter analysis highlighted significant diversity in views on project objectives among stakeholders

- **Status**: Developing an accounting model to propose within a further Discussion Paper
- IFRS today has no standard for rate-regulated activities
- **Interim relief** for first-time adopters of IFRS
  - Issued IFRS 14 **Regulatory Deferral Accounts** in Jan 2014
  - Permits **grandfathering** of previous GAAP accounting practices
  - **Enhanced presentation and disclosure** matters
- Current project
  - **Discussion Paper published** September 2014
  - **Support** for recognising some regulatory deferral account balances, focusing on a revenue-based approach

# Conceptual Framework

## *What is it?*

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- The *Conceptual Framework* is a set of concepts that can assist:
  - the **IASB** when developing or revising Standards
  - **preparers** to develop accounting policies
  - **others** to understand and apply IFRSs
- Not a Standard – does not override any Standard

- Status: Redeliberations commenced post 2015 Conceptual framework
- Existing *Conceptual Framework* has areas missing, unclear or out of date
- Agenda Consultation identified this as a **Priority project**
- Scope of the *Conceptual Framework* project
  - Focus on problems in the real world
  - Update, improve and fill in gaps
  - No fundamental rethink but resuming previous work
- The IASB is targeting publication in **early 2017**

# What did the ED propose?

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## Fill Gaps

- **Measurement** guidance
- Role of profit or loss and use of **OCI**
- Presentation and **disclosure** guidance
- **Derecognition**
- The reporting entity

## Update

- **Recognition** criteria
- Definitions of **income and expenses**

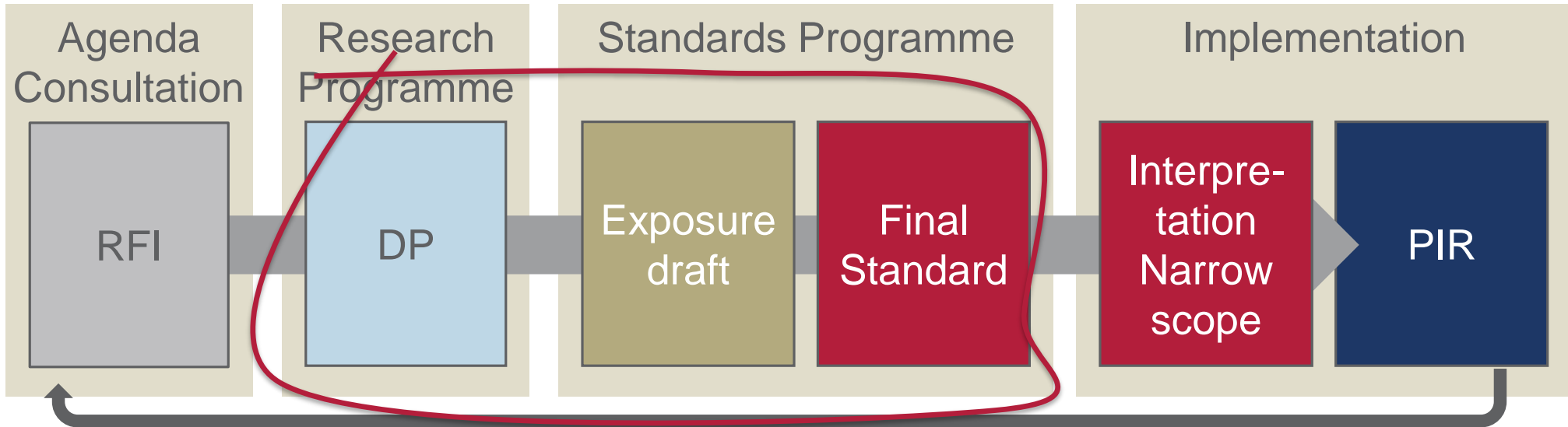
## Clarify

- Definitions of **assets and liabilities**
- Role of **prudence, stewardship** and **measurement**
- **Uncertainty** in financial reporting



# The Disclosure Initiative

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# Disclosure Initiative Overview

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## Completed projects

Amendments  
to IAS 1

Amendments  
to IAS 7 'debt  
reconciliation'

## Ongoing activities

Digital  
reporting

## Implementation projects

Distinction  
between  
change in  
policy and  
estimate

Materiality  
Practice  
statement

## Research Projects

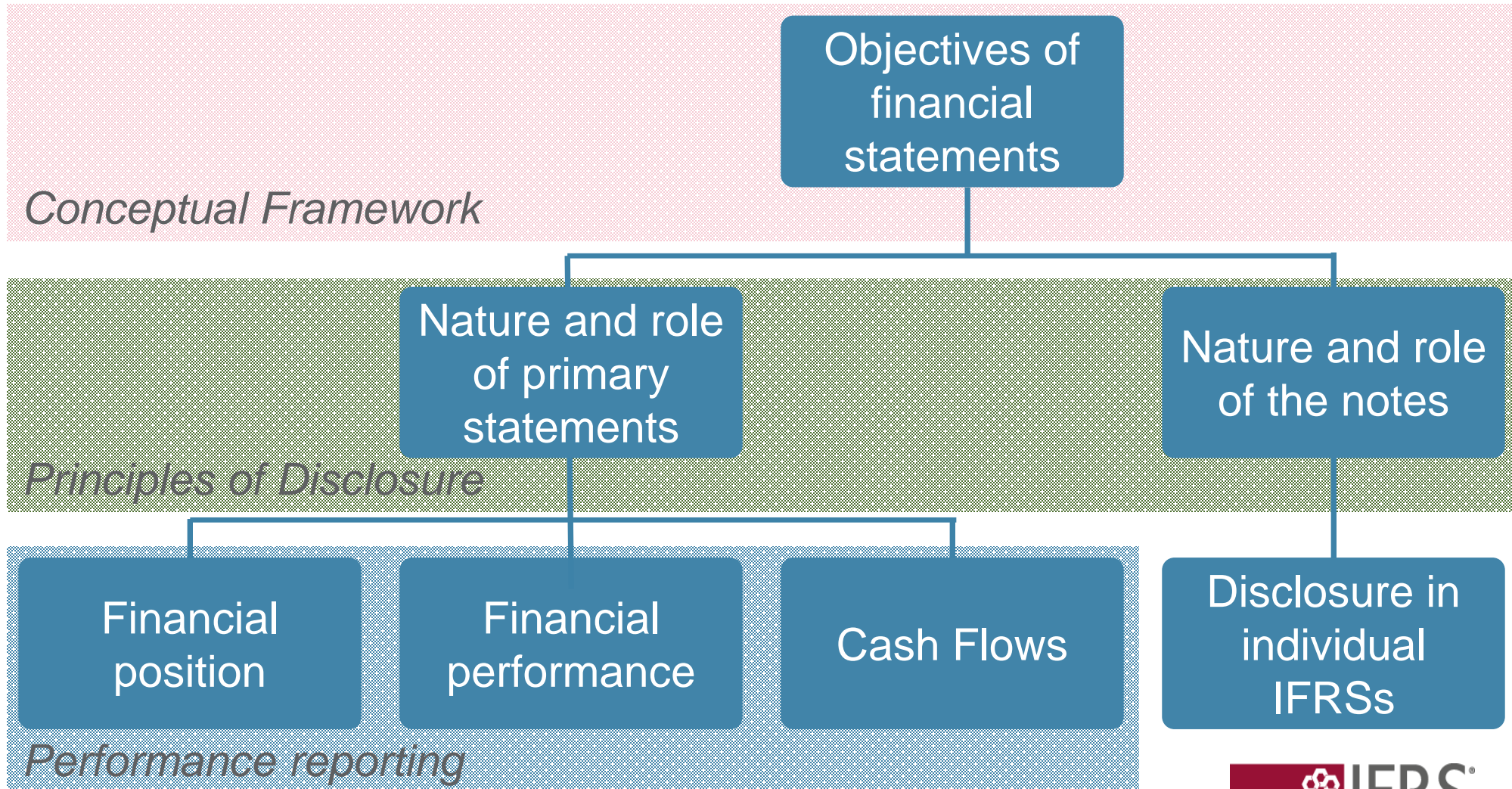
Principles of  
disclosure

Standards  
level  
disclosure  
review/  
drafting guide

# Principles of Disclosure

## *Relationship with other projects*

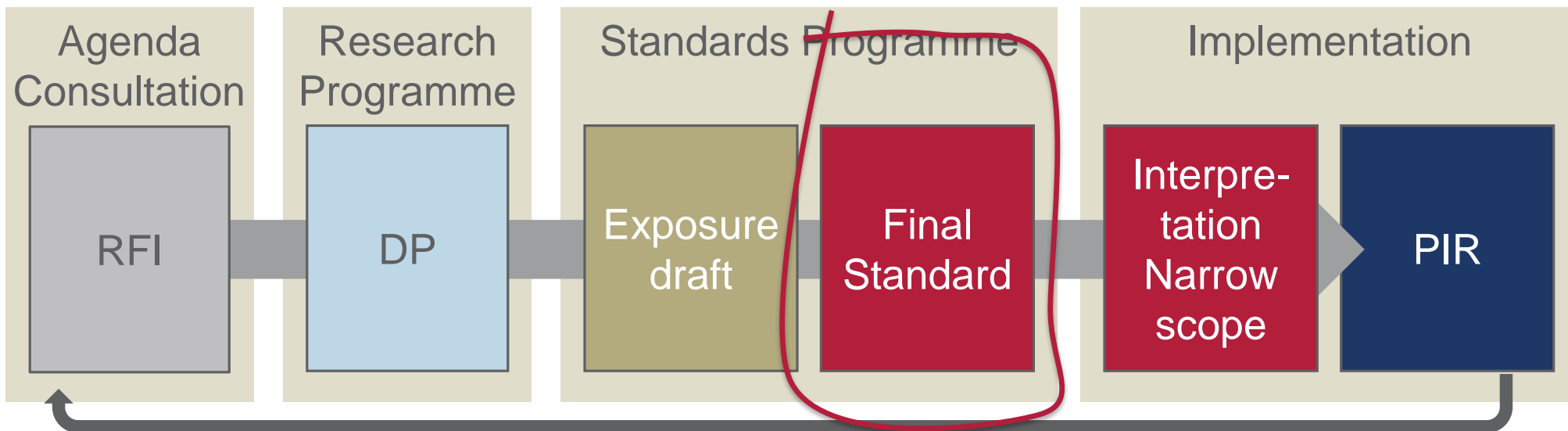
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# Recently issued IFRS Standards

# Recently issued IFRSs

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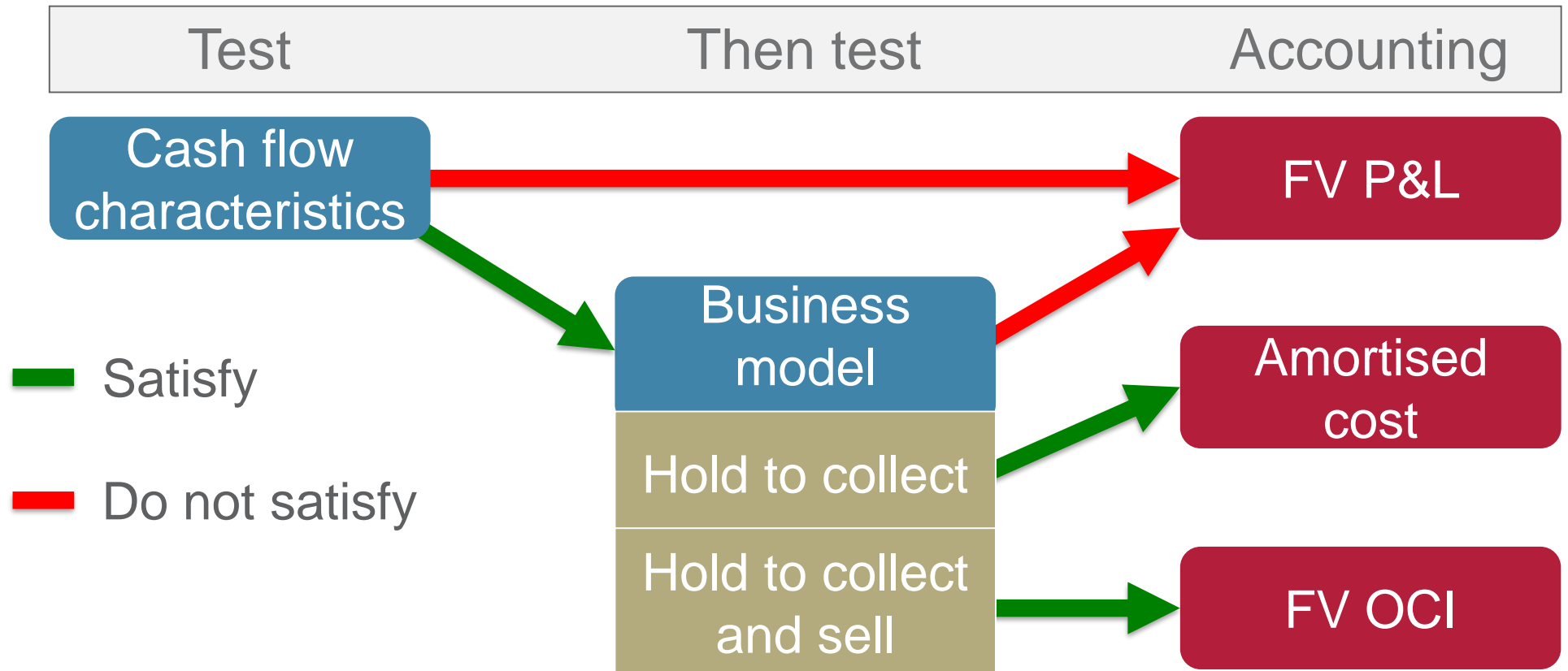
Major Publications	Effective date
IFRS 9 <i>Financial Instruments</i>	1 January 2018
IFRS 14 <i>Regulatory deferral Accounts</i>	1 January 2016
IFRS 15 <i>Revenue from Contracts with Customers</i>	1 January <b><u>2018</u></b>
IFRS 16 <i>Leases</i>	1 January 2019
2015 Amendments to the <i>IFRS for SMEs</i>	1 January 2017

Narrow-scope amendments	Effective date <sup>1</sup>
<b><i>Recognition of Deferred Tax Assets for Unrealised Losses</i></b> (Amendments to IAS 12)	1 January 2017
<b><i>Disclosure initiative</i></b> (Amendments to IAS 7)	1 January 2017
<b><i>Clarifications to Revenue from contracts with customers</i></b> (Amendments to IFRS 15)	1 January 2018

<sup>1</sup> This list only includes amendments with effective dates after 1 January 2016, a list of amendments with effective dates on 1 January 2016 is included in the appendix

- **Final version** of IFRS 9 *Financial Instruments* issued July '14
  - **Replaces previous versions** of IFRS 9
  - **Brings together** classification & measurement, impairment and hedge accounting **phases** of IASB's project to replace IAS 39
- Mandatory effective date - **1 January 2018** with early application permitted
- **EU Endorsement**
  - EFRAG has issued a **draft endorsement advice letter**
  - Overall preliminary assessment is that IFRS 9 satisfies the criteria for endorsement for use in the EU and therefore **EFRAG recommends its endorsement.**





Accounting	Allowed option	Restrictions
FV P&L	Equities through OCI, not for trading	Irrevocable No recycling
Amortised cost	FV for accounting mismatch	Irrevocable
FV OCI		

# IFRS 9

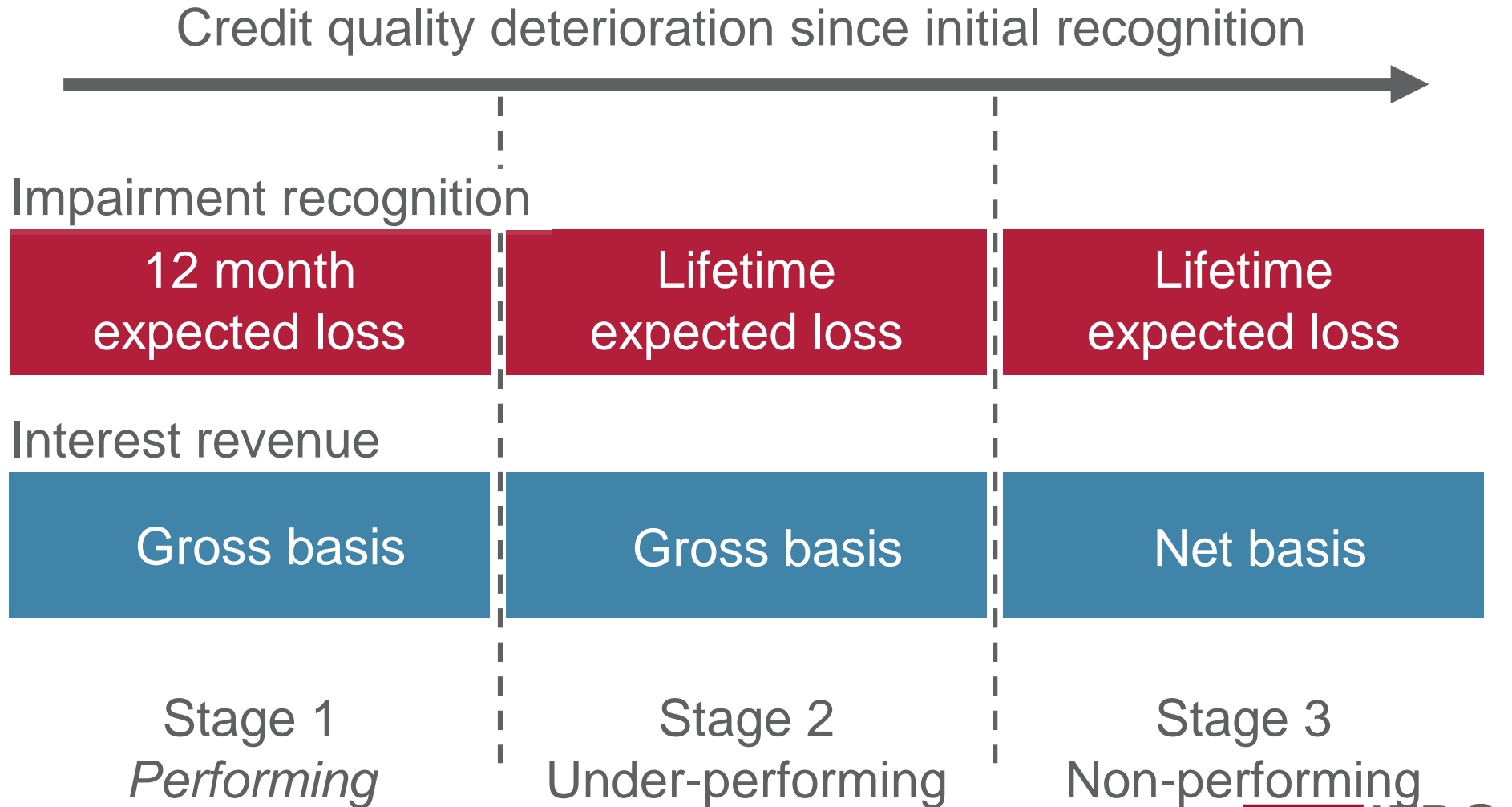
## *Classification of financial liabilities*

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Test	Accounting	Option
Held for trading	FV P&L	
All other financial liabilities	Amortised cost	FV for accounting mismatch

Financial Statements (IFRS 9)	
Balance Sheet	Comprehensive Income
Fair value liability: All changes including own credit	P&L: all changes except own credit OCI: changes in own credit

- P&L gain when 'own credit' deteriorates, loss when it improves
- Limited amendments propose allowing the 'own credit' requirements to be applied before the rest of IFRS 9
- Required by IFRS 9 for liabilities under the FVO



- Greater **alignment with risk** management including:
  - Eligibility criteria based on more **economic assessment** of hedging relationship
  - Expansion of **risk components for non-financial** items
  - Introduction of ‘**costs of hedging**’
  - Ability to **hedge aggregated exposures** (combination of derivative and non-derivative)
- Enhanced disclosures
- **Not really for banks**

# IFRS 15

## *Revenue Recognition*

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- IFRS 15 *Revenue from Contracts with Customers* issued concurrently with the FASB in May 2014
- IASB deferred effective date to 1 January **2018** in Sept 2015
- Revenue **Transition Resource Group** supporting implementation
  - 37 submissions discussed at 4 meetings; 5 topics subsequently considered by IASB and FASB
- IASB published targeted clarifications to 3 topics in IFRS 15 plus additional practical expedients for transition in April 2016

# IFRS 15

## 5 Step Model

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Recognise revenue to depict transfer of goods or services in an amount of consideration to which expected to be entitled

- 1 Identify the contract(s) with a customer
- 2 Identify the performance obligations in the contract
- 3 Determine the transaction price
- 4 Allocate transaction price to performance obligations
- 5 Recognise revenue as performance obligation satisfied



- **IFRS 16 Leases** issued in January 2016
- Effective date of **1 January 2019**
- Main features:
  - Lessee: **All leases on-balance sheet** (except for short-term leases and leases of small assets), **interest and amortisation presented separately** in income statement
  - Lessor: little change to existing accounting
- Decisions **substantially converged** with FASB
  - Recognition of **leases on-balance sheet**; lease **definition**; **liability** measurement; little change to lessor accounting
  - Main difference: recognition of lease expenses and cash flows

# What's changed for lessors & lessees?

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## Changes to lessor accounting

- **Substantially carry forward** IAS 17 accounting requirements; some additional disclosure requirements

## Changes to Lessee accounting

- **Former operating leases capitalised.** All<sup>1</sup> leases accounted for similarly to today's finance leases

### Balance Sheet

- ↑ Leased assets
- ↑ Financial Liabilities
- ↓ Equity

### Income statement

- ↓ Operating expense
- ↑ Finance cost

### Cash flow statement



- ↓ Operating flows
- ↑ Financing flows

<sup>1</sup> Exemptions for short-term leases and leases of low-value assets

# Definition of a lease

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- **Similar** to previous definition, changed **guidance on control**
- Control = **directing the use** and **obtaining the benefits** from use
- Based on control of the **use of an identified asset**

Who controls the use of the asset?		
Customer		Lease
or		
Supplier		Service

- **Separate services** provided with leases
  - Separate using available information (including estimates)
  - Option to not separate components

# Lessee Accounting

## *Right-of-use model*

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- A lease conveys the right to use an asset for a period of time in exchange for cash payments
- Lessee reports **lease assets and liabilities on balance sheet**, except for short-term and for low-value asset leases, at **present value of future lease** payments
- **Discount rate**: the rate implicit in the lease, or, if rate implicit not available, lessee's incremental borrowing rate
- **Exclude variable payments** and most optional payments
- **Portfolio application**, simplified reassessment

- IFRS for SMEs published **July 2009**
- Amendments **issued in May 2015** from initial comprehensive review, effective date **1 January 2017**
  - **Limited changes** made after considering feedback and importance of stability during the early years of implementation
  - **Few significant new issues** identified
  - Limited areas where **targeted improvements** made
- Next step: **Future reviews** expected to take place no more frequently than approximately once **every three years**

## Limited Amendments

- Few significant issues identified
- IFRS for SMEs is still a new Standard
- Remember the principle:
  - Keep it simple
  - Alignment with full IFRS useful, not essential
  - SMEs (users, preparers, regulators)
- Each new and revised IFRS considered individually
- New IFRSs only considered once published

# Overview of 2015 Amendments

## *Main amendments*

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- Permitting **revaluation model** for PPE
- Aligning recognition and measurement requirements for **income tax** with full IFRS
- A few additional **undue cost or effort exemptions**, plus
  - guidance on application
  - required disclosure of reasoning
- Most other amendments **clarify or add guidance**
  - rather than change underlying requirements

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# Thank You

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feedback and comments

# Appendix