IFRS Core Tools

IFRS Update of standards and interpretations in issue at 31 March 2020

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Contents

Introduction

Entities reporting under International Financial Reporting Standards (IFRS) continue to face a steady flow of new standards and interpretations. The resulting changes range from significant amendments of fundamental principles to some minor changes from the annual improvements process (AIP). They will affect different areas of accounting, such as recognition, measurement, presentation and disclosure.

Some of the changes have implications that go beyond matters of accounting, also potentially impacting the information systems of many entities. Furthermore, the changes may impact business decisions, such as the creation of joint arrangements or the structuring of particular transactions.

The challenge for preparers is to gain an understanding of what lies ahead.

Purpose of this publication

This publication provides an overview of the upcoming changes in standards and interpretations (pronouncements). It also provides an update on selected active projects. It does not attempt to provide an in-depth analysis or discussion of the topics. Rather, the objective is to highlight key aspects of these changes. Reference should be made to the text of the pronouncements before taking any decisions or actions.

This publication consists of three sections:

Section 1 provides a high-level overview of the key requirements of each pronouncement issued by the International Accounting Standards Board (IASB or the Board) and the IFRS Interpretations Committee (IFRS IC) as at 31 March 2020 that will be effective for the first-time for reporting periods ended at that date or thereafter. This overview provides a summary of the transitional requirements and a brief discussion of the potential impact that the changes may have on an entity's financial statements.

A table comparing mandatory application for different year ends is presented at the beginning of Section 1. In the table, the pronouncements are presented in order of their effective dates. Note that many pronouncements contain provisions that would allow entities to adopt in earlier periods.

When a standard or interpretation has been issued, but has yet to be applied by an entity, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires the entity to disclose any known (or reasonably estimable) information relevant to understanding the possible impact that the new pronouncement will have on the financial statements, or indicate the reason for not doing so. The table at the beginning of Section 1 is helpful in identifying the pronouncements that fall within the scope of this disclosure requirement.

Section 2 provides a summary of the agenda decisions published in the *IFRIC Update*[1] since 1 January 2020. For agenda decisions published before 1 January 2020, please refer to previous editions of *IFRS Update*. In some agenda decisions, the IFRS IC refers to the existing pronouncements that provide adequate guidance. These agenda decisions provide a view on the application of the pronouncements and fall within 'other accounting literature and accepted industry practices' in paragraph 12 of IAS 8.

Section 3 summarises the key features of selected active projects of the IASB. The 'Key projects' addressed are those initiated with the objective of issuing new standards and those involving overarching considerations across a number of standards. 'Other projects' include proposed amendments with narrower applicability. Generally, only those projects that have reached the exposure draft stage are included, but, in selected cases, significant projects that have not yet reached the exposure draft stage are also highlighted.

[1] The *IFRIC Update* is available on the IASB's website at http://www.ifrs.org/news-and-events/updates/ifric-updates/

IFRS Core Tools

EY's *IFRS Core Tools*[2] provide the starting point for assessing the impact of changes to IFRS. Our *IFRS Core Tools* include a number of practical building blocks that can help the user to navigate the changing landscape of IFRS. In addition to *IFRS Update*, EY's *IFRS Core Tools* include the publications described below.

International GAAP® Disclosure Checklist

Our 2020 edition of *International GAAP® Disclosure Checklist* captures disclosure requirements applicable to periods ended 30 June 2020, and disclosures that are permitted to be adopted early. These disclosure requirements are for all pronouncements issued as at 29 February 2020. This tool assists preparers to comply with the presentation and disclosure requirements of IFRS in their interim and year-end IFRS financial statements. Previous editions of this tool for earlier period-ends are available on EY's *IFRS Core Tools* webpage.

Good Group (International) Limited

Good Group (International) Limited is a set of illustrative financial statements, incorporating presentation and disclosure requirements that are in issue as at 30 June 2019 and effective for the year ended 31 December 2019. *Good Group (International) Limited – Illustrative interim condensed financial statements* for the period ended 30 June 2020, based on IFRS in issue at 29 February 2020, supplements *Good Group (International) Limited – Illustrative financial statements*. Among other things, these illustrative financial statements can assist in understanding the impact accounting changes may have on the financial statements.

Good Group (International) Limited is supplemented by illustrative financial statements that are aimed at specific sectors, industries and circumstances. These include:

- Good Group (International) Limited – Agriculture: Supplement to Illustrative Consolidated Financial Statements
- Good First-time Adopter (International) Limited
- Good Investment Fund Limited (Equity)
- Good Investment Fund Limited (Liability)
- Good Real Estate Group (International) Limited
- Good Mining (International) Limited
- Good Petroleum (International) Limited
- Good Bank (International) Limited
- Good Insurance (International) Limited
- Good Life Insurance (International) Limited
- Good General Insurance (International) Limited

Also available from EY:

Other EY publications

References to other EY publications that contain further details and discussion on these topics are included throughout the *IFRS Update*, all of which can be downloaded from our website.[2]

International GAAP® 2020[3]

Our *International GAAP® 2020* is a comprehensive guide to interpreting and implementing IFRS.[4] It includes pronouncements mentioned in this publication that were issued prior to September 2019, and it provides examples that illustrate how the requirements of those pronouncements are applied.

[2] EY's Core Tools are available on http://www.ey.com/en_gl/ifrs-technical-resources.

[3] International GAAP® is a registered trademark of Ernst & Young LLP (UK).

[4] http://www.igaap.info.

Section 1: New pronouncements issued as at 31 March 2020

Table of mandatory application

			First time applied in annual periods ending on the last day of these months**											
New pronouncement	Page	Effective date*	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Definition of a Business – Amendments to IFRS 3	7	1 Jan 2020	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2020
Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7	8	1 Jan 2020	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2020
Definition of Material – Amendments to IAS 1 and IAS 8	10	1 Jan 2020	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2020
The Conceptual Framework for Financial Reporting	12	1 Jan 2020	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2020
IFRS 17 *Insurance Contracts*	5	1 Jan 2021***	2022	2022	2022	2022	2022	2022	2022	2022	2022	2022	2022	2021
Classification of Liabilities as Current or Non-current - Amendments to IAS 1	13	1 Jan 2022	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2022
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28	11	Note 1												

*Effective for annual periods beginning on or after this date. ** Assuming that an entity has not early adopted the pronouncement according to specific provisions in the standard, interpretation or amendment.

*** In March 2020, the IASB decided to defer the effective date of IFRS 17 to 1 January 2023. This new effective date will be included in the amendments to IFRS 17 that the IASB plans to issue by mid-2020

Note 1: In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.

IFRS 17 *Insurance Contracts*

Effective for annual periods beginning on or after 1 January 2021.

Background

In May 2017, the IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts*.

In September 2017, the Board established a Transition Resource Group (TRG) for IFRS 17 to analyse implementation-related questions. The TRG has since met four times and while no further meetings have been scheduled, the TRG submission process remains open for stakeholders to send in questions they believe meet the TRG submission criteria.

Scope

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

Key requirements

The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers.

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The main features of the new accounting model for insurance contracts are as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts

Transition

IFRS 17 is effective for reporting periods starting on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 *Financial Instruments* on or before the date it first applies IFRS 17.

The Board decided on a retrospective approach for estimating the CSM on the transition date. However, if full retrospective application, as defined by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for a group of insurance contracts, is impracticable, an entity is required to choose one of the following two alternatives:

- *Modified retrospective approach* - based on reasonable and supportable information available without undue cost and effort to the entity, certain modifications are applied to the extent full retrospective application is not possible, but still with the objective to achieve the closest possible outcome to retrospective application
- *Fair value approach* - the CSM is determined as the positive difference between the fair value determined in accordance with IFRS 13 *Fair Value Measurement* and the fulfilment cash flows (any negative difference would be recognised in retained earnings at the transition date)

Both the modified retrospective approach and the fair value approach provide transitional reliefs for determining the grouping of contracts. If an entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it is required to apply the fair value approach.

Impact

IFRS 17, together with IFRS 9 *Financial Instruments*, will result in a profound change to the accounting in IFRS financial statements for insurance companies. This will have a significant impact on data, systems and processes used to produce information for financial reporting purposes. The new model is likely to have a significant impact on the profit and total equity of some insurance entities, resulting in increased volatility compared to today's models. Key performance indicators will also likely be affected.

Proposed amendments to IFRS 17

In June 2019, the IASB issued an exposure draft (ED) on proposed amendments to IFRS 17. The Board considered 25 concerns and implementation challenges raised by stakeholders and assessed whether to propose changes to the standard. The Board selected only those changes that, in its estimation, would not lead to a significant loss of useful information for investors, nor unduly disrupt implementation processes under way, nor risk undue delays in the effective date of IFRS 17.

The IASB proposes in the ED 12 targeted amendments to the standard in eight areas and asks stakeholders whether they agree with the proposed amendments. The eight areas of IFRS 17 subject to proposed changes are:

- Deferral of the effective date of IFRS 17 for two years, including an additional two years of deferral for the application of IFRS 9 to qualifying insurance entities (i.e., qualifying insurers can apply IFRS 17 and IFRS 9 for the first time in reporting periods beginning on or after 1 January 2023)
- Additional scope exclusions
- Expected recovery of insurance acquisition cash flows from insurance contract renewals
- CSM relating to investment activities
- Applicability of the risk mitigation option for contracts with direct participation features
- Reinsurance contracts held - expected recovery of losses on underlying contracts
- Simplified presentation of insurance contracts in the statement of financial position
- Transition modifications and reliefs

In addition to the 12 proposed amendments, the ED also includes several minor amendments to IFRS 17.

In response to feedback and comment letters it received on the ED, the IASB agreed, in November 2019, to re-deliberate certain topics. In March 2020, the IASB completed its re-deliberations on the ED and aims to issue the amendments to IFRS 17 by mid-2020.

Other EY publications

Applying IFRS 17: A closer look at the new Insurance Contracts Standard (May 2018) EYG No. 01859-183Gbl

IASB issues proposed amendments to IFRS 17 (June 2019) EYG No. 003121-19Gbl

IASB agrees re-deliberation plan for amendments to IFRS 17 (November 2019) EYG No. 005476-19Gbl

Fourth meeting of the IASB's IFRS 17 Transition Resource Group (April 2019) EYG No. 001926-19Gbl

Third technical discussion of the IASB's IFRS 17 Transition Resource Group (October 2018) EYG No. 011564-18Gbl

Second technical discussion of the IASB's IFRS 17 Transition Resource Group (May 2018) EYG No. 02735-183Gbl

First technical discussion of the IASB's IFRS 17 Transition Resource Group (February 2018) EYG No. 00865-183Gbl

Definition of a Business - Amendments to IFRS 3

Effective for annual periods beginning on or after 1 January 2020.

Key requirements

The IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Minimum requirements to be a business

The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.

Market participants' ability to replace missing elements

Prior to the amendments, IFRS 3 stated that a business need not include all of the inputs or processes that the seller used in operating that business, 'if market participants are capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes'. The reference to such integration is now deleted from IFRS 3 and the assessment must be based on what has been acquired in its current state and condition.

Assessing whether an acquired process is substantive

The amendments specify that if a set of activities and assets does not have outputs at the acquisition date, an acquired process must be considered substantive only if: (a) it is critical to the ability to develop or convert acquired inputs into outputs; and (b) the inputs acquired include both an organised workforce with the necessary skills, knowledge, or experience to perform that process, and other inputs that the organised workforce could develop or convert into outputs. In contrast, if a set of activities and assets has outputs at that date, an acquired process must be considered substantive if: (a) it is critical to the ability to continue producing outputs and the acquired inputs include an organised workforce with the necessary skills, knowledge, or experience to perform that process; or (b) it significantly contributes to the ability to continue producing outputs and either is considered unique or scarce, or cannot be replaced without significant cost, effort or delay in the ability to continue producing outputs.

Narrowed definition of outputs

The amendments narrowed the definition of outputs to focus on goods or services provided to customers, investment income (such as dividends or interest) or other income from ordinary activities. The definition of a business in Appendix A of IFRS 3 was amended accordingly.

Optional concentration test

The amendments introduced an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. Entities may elect to apply the concentration test on a transaction-by-transaction basis. The test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the test is met, the set of activities and assets is determined not to be a business and no further assessment is needed. If the test is not met, or if an entity elects not to apply the test, a detailed assessment must be performed applying the normal requirements in IFRS 3.

Transition

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed.

Impact

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, most entities will likely not be affected by these amendments on transition. However, entities considering the acquisition of a set of activities and assets after first applying the amendments should update their accounting policies in a timely manner.

The amendments could also be relevant in other areas of IFRS (e.g., they may be relevant where a parent loses control of a subsidiary and has early adopted *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28)).

Other EY publications

IFRS Developments Issue 137: IASB issues amendments to the definition of a business in IFRS 3 (October 2018)
EYG No. 011864-18Gbl

Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7

Effective for annual periods beginning on or after 1 January 2020.

Key requirements

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting.

The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR).

The amendments to IFRS 9

The amendments include a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

Application of the reliefs is mandatory. The first three reliefs provide for:

- The assessment of whether a forecast transaction (or component thereof) is highly probable
- Assessing when to reclassify the amount in the cash flow hedge reserve to profit and loss
- The assessment of the economic relationship between the hedged item and the hedging instrument

For each of these reliefs, it is assumed that the benchmark on which the hedged cash flows are based (whether or not contractually specified) and/or, for relief three, the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of IBOR reform.

A fourth relief provides that, for a benchmark component of interest rate risk that is affected by IBOR reform, the requirement that the risk component is separately identifiable need be met only at the inception of the hedging relationship. Where hedging instruments and hedged items may be added to or removed from an open portfolio in a continuous hedging strategy, the separately identifiable requirement need only be met when hedged items are initially designated within the hedging relationship.

To the extent that a hedging instrument is altered so that its cash flows are based on an RFR, but the hedged item is still based on IBOR (or vice versa), there is no relief from measuring and recording any ineffectiveness that arises due to differences in their changes in fair value.

The reliefs continue indefinitely in the absence of any of the events described in the amendments. When an entity designates a group of items as the hedged item, the requirements for when the reliefs cease are applied separately to each individual item within the designated group of items.

The amendments also introduce specific disclosure requirements for hedging relationships to which the reliefs are applied.

The amendments to IAS 39

The corresponding amendments are consistent with those for IFRS 9, but with the following differences:

- For the prospective assessment of hedge effectiveness, it is assumed that the benchmark on which the hedged cash flows are based (whether or not it is contractually specified) and/or the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of IBOR reform.
- For the retrospective assessment of hedge effectiveness, to allow the hedge to pass the assessment even if the actual results of the hedge are temporarily outside the 80%-125% range, during the period of uncertainty arising from IBOR reform.
- For a hedge of a benchmark portion (rather than a risk component under IFRS 9) of interest rate risk that is affected by IBOR reform, the requirement that the portion is separately identifiable need be met only at the inception of the hedge.

Transition

The amendments must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight. Early application is permitted and must be disclosed.

Impact

In finalising the amendments, the IASB has provided reliefs that are essential to mitigate the hedge accounting issues that could arise during the period of uncertainty before IBOR contracts are amended to new benchmark rates.

With phase one completed, the IASB has now shifted its focus to consider those issues that could affect financial reporting when an existing interest rate benchmark is replaced with an RFR. This is referred to as phase two of the IASB's project.

Other EY publications

Good Bank (International) Limited (December 2019) EYG No. 005855-19Gbl. In this publication the amendments to IAS 39 have been early adopted for illustrative purposes.

IFRS Developments Issue 162: IBOR reform: IASB discusses remaining phase two issues (March 2020) EYG No. 000990-20Gbl

IFRS Developments Issue 160: IBOR reform: phase two (continued) (January 2020) EYG No. 000505-20Gbl

IFRS Developments Issue 156: IBOR reform: IASB discusses phase two hedge accounting issues (December 2019) EYG No. 005777-19Gbl

IFRS Developments Issue 154: IBOR reform: IASB discusses phase two classification and measurement issues (October 2019) EYG No. 004807-19Gbl

IFRS Developments Issue 152: IBOR reform: publication of the phase one amendments and commencement of phase two (September 2019) EYG No. 004361-19Gbl

IFRS Developments Issue 151: IBOR reform: finalisation of phase one (August 2019) EYG No. 003965-19Gbl

IFRS Developments Issue 145: IBOR reform: the IASB's proposals, part 2 (August 2019) EYG No. 001271-19Gbl

IFRS Developments Issue 144: IBOR reform: the IASB's proposals (February 2019) EYG No. 000538-19Gbl

EY has also published a series of four videos on the accounting impacts of the IBOR reform which is available on www.ey.com/ifrs and the EY channel on YouTube:

- 'Global IFRS: IBOR reform – Phase 1 complete; phase 2 underway, September 2019'
- 'Global IFRS: IBOR reform - Phase 2 Classification and Measurement issues, October 2019'
- 'Global IFRS: IBOR reform - IASB discusses phase two hedge accounting issues, December 2019'
- 'Global IFRS: IBOR transition discussions, January 2020'

Go to www.ey.com/ifrs to find out more

Definition of Material - Amendments to IAS 1 and IAS 8

Effective for annual periods beginning on or after 1 January 2020.

Key requirements

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

Obscuring information

The amendments explain that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information. Material information may, for instance, be obscured if information regarding a material item, transaction or other event is scattered throughout the financial statements or disclosed using a language that is vague or unclear. Material information can also be obscured if dissimilar items, transactions or other events are inappropriately aggregated, or conversely, if similar items are inappropriately disaggregated.

New threshold

The amendments replaced the threshold 'could influence', which suggests that any potential influence of users must be considered, with 'could reasonably be expected to influence' in the definition of 'material'. In the amended definition, therefore, it is clarified that the materiality assessment will need to take into account only reasonably expected influence on economic decisions of primary users.

Primary users of the financial statements

The current definition refers to 'users' but does not specify their characteristics, which can be interpreted to imply that an entity is required to consider all possible users of the financial statements when deciding what information to disclose. Consequently, the IASB decided to refer to primary users in the new definition to help respond to concerns that the term 'users' may be interpreted too widely.

Other amendments

The definition of material in the Conceptual Framework and IFRS Practice Statement 2: *Making Materiality Judgements* were amended to align with the revised definition of material in IAS 1 and IAS 8.

Transition

The amendments must be applied prospectively. Early application is permitted and must be disclosed.

Impact

Although the amendments to the definition of material is not expected to have a significant impact on an entity's financial statements, the introduction of the term 'obscuring information' in the definition could potentially impact how materiality judgements are made in practice, by elevating the importance of how information is communicated and organised in the financial statements.

Other EY publications

IFRS Developments Issue 138: IASB issues amendments to the definition of material (November 2018) EYG No. 011935-18Gbl

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 *and* IAS 28

In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. Early application of the amendments is still permitted.

Key requirements

The amendments address the conflict between IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

Transition

The amendments must be applied prospectively. Early application is permitted and must be disclosed.

Impact

The amendments are intended to eliminate diversity in practice and give preparers a consistent set of principles to apply for such transactions. However, the application of the definition of a business is judgemental and entities need to consider the definition carefully in such transactions.

The Conceptual Framework for Financial Reporting

Effective immediately for the IASB and the IFRS IC. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

Purpose

The revised *Conceptual Framework for Financial Reporting* (the Conceptual Framework) is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist the Board in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

Key provisions

The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards.

The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:

- Chapter 1 – The objective of financial reporting
- Chapter 2 – Qualitative characteristics of useful financial information
- Chapter 3 – Financial statements and the reporting entity
- Chapter 4 – The elements of financial statements
- Chapter 5 – Recognition and derecognition
- Chapter 6 – Measurement
- Chapter 7 – Presentation and disclosure
- Chapter 8 – Concepts of capital and capital maintenance

The Conceptual Framework is accompanied by a Basis for Conclusions. The Board has also issued a separate accompanying document, *Amendments to References to the Conceptual Framework in IFRS Standards,* which sets out the amendments to affected standards in order to update references to the Conceptual Framework. In most cases, the standard references are updated to refer to the Conceptual Framework. There are exemptions in developing accounting policies for regulatory account balances for two standards, namely, IFRS 3 and for those applying IAS 8.

Impact

The changes to the *Conceptual Framework* may affect the application of IFRS in situations where no standard applies to a particular transaction or event.

Other EY publications

Applying IFRS: IASB issues revised *Conceptual Framework for Financial Reporting* (April 2018) EYG No. 02013-183Gbl

Applying IFRS: IASB issues the *Conceptual Framework exposure draft* (June 2015) EYG No. AU3242

Classification of Liabilities as Current or Non-current - Amendments to IAS 1

Effective for annual periods beginning on or after 1 January 2022.

Key requirements

In January 2020, the Board issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current.

The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

Right to defer settlement

The Board decided that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date.

Existence at the end of the reporting period

The amendments also clarify that the requirement for the right to exist at the end of the reporting period applies regardless of whether the lender tests for compliance at that date or at a later date.

Management expectations

IAS 1.75A has been added to clarify that the 'classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period'. That is, management's intention to settle in the short run does not impact the classification. This applies even if settlement has occurred when the financial statements are authorised for issuance.

Meaning of the term 'settlement'

The Board added two new paragraphs (paragraphs 76A and 76B) to IAS 1 to clarify what is meant by 'settlement' of a liability. The Board concluded that it was important to link the settlement of the liability with the outflow of resources of the entity.

Settlement by way of an entity's own equity instruments is considered settlement for the purpose of classification of liabilities as current or non-current, with one exception.

In cases where a conversion option is classified as a liability or part of a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current. Only if the conversion option itself is classified as an equity instrument would settlement by way of own equity instruments be disregarded when determining whether the liability is current or non-current.

Unchanged from the current standard, a rollover of a borrowing is considered the extension of an existing liability and is therefore not considered to represent 'settlement'.

Transition

Many entities will find themselves already in compliance with the amendments. However, entities need to consider whether some of the amendments may impact their current practice. Therefore, the amendments are effective for annual reporting period beginning on or after 1 January 2022. Entities need to carefully consider whether there are any aspects of the amendments that suggest that terms of their existing loan agreements should be renegotiated. In this context, it is important to highlight that the amendments must be applied retrospectively.

Other EY publications

IFRS Developments Issue 161: Financing and investing entities: proposed changes to primary financial statements (February 2020) EYG No. 000962-20Gbl

IFRS Developments Issue 159: Amendments to classification of liabilities as current or non-current (January 2020) EYG No. 000391-20Gbl

Section 2: Items not taken onto the IFRS Interpretations Committee's agenda in Q1 2020

Certain items deliberated by the IFRS IC are published within the 'Interpretations Committee agenda decisions' section of the IASB's *IFRIC Update*. Agenda decisions are issues that the IFRS IC decides not to add to its agenda and include the reasons for not doing so. For some of these items, the IFRS IC includes further information about how the standards should be applied. This guidance does not constitute an interpretation, but rather, provides additional information on the issues raised and the IFRS IC's views on how the standards and current interpretations are to be applied.

The table below summarises the topics that the IFRS IC decided not to take onto its agenda for the period from 1 January 2020 (since our previous edition of *IFRS Update*) to 31 March 2020. For agenda decisions published before 1 January 2020, please refer to previous editions of *IFRS Update*. All items considered by the IFRS IC during its meetings, as well as the full text of its conclusions, can be found in the *IFRIC Update* on the IASB's website.[5]

According to the IFRS IC, 'the process for publishing an agenda decision might often result in explanatory material that provides new information that was not otherwise available and could not otherwise reasonably have been expected to be obtained. Because of this, an entity might determine that it needs to change an accounting policy as a result of an agenda decision. The Board expects that an entity would be entitled to sufficient time to make that determination and implement any change (for example, an entity may need to obtain new information or adapt its systems to implement a change).'

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
January 2020	IFRS 16 *Leases* – Definition of a lease – decision-making rights	The IFRS IC received a request about whether the customer has the right to direct the use of a ship throughout the five-year term of a contract. In the fact pattern described in the request: ▸ There is an identified asset (the ship) applying paragraphs B13–B20 of IFRS 16. ▸ The customer has the right to obtain substantially all of the economic benefits from use of the ship throughout the five-year period of use applying paragraphs B21–B23 of IFRS 16. ▸ Many, but not all, decisions about how and for what purpose the ship is used are predetermined in the contract. The customer has the right to make the remaining decisions about how and for what purpose the ship is used throughout the period of use. In the fact pattern described in the request, the customer has determined that this decision-making right is relevant because it affects the economic benefits to be derived from use of the ship. ▸ The supplier operates and maintains the ship throughout the period of use. **The right to direct the use of an identified asset** Paragraph B24 of IFRS 16 specifies when a customer has the right to direct the use of an identified asset throughout the period of use. Paragraph B24(b) applies only when the relevant decisions about how and for what purpose the asset is used are predetermined. The Board noted in paragraph BC121 of IFRS 16 that 'it would expect decisions about how and for what purpose an asset is used to be predetermined in relatively few cases'. The IFRS IC observed that, in the fact pattern described in the request, because not all relevant decisions about how and for what purpose the ship is used are predetermined, the customer considers paragraph B24(a) of IFRS 16 in assessing whether it has the right to direct the use of the ship.

[5] The *IFRIC Update* is available at http://www.ifrs.org/news-and-events/updates/ifric-updates/

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
		The right to direct how and for what purpose an asset is used Paragraph B24(a) specifies that a customer has the right to direct the use of an identified asset throughout the period of use if it has 'the right to direct how and for what purpose the asset is used throughout the period of use (as described in paragraphs B25–B30)'. To have the right to direct how and for what purpose the asset is used, within the scope of its right of use defined in the contract, the customer must be able to change how and for what purpose the asset is used throughout the period of use (paragraph B25). In assessing whether that is the case, an entity considers rights to make decisions during the period of use that are most relevant to changing how and for what purpose the asset is used throughout that period. Decision-making rights are relevant when they affect the economic benefits to be derived from use (paragraph B25). An entity does not consider decisions that are predetermined before the period of use unless the conditions in paragraph B24(b)(ii) exist (paragraph B29). Paragraph B26 includes examples of decision-making rights that, depending on the circumstances, grant the right to change how and for what purpose the asset is used. Rights limited to operating or maintaining the asset do not grant the right to change how and for what purpose it is used (paragraph B27). The IFRS IC observed that, in the fact pattern described in the request, the customer has the right to direct how and for what purpose the ship is used throughout the period of use. The customer has the right to make decisions about the use of the ship during the period of use that affect the economic benefits to be derived from that use. Therefore, within the scope of its right of use defined in the contract, the customer can change how and for what purpose the ship is used. The predetermination in the contract of many decisions about how and for what purpose the ship is used defines the scope of the customer's right of use within that scope; the customer has the right to make the decisions that are most relevant to changing how and for what purpose the ship is used. The IFRS IC also observed that, although the operation and maintenance of the ship are essential to its efficient use, the supplier's decisions in this regard do not give it the right to direct how and for what purpose the ship is used. The IFRS IC concluded that, in the fact pattern described in the request, the customer has the right to direct the use of the ship throughout the period of use. Consequently, the contract contains a lease. The IFRS IC concluded that the principles and requirements in IFRS 16 provide an adequate basis for an entity to determine whether the contract described in the request contains a lease.
March 2020	IFRS 15 *Revenue from Contracts with Customers* – Training costs to fulfil a contract	The IFRS IC received a request about training costs incurred to fulfil a contract with a customer. In the fact pattern described in the request: ▸ An entity enters into a contract with a customer that is within the scope of IFRS 15. The contract is for the supply of outsourced services. ▸ To be able to provide the services to the customer, the entity incurs costs to train its employees so that they understand the customer's equipment and processes. The training costs are as described in paragraph 15 of IAS 38 *Intangible Assets*. The entity has insufficient control over the expected future economic benefits arising from the training to meet the definition of an intangible asset because employees can leave the entity's employment. Applying IFRS 15, the entity does not identify the training activities as a performance obligation.

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
		▸ The contract permits the entity to charge to the customer the costs of training: (i) the entity's employees at the beginning of the contract; and (ii) new employees that the entity hires as a result of any expansion of the customer's operations. The request asked whether the entity recognises the training costs as an asset or an expense when incurred. **Which IFRS standard applies to the training costs?** Paragraph 95 of IFRS 15 requires an entity to recognise an asset from the costs incurred to fulfil a contract with a customer if the costs are not within the scope of another IFRS standard, and only if those costs meet all three criteria specified in paragraph 95. Consequently, before assessing the criteria in paragraph 95, the entity first considers whether the training costs incurred to fulfil the contract are within the scope of another IFRS standard. Paragraphs 2–7 of IAS 38 describe the scope of that standard. Paragraph 5 explicitly includes expenditure on training within IAS 38's scope, stating that IAS 38 'applies to, among other things, expenditure on advertising, training, start-up, research and development activities'. Accordingly, the IFRS IC concluded that, in the fact pattern described in the request, the entity applies IAS 38 in accounting for the training costs incurred to fulfil the contract with the customer. **Application of IAS 38** Paragraph 69(b) of IAS 38 includes expenditure on training activities as an example of expenditure that is incurred 'to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised'. Consequently, paragraph 69 states that such expenditure on training activities is recognised as an expense when incurred. Paragraph 15 of IAS 38 explains that 'an entity usually has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset'. In addition, in explaining the requirements in IFRS 15 regarding costs to fulfil a contract, paragraph BC307 of IFRS 15 states that 'if the other standards preclude the recognition of any asset arising from a particular cost, an asset cannot then be recognised under IFRS 15'. Accordingly, the IFRS IC concluded that, in the fact pattern described in the request, the entity recognises the training costs to fulfil the contract with the customer as an expense when incurred. The IFRS IC noted that the entity's ability to charge to the customer the costs of training does not affect that conclusion. The IFRS IC concluded that the principles and requirements in IFRS 15 and IAS 38 provide an adequate basis for an entity to determine its accounting for training costs incurred to fulfil a contract with a customer.
March 2020	IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IAS 29 *Financial Reporting in Hyperinflationary Economies* – Translation of a hyperinflationary foreign operation	The IFRS IC received a request about the application of IAS 21 and IAS 29. In the fact pattern described in the request, the entity: ▸ Has a presentation currency that is not the currency of a hyperinflationary economy as defined in IAS 29 ▸ Has a foreign operation with a functional currency that is the currency of a hyperinflationary economy as defined in IAS 29 (hyperinflationary foreign operation) ▸ Translates the results and financial position of the hyperinflationary foreign operation into its presentation currency in preparing its consolidated financial statements

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
		Paragraph 43 of IAS 21 requires an entity to restate the results and financial position of a hyperinflationary foreign operation applying IAS 29 before applying the translation method set out in paragraph 42 of IAS 21 (restate/translate approach). The application of the restate/translate approach may result in a change to the entity's net investment in the hyperinflationary foreign operation. This change would include two effects: ▸ A restatement effect resulting from restating the entity's interest in the equity of the hyperinflationary foreign operation as required by IAS 29 ▸ A translation effect resulting from translating the entity's interest in the equity of the hyperinflationary foreign operation (excluding the effect of any restatement required by IAS 29) at a closing rate that differs from the previous closing rate To illustrate this using a simple example, assume at the beginning of the reporting period that an entity has a 100% interest in a hyperinflationary foreign operation that has a non-monetary asset of 1,000 in local currency (LC), and has no other assets and no liabilities. Therefore, the foreign operation has net assets (and equity) of LC1,000. The change in the general price index of the hyperinflationary economy during the reporting period is 200%. The entity could, for example, calculate: ▸ The restatement effect as (LC1,000 × (1+200%) – LC1,000) × closing exchange rate. This calculation reflects the entity's interest in the equity of the hyperinflationary foreign operation of LC1,000, restated applying IAS 29, and reported in the entity's presentation currency ▸ The translation effect as (LC1,000 × closing exchange rate) – (LC1,000 × opening exchange rate). This calculation reflects the entity's interest in the equity of the hyperinflationary foreign operation of LC1,000 (excluding the effect of the restatement required by IAS 29) multiplied by the difference between the opening and closing exchange rates The request asked how the entity presents the restatement and translation effects in its statement of financial position. **Do the restatement and translation effects meet the definition of an exchange difference?** Paragraph 8 of IAS 21 defines an exchange difference as the difference 'resulting from translating a given number of units of one currency into another currency at different exchange rates'. The IFRS IC concluded that, in the fact pattern described in the request, either the translation effect alone meets the definition of an exchange difference, or the combination of the restatement and translation effects meets that definition. **How does an entity present any exchange difference arising from translating a hyperinflationary foreign operation?** The IFRS IC observed that all requirements in IAS 21 that specify the recognition (or presentation) of exchange differences require an entity to recognise (or present) exchange differences in profit or loss or other comprehensive income (OCI). IAS 21 requires the recognition of exchange differences in profit or loss or OCI, with no reference to equity, because exchange differences meet the definition of income or expenses. Accordingly, the IFRS IC concluded that an entity does not recognise exchange differences directly in equity. Paragraph 7 of IAS 1 states that components of OCI include 'gains and losses arising from translating the financial statements of a foreign operation'. Paragraph 41 of IAS 21 explains that exchange differences arising from translating the financial statements of a non-hyperinflationary foreign operation are recognised in OCI and not in profit or loss, because 'the changes in exchange

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
		rates have little or no direct effect on the present and future cash flows from operations'. The IFRS IC observed that this explanation is also relevant if the foreign operation's functional currency is hyperinflationary. Accordingly, the IFRS IC concluded that an entity presents in OCI, any exchange difference resulting from the translation of a hyperinflationary foreign operation. **Applying the requirements in IFRS standards to the restatement and translation effects** The IFRS IC concluded that, in the fact pattern described in the request, the entity presents: ▸ The restatement and translation effects in OCI, if the entity considers that the combination of those two effects meets the definition of an exchange difference in IAS 21 Or ▸ The translation effect in OCI, if the entity considers that only the translation effect meets the definition of an exchange difference in IAS 21. In this case, consistent with the requirements in paragraph 25 of IAS 29, the entity presents the restatement effect in equity In light of its analysis, the IFRS IC considered whether to add a project on the presentation of exchange differences resulting from the restatement and translation of hyperinflationary foreign operations to its standard-setting agenda. The IFRS IC has not obtained evidence that a project with that scope, that is undertaken in isolation from other aspects of the accounting for hyperinflationary foreign operations, would result in an improvement in financial reporting that would be sufficient to outweigh the costs.
March 2020	Cumulative Exchange Differences before a Foreign Operation becomes Hyperinflationary (IAS 21 and IAS 29)	The IFRS IC received a request about the application of IAS 21 and IAS 29. In the fact pattern described in the request, the entity: ▸ Has a presentation currency that is not the currency of a hyperinflationary economy as defined in IAS 29 ▸ Has a foreign operation with a functional currency that is the currency of a hyperinflationary economy as defined in IAS 29 (hyperinflationary foreign operation) ▸ Translates the results and financial position of the hyperinflationary foreign operation into its presentation currency in preparing its consolidated financial statements Before the foreign operation becomes hyperinflationary, IAS 21 requires an entity to: ▸ Present in OCI, any exchange differences resulting from translating the results and financial position of that non-hyperinflationary foreign operation ▸ Present in a separate component of equity, the cumulative amount of those exchange differences (cumulative pre-hyperinflation exchange differences) The request asked whether the entity reclassifies within equity the cumulative pre-hyperinflation exchange differences once the foreign operation becomes hyperinflationary. That is, whether the entity transfers the cumulative pre-hyperinflation exchange differences to a component of equity that is not subsequently reclassified to profit or loss. Paragraph 41 of IAS 21 requires an entity to present the cumulative amount of exchange differences recognised in OCI in a separate component of equity 'until disposal of the foreign operation'. Further, paragraphs 48 and 48C of IAS 21

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
		require an entity to reclassify the cumulative amount of those exchange differences, or a proportionate share of that cumulative amount, from equity to profit or loss on disposal, or partial disposal, of a foreign operation (except as specified in paragraph 48C). Accordingly, the IFRS IC concluded that, in the fact pattern described in the request, the entity presents the cumulative amount of the exchange differences as a separate component of equity (to which paragraph 48 or paragraph 48C of IAS 21 applies) until disposal or partial disposal of the foreign operation. The entity does not reclassify within equity the cumulative pre-hyperinflation exchange differences once the foreign operation becomes hyperinflationary. The IFRS IC concluded that the principles and requirements in IAS 21 provide an adequate basis for an entity to determine how to present the cumulative pre-hyperinflation exchange differences once a foreign operation becomes hyperinflationary.
March 2020	Presenting Comparative Amounts when a Foreign Operation first becomes Hyperinflationary (IAS 21 and IAS 29)	The IFRS IC received a request about the application of IAS 21 and IAS 29. In the fact pattern described in the request, the entity: ▸ Has a presentation currency that is not the currency of a hyperinflationary economy as defined in IAS 29 ▸ Has a foreign operation whose functional currency is the currency of a hyperinflationary economy as defined in IAS 29 (hyperinflationary foreign operation) ▸ Translates the results and financial position of the hyperinflationary foreign operation into its presentation currency in preparing its consolidated financial statements The request asked whether the entity restates comparative amounts presented for the foreign operation in: ▸ Its annual financial statements for the period in which the foreign operation becomes hyperinflationary ▸ Its interim financial statements in the year after the foreign operation becomes hyperinflationary, if the foreign operation was not hyperinflationary during the comparative interim period On the basis of responses to outreach, comment letters received and additional research, the IFRS IC observed little diversity in the application of IAS 21 with respect to the questions in the request. In applying paragraph 42(b) of IAS 21, entities generally do not restate comparative amounts in their interim or annual financial statements in the situations described above. Therefore, the IFRS IC has not obtained evidence that the matter has widespread effect.

Section 3: Active IASB projects

The ability to stay current on the IASB's standard-setting activities is critical in a sea of change. The following pages summarise key features of selected active projects of the IASB, along with potential implications of the proposed standards. The 'Key projects' are those initiated with the objective of issuing new standards or that involve overarching considerations across a number of standards. 'Other projects' include proposed amendments with narrower applicability. Generally, only those projects that have reached the exposure draft stage are included, but in selected cases, projects that have not yet reached the exposure draft stage are also commented on.

Key projects

Better communication in financial reporting

Key developments to date

Background

The IASB is undertaking a broad-based initiative to explore how disclosures in IFRS financial reporting can be improved. The Board has identified implementation and research projects that will support better communication.

Disclosure initiative

In December 2014 and January 2016, amendments to IAS 1 and IAS 7 *Statement of Cash Flows*, respectively, were issued. Furthermore, the IASB released IFRS Practice Statement 2 *Making Materiality Judgement* (the PS) in September 2017 and the *Definition of Material* (Amendments to IAS 1 and IAS 8) in October 2018. For further details on the definition of material, please refer to Section 1: *New pronouncements issued as at 31 March 2020*.

In addition, the Disclosure Initiative comprises the following projects:

Principles of disclosure

The objective of this project is to identify and better understand disclosure issues and either develop a set of new disclosure principles, or clarify the existing principles.

The IASB published a Discussion Paper (DP) in March 2017 which focused on the general disclosure requirements in IAS 1 and the concepts that were being developed in the *Conceptual Framework for Financial Reporting* (see page 12 above).

After considering the feedback received on the DP, the IASB decided that improving the way disclosure requirements are developed and drafted in the standards is the most effective way to address the disclosure problem. Therefore, the Board decided to prioritise a standard-level review of certain standards (see below).

The Board has also decided to address research findings relating to accounting policy disclosures (see below), the effect of technology on financial reporting (as part of a broader project) and the use of performance measures in financial statements as part of the primary financial statements project (see below). The remaining topics in the DP will not be pursued for the time being.

Targeted standards-level review of disclosures

The IASB has added a separate project to develop guidance to help improve the way the Board drafts disclosure requirements in IFRS standards and perform a targeted standards-level review of disclosure requirements. Currently, the draft guidance developed by the Board is being tested on IAS 19 and IFRS 13. The Board plans to publish an exposure draft in the second half of 2020.

Accounting policies

The IASB is developing guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The Board is developing amendments to IAS 1 that will require entities to disclose material accounting policies rather than significant accounting policies in their financial statements. It is also developing guidance and examples for inclusion in the PS. In August 2019, the Board issued an exposure draft for the proposed amendments to IAS 1 and the PS. Currently the Board is redeliberating the proposals in light of the comment letters received.

Subsidiaries that are SMEs

In January 2020, the Board decided to move the Subsidiaries that are SMEs project from the research programme to the standard-setting programme. The Board is developing a reduced disclosure IFRS standard that would apply on a voluntary basis to subsidiaries that do not have public accountability.

Primary financial statements

The project aims to improve the structure and content of the primary financial statements, with a focus on the statement(s) of financial performance. The project also includes requirements for management performance measures. The Board published an exposure draft in December 2019 which is open for comment until 30 June 2020.

Management commentary

The Board is working on a project to update IFRS Practice Statement 1 *Management Commentary*. As part of this project, the Board is considering how broader financial reporting could complement and support IFRS financial statements. The Board plans to publish an exposure draft in the second half of 2020.

IFRS taxonomy

The Better Communication in Financial Reporting initiative will also consider the IFRS taxonomy. The Taxonomy enables tagging of electronic financial information and allows computers to identify, read and extract the information. This facilitates analysis and comparison. Users may create tailored reports to meet their information needs.

Impact

The impact of the different projects is not clear, in particular since several of the measures being considered by the Board are behavioural in nature, and, thus, the impact may not be easily predicted. However, the different projects have the potential to provide clarifications and guidance that will help entities prepare more tailored and effective primary financial statements and disclosures.

Other EY publications

Applying IFRS: Alternative Performance Measures (October 2018) EYG No. 011765-18Gbl

Applying IFRS: Enhancing communication effectiveness (February 2017) EYG No. 000662-173Gbl

IFRS Developments Issue 158: The IASB proposes major changes to primary financial statements (December 2019) EYG No. 005876-19Gbl

IFRS Developments Issue 138: IASB issues amendments to the definition of material (November 2018) EYG No. 011935-18Gbl

IFRS Developments Issue 129: Disclosure Initiative – Updates on the Materiality Project (September 2017) EYG No. 05342-173Gbl

IFRS Developments Issue 124: Disclosure Initiative – Principles of Disclosure (April 2017) EYG No. 01608-173Gbl

Other projects

The IASB has a number of projects on its work plan to amend existing standards and interpretations for specific matters. The following is a brief summary of selected projects. Refer to the IASB's website for its work plan, which includes the current status of all projects.

Other projects	Status/next steps

Financial Instruments – Accounting for Dynamic Risk Management
▸ The objective of this project is to address the specific accounting for risk management strategies relating to open portfolios rather than individual contracts. The hedge accounting requirements in IAS 39 and IFRS 9 do not provide specific solutions to the issues associated with macro hedging.
▸ The IASB intends to develop the accounting model for dynamic risk management (DRM) using cash flow hedge mechanics as a starting point in the following two phases:
  ▸ The first phase will focus on developing the 'core areas' that are central to the model that are comprised of: (i) target profile (liability side); (ii) asset profile; (iii) DRM derivative instruments; and (iv) performance assessment and recycling, to shape the fundamentals of the DRM accounting model.
  ▸ The second phase will address non-core areas that are extensions of concepts developed during the first phase.
▸ The IASB intends to gather external feedback on the core model developed in the first phase before progressing on to the second phase.
	▸ In October 2019, the Board discussed its plan to consult stakeholders on the core elements of the DRM accounting model. After that consultation, the Board will decide how best to pursue the next phase of the project, which is to develop the DRM accounting model further. The Board will consider at a future meeting the feedback from its consultation on the core elements of the DRM accounting model. The core model outreach is planned for June 2020.
	▸ Key aspects of the core DRM model that the IASB has tentatively decided as of July 2019 are:
	  ▸ The model applies to the asset profile and target profile that meet the qualifying criteria on a portfolio (or percentage of portfolio) basis, consistently with the entity's risk management policies and procedures.
	  ▸ Core demand deposits could be included in the target profile, with certain conditions. Highly probable forecast transactions could also be eligible for inclusion in the asset profile and target profile (e.g., refinancing).
	  ▸ Designation and formal documentation will be required.
	  ▸ Changes to designated portfolios resulting in updates to the asset profile or target profile should not represent a designation or a de-designation event, but, instead, a continuation of the existing relationship.
	  ▸ Entities should measure imperfect alignment on an on-going basis. Imperfect alignment may result in volatility in profit or loss.
	  ▸ Application of the DRM accounting model should be optional.

Other projects	Status/next steps
Availability of a Refund (Amendments to IFRIC 14) ▸ The proposed amendments to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* address whether the powers of other parties (e.g., trustees) affect an entity's right to a refund of a surplus in a defined benefit plan.	▸ An ED was issued in June 2015. ▸ In September 2017, the Board tentatively decided to perform further work to assess whether it can establish a more principles-based approach in IFRIC 14 for an entity to assess the availability of a refund of a surplus. ▸ In June 2018, the Board received an update on the work performed on the proposed amendments to IFRIC 14. The Board will continue its discussions at a future meeting.

Property, Plant and Equipment— Proceeds before Intended Use (Proposed amendments to IAS 16)
▸ The proposed amendments aim to prohibit deducting from the cost of an item of property, plant and equipment (PPE), any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity would recognise the proceeds from selling such items, and the costs of producing those items, in profit or loss.
	▸ The ED was issued in June 2017.
	▸ In October 2019, the Board continued its discussions on the ED. The Board tentatively decided:
	  ▸ To require an entity to identify and measure the cost of items produced before an item of PP&E is available for use, applying the existing measurement requirements of IAS 2 *Inventories*
	  ▸ Not to have additional specific presentation and disclosure requirements in relation to the sale of items that are part of the entity's ordinary activities
	  ▸ To require additional disclosures in relation to the sale of items that are not part of an entity's ordinary activities
	  ▸ To require an entity to apply the amendments retrospectively only to items of PPE made available for use on or after the beginning of the earliest period presented when the entity first applies the amendments
	  ▸ To provide no transition relief for first-time adopters
	  ▸ That the effective date of the amendments be for annual periods beginning on or after 1 January 2022, with earlier application permitted.
	▸ The Board plans to publish the final amendments in May 2020.

Other projects	Status/next steps
Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8) ▸ The IASB issued an ED proposing narrow-scope amendments to IAS 8 that are intended to help entities distinguish between a change in accounting policies and a change in accounting estimates. ▸ This distinction is relevant because IAS 8 contains different requirements for changes in accounting policies and for changes in accounting estimates. ▸ The proposed amendments explain that an accounting policy is the overall objective and the accounting estimates are inputs used in achieving that objective. Furthermore, the proposed amendments include a definition of accounting estimates and clarify that selecting an estimation technique or valuation technique when an item in the financial statements cannot be measured with precision, constitutes selecting an accounting estimate whereas selecting a cost formula (i.e., first-in, first-out (FIFO) or weighted average cost) in applying IAS 2 constitutes selecting an accounting policy.	▸ The ED was issued in September 2017. ▸ In October 2019, the Board decided to finalise the proposed amendments to IAS 8, subject to certain modifications discussed at the meeting. ▸ In December 2019, the Board discussed the transition requirements and the effective date of the amendments, and tentatively decided to require entities to apply the amendments to annual periods beginning on or after 1 January 2022, with earlier application permitted.
Accounting Policy Changes (Amendments to IAS 8) ▸ The IASB proposed amendments to IAS 8 to lower the impracticability threshold for retrospective application of voluntary changes in accounting policies that result from agenda decisions. The proposed threshold would include a consideration of the costs and benefits of applying such changes retrospectively. ▸ The proposed amendments aim to promote greater consistency in the application of IFRS standards, reduce the burden on entities when they change an accounting policy as a result of an agenda decision and, thus, improve the overall quality of financial reporting.	▸ The ED was issued in March 2018. ▸ In December 2018, the Board discussed the summary of the feedback received on the ED, and tentatively decided not to amend the standard to specify when entities apply accounting policy changes resulting from agenda decisions. The Board is expected to decide on the project direction in May 2020.

Other projects	Status/next steps
Financial Instruments with Characteristics of Equity ▸ The objective of the project is to improve the information that entities provide in their financial statements about financial instruments they have issued and also to address challenges with applying IAS 32 in practice. ▸ The focus of the project is on the classification of financial liabilities and equity instruments from the perspective of the issuer (entity). The requirements in IFRS 9 for the accounting by the holder of financial assets are therefore outside the scope of the project. ▸ The IASB issued a discussion paper (DP), *Financial Instruments with Characteristics of Equity*, that set out proposed principles for the classification of financial instruments as either financial liabilities or equity instruments with a clear rationale, but without fundamentally changing the existing classification outcomes of IAS 32. ▸ It was designed to improve the consistency, completeness and clarity of the requirements for classification, while also enhancing the information provided through presentation and disclosure about features of financial liabilities and equity instruments that are not captured by classification alone.	▸ The DP was issued in June 2018. ▸ In September 2019, the Board decided not to continue with the proposals in the DP. Instead, it will adopt an approach which will address practice issues by clarifying some of the existing principles in IAS 32 without proposing new principles. ▸ In December 2019, the Board discussed potential clarifications to IAS 32 that would help address challenges in practice in classifying financial instruments that will, or may, be settled in the issuer's own equity instruments. In particular, the Board explored potential clarifications to the underlying principle for classifying derivatives on own equity. ▸ The IASB staff are currently preparing a detailed project proposal to identify the particular practice issues that need to be addressed. The project proposal is planned to be discussed by the Board in the second half of 2020.
Onerous Contracts - Costs of Fulfilling a Contract (Amendments to IAS 37) ▸ The IASB proposed amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. ▸ The proposed amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. ▸ These proposed amendments are intended to provide clarity and help ensure consistent application of the standard.	▸ The ED was issued in December 2018. ▸ In December 2019, the Board tentatively decided that entities should apply the amendments for annual periods beginning on or after 1 January 2022, with earlier application permitted. The Board plans to issue the amendments in May 2020.

Other projects	Status/next steps

IBOR Reform and its effects on financial reporting – Phase two
▸ The IASB is working on phase two of its project to amend IFRS in response to the financial reporting challenges posed by IBOR reform. This second phase focuses on assessing the potential financial reporting implications when an existing interest rate benchmark is replaced with an alternative interest rate.
▸ Topics covered include:
  ▸ Classification and measurement:
  ▸ Determining whether a modification has occurred
  ▸ Determining whether a modification is substantial
  ▸ Accounting for modifications related to IBOR reform
  ▸ Accounting implications from derecognition of a modified financial instrument
  ▸ Hedge accounting:
  ▸ Determining whether a modification should trigger a hedging relationship to be discontinued
  ▸ Changes to hedge documentation and effectiveness testing arising as a result of modifications required by IBOR reform
  ▸ Treatment of valuation adjustments due to modifications directly required by IBOR reform
  ▸ Hedges of a group of items
  ▸ IAS 39 fair value hedge accounting for a portfolio of interest rate risk
  ▸ How the 'separately identifiable' requirements will be met
  ▸ Treatment of hedges when the reliefs end
  ▸ Disclosures
  ▸ Related amendments to IFRS 4 and IFRS 16
  ▸ Transition
  ▸ Whether reliefs should be mandatory or voluntary
  ▸ Transition dates
	▸ The Board started discussions on phase two of its IBOR project during Q3 2019.
	▸ The Board completed its discussions in February 2020 and expects to publish an exposure draft in April 2020.

Other projects	Status/next steps

Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)
▸ The IASB proposed amendments to IFRS 3 to:
  ▸ Replace the reference to an old version of the IASB's Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework)
  ▸ Add an exception to the recognition principle in IFRS 3. That is, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies,* if incurred separately, an acquirer would apply IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to identify the obligations it has assumed in a business combination
  ▸ Add an explicit statement in the standard that an acquirer cannot recognise contingent assets acquired in a business combination
▸ The proposed amendments are intended to update IFRS 3 without significantly changing its requirements.
	▸ In January 2020, the Board tentatively decided: (i) to require an entity to apply the amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2022; (ii) to permit an entity to apply the amendments earlier if at the same time the entity also applies all the amendments made by *Amendments to References to the Conceptual Framework in IFRS Standards*; and (iii) not to require an entity that applies the amendments early to disclose that it has done so.
	▸ The Board expects to issue the amendments in May 2020.

Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12) ▸ The IASB proposed amendments to IAS 12 that would require an entity to recognise deferred tax on initial recognition of particular transactions to the extent that the transaction gives rise to equal amounts of deferred tax assets and liabilities. The proposed amendments would apply to transactions such as leases and decommissioning obligations for which an entity recognises both an asset and a liability. ▸ The Board expects that applying the proposed amendments would increase comparability between entities and would result in useful information for users of financial statements. This is because it would align the accounting for the tax effects of particular transactions with the general principle in IAS 12 of recognising deferred tax for all temporary differences.	▸ The ED was issued in July 2019 and was open for comment until 14 November 2019. The Board plans to discuss the feedback received in June 2020.

Other projects	Status/next steps
Annual Improvements to IFRS standards 2018-2020 The IASB proposed the following amendments to standards, or accompanying documents, as part of its annual improvement process: ▸ *Subsidiary as a first-time adopter* (Amendment to IFRS 1) The proposed amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This proposed amendment would also apply to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. ▸ *Fees included in the '10 per cent' test for derecognition of financial liabilities* (Amendment to IFRS 9) The proposed amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability, when determining whether to derecognise a financial liability that has been modified or exchanged. There is no similar amendment proposed for IAS 39. ▸ *Lease Incentives* (Amendment to Illustrative Example 13 accompanying IFRS 16) The proposed amendment removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This would remove potential confusion regarding the treatment of lease incentives when applying IFRS 16. ▸ *Taxation in fair value measurements* (Amendment to IAS 41 *Agriculture*) The proposed amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.	▸ The Board expects to issue the amendments in May 2020. The Board tentatively decided to require entities to apply the amendments to IFRS 1, IFRS 9 and IAS 41 for annual periods beginning on or after 1 January 2022, with earlier application permitted.

Other projects	Status/next steps

Business Combinations: Disclosures, Goodwill and Impairment
▸ Based on the feedback received during the Post-implementation Review of IFRS 3, the Board decided to begin a research project to explore possible improvements to IFRS 3 and IAS 36 *Impairment of Assets*.
▸ In March 2020, the IASB published the Discussion Paper (DP) *Business Combinations: Disclosures, Goodwill and Impairment*. The Board's preliminary views are that it:
  ▸ Should develop proposals to enhance the disclosure objectives and requirements in IFRS 3 to improve the information provided to investors about an acquisition and its subsequent performance
  ▸ Cannot design a different impairment test for cash-generating units containing goodwill that is significantly more effective than the impairment test in IAS 36 at recognising impairment losses on goodwill on a timely basis and at a reasonable cost
  ▸ Should not reintroduce amortisation of goodwill
  ▸ Should develop a proposal to help investors better understand entities' financial positions by requiring them to present on their balance sheets the amount of total equity excluding goodwill
  ▸ Should develop proposals intended to reduce the cost and complexity of performing the impairment test by:
  ▸ Providing entities with relief from having to perform an annual quantitative impairment test for cash-generating units containing goodwill if there is no indication that an impairment may have occurred
  ▸ Extending the same relief to entities for intangible assets with indefinite useful lives and intangible assets not yet available for use
  ▸ Should develop proposals intended to reduce cost and complexity, and to provide more useful and understandable information by simplifying the requirements for estimating value in use by:
  ▸ Removing the restriction on including cash flows from a future uncommitted restructuring or from improving or enhancing an asset's performance
  ▸ Permitting the use of post-tax cash flows and post-tax discount rates
  ▸ Should not change the range of identifiable intangible assets recognised separately from goodwill in an acquisition
	▸ The DP was issued in March 2020 and is open for comment until 15 September 2020.

The table below sets out the estimated timeline for the remaining projects on the IASB's agenda as at the beginning of April 2020.

IASB projects	Next milestone	Expected date
Research projects		
Business Combinations under Common Control	Discussion Paper	June 2020
Extractive Activities	Review Research	June 2020
Pension Benefits that Depend on Asset Returns	Review Research	H2 2020
Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12	Review Research	April 2020
Standard-setting and related projects		
Disclosure Initiative – Subsidiaries that are SMEs	Discussion Paper or Exposure Draft	
Rate-regulated Activities	Exposure Draft	H2 2020
Maintenance projects		
Provisions – Targeted Improvements	Decide Project Direction	
2019 Comprehensive Review of the IFRS for SMEs Standard	Request for Information Feedback	

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