The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board (the Board) or IFRS Foundation.
IASB changes – where we are

- Regulatory Deferral Accounts
- Financial instruments
- Revenue
- Agenda consultation
- Leases
- Insurance contracts
- Materiality Practice Statement
- Conceptual Framework

Maintenance amendments issued in each year:
- 2014 - 2015: 9
- 2016: 7
- 2017: 1
- 2018 and beyond

IFRS
IASB changes – major consultations

- Principles of Disclosure
- PIR IFRS 13 Fair Value measurement
- Financial Instruments with Characteristics of Equity
- Business Combinations under Common Control
- Dynamic Risk Management
- Rate-regulated Activities
- Goodwill and Impairment
- Primary Financial Statements

2017

2018
Agenda

1. Goodwill and Impairment
2. Current projects
3. Wider corporate reporting
Goodwill and Impairment

How to improve?
Feedback from PIR of IFRS 3 Business Combinations

- Complex and costly impairment test
- Delays in recognition of impairment
- Inadequate disclosures
- Question whether separation of particular intangibles is always useful

Board’s research project

- Possible improvements to impairment test
- Possible additional disclosures
- Subsuming particular intangibles into goodwill

Possible output: Discussion Paper or Exposure Draft in 2018

Board discussions throughout 2017
Why improve the quality of information?

**IAS 36 requirements**
- Goodwill is allocated to cash generating unit(s) for impairment testing purposes
- This is not necessarily at the level of the acquired entity as a whole

**Investors’ concerns**
- Insufficient information about subsequent performance of the acquired business

**Ongoing research**
- Additional disclosures that help investors understand subsequent performance of acquired businesses
Ongoing research – disclosures

Key assumptions or targets supporting the purchase consideration

(These disclosures follow on from management’s own assessment and communications to external stakeholders at the time of acquisition)

Comparison of actual performance vis-à-vis assumptions made at the time of acquisition

(The number of years for which a company will disclose this comparison will depend upon the time horizon set by the company at the time of acquisition)

Breakdown of goodwill by past acquisition

(The Board could additionally require reconciliation of this disaggregation with the existing requirement to disclose goodwill allocated to cash-generating unit(s))
Additionally, existing disclosure requirements in IAS 36 could be reviewed to assess if any disclosures are not useful.

Some feedback that:
- disclosure of pre-tax discount rate is not useful because post-tax discount rates are generally used in calculating value in use.
Why simplify and improve the impairment test?

**IAS 36 requirements**
- Goodwill is not amortised
- Quantitative impairment testing annually and whenever there is an indication of impairment
- Recoverable amount* to be calculated every year

**Preparers’ concerns**
- Performing the test annually is costly

**Ongoing research**
- Relief from mandatory annual quantitative test
- Calculating recoverable amount when there are indicators of impairment
- Using a single method to determine recoverable amount
- Methods to remove the shielding effect of internally generated goodwill

* Recoverable amount is higher of fair value less costs of disposal (FVLCD) and value in use (VIU)
Ongoing research – indicator approach

**Approach 1**
Complete relief from mandatory annual test—Goodwill tested for impairment only when there is an indication of possible impairment

**Approach 2**
Partial (less constrained) relief from annual testing—Mandatory quantitative test for the first year after acquisition and indicator-based impairment test in later years

**Approach 3**
Partial (more constrained) relief from annual testing—Mandatory quantitative test for the first few years after acquisition (perhaps 3–5 years) and indicator-based impairment test in later years

**Approach 4**
Partial (more constrained) relief from annual testing—Mandatory quantitative test, say every 3 years, and indicator-based impairment test in the intervening years
Indicators of impairment

- IAS 36 provides a list of indicators that an entity must consider as a minimum

- The following additional indicators could be added:
  - Actual performance not in line with the key performance assumptions or targets supporting the acquired goodwill
  - A few indicators suggested by the Board’s consultative groups
    - steady decline in the ratio of market value to book value and a comparison of that ratio with those of peer group
    - loss of market share of key products
    - change in key management personnel
Ongoing research – single method

Single method for determining recoverable amount instead of higher of the two

| FVLCD as the sole basis | OR | VIU as the sole basis | OR | FVLCD or VIU depending on how an entity expects to recover the asset |
Using a single method might improve effectiveness of the test and could

• make the test easier to apply and understand; and
• reduce concerns that current model makes it easy to delay and (or) conceal impairment

Feedback from CFA Society

• concerned about entity-specific nature of VIU and scope for management to pass the impairment test
• a fair value based impairment model would be more objective

Feedback from a few preparers

• VIU better reflects the fact that an entity holds the assets for continued use in the business
• VIU is a reflection of range of economic conditions and not just the best case scenario
Objective of the PH* approach
– To prevent the shielding effect of unrecognised internally generated goodwill of the pre-combination CGU

* Pre-acquisition headroom (PH) is the difference between the carrying amount of the CGU and its recoverable amount just before the business combination

Basic mechanic of the PH approach
1) Measure the PH at the acquisition date
2) PH is added to the carrying amount of the CGU (only for the purpose of impairment test calculation)
3) Compare (2) with the recoverable amount of the CGU (in measuring any impairment loss)
Current Projects

what’s new?
Overview

• Active projects:
  – Better Communication
  – Conceptual Framework
  – Rate-regulated activities

• Research programme
  – Current projects
  – Post-implementation reviews

• Appendix:
  – Recent IFRS Standards
  – The IFRS for SMEs Standard
Active projects:
Better communication
A new theme
Better communication in financial reporting

Central theme of Board’s work

- Primary Financial Statements
- Disclosure Initiative
- IFRS Taxonomy™

Content and its organisation
Content delivery
## Primary Financial Statements – scope

<table>
<thead>
<tr>
<th>Statement(s) of financial performance</th>
<th>Statement of cash flows</th>
<th>Statement of financial position</th>
<th>Statement of changes in equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Requiring additional EBIT subtotal</td>
<td>Eliminating options (interest/dividends)</td>
<td></td>
<td>No planned change – except possible development of template for primary financial statements and greater disaggregation</td>
</tr>
<tr>
<td>Providing guidance on presentation of management operation performance and alternative EPS</td>
<td>Aligning the operating section between the statements of cash flows and financial performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Better ways to communicate OCI</td>
<td>Requiring a consistent starting point for the reconciliation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Regulators’ use of the IFRS Taxonomy

- Regulators are increasingly requiring the use of structured electronic filings:
  - the US Securities and Exchange Commission is requiring the use of the IFRS Taxonomy starting for fiscal periods ending on or after 15 December 2017
  - the European Securities and Markets Authority is proposing to mandate the use of the IFRS Taxonomy for annual consolidated financial statements from 1 January 2020
Active projects: Conceptual Framework
Project timeline

July 2013
Discussion Paper

May 2015
Exposure Draft

February 2017
End of redeliberations

Currently
Drafting and balloting

Late 2017
Issue revised
Conceptual Framework
Active projects:
Rate-regulated Activities
The regulatory agreement

- In **defined rate regulation**, the rate regulator intervenes to affect both the **amount** and the **timing** of the price $P$ billed to customers.
Developing an accounting model for consultation

Focus on ‘rate-adjustment mechanism’

<table>
<thead>
<tr>
<th><strong>Focus</strong></th>
<th><strong>Output</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Creates <em>temporary differences</em> when the regulated rate in <em>one period</em> includes amounts relating to required activities carried out by the entity in a <em>different period</em></td>
<td><strong>Discussion Paper</strong> or <strong>Exposure Draft</strong> in 2018</td>
</tr>
</tbody>
</table>

- **Right** to increase a future regulated rate
- **Obligation** to reduce a future regulated rate

Analysing whether the right or obligation meets the revised *Conceptual Framework* definitions of an asset or liability

Supplementary model—would not amend existing IFRS Standards

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Board discussions throughout 2017

Output: Discussion Paper or Exposure Draft in 2018
Research Programme: Current projects
Research programme

- Future research projects
- 2017-2021: 8 projects in pipeline

Active research
- Gather evidence: is there a problem?
  - Is it a financial reporting problem?
  - Can it be solved?
- 6 active research projects

Standard setting?
- Use evidence:
  - Start standard-setting?
  - If yes, set scope.
### Active research projects

<table>
<thead>
<tr>
<th>Project</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclosure Initiative: Principles of Disclosure</td>
<td>DP March 2017</td>
</tr>
<tr>
<td>Primary Financial Statements</td>
<td>DP or ED 2018</td>
</tr>
<tr>
<td>Business Combinations under Common Control</td>
<td>DP 2018</td>
</tr>
<tr>
<td>Dynamic Risk Management</td>
<td>DP 2018</td>
</tr>
<tr>
<td>Financial Instruments with Characteristics of Equity</td>
<td>DP Q4 2017</td>
</tr>
<tr>
<td>Goodwill and Impairment</td>
<td>DP or ED 2018</td>
</tr>
</tbody>
</table>
### Business Combinations under Common Control (BCUCC)

BCUCC excluded from the scope of IFRS 3 *Business Combinations*

Project to address concerns about diversity in practice for BCUCC and group restructurings

- Predecessor method commonly used
- Acquisition method prescribed by IFRS 3 used in some cases

Diversity in applying the predecessor method

- Particular focus on transactions that affect equity investors outside group

Board discussions to resume H2 2017

Exploring two approaches:

- Apply IFRS 3 for transactions with particular characteristics
- Predecessor method used in other cases

Apply predecessor method in all cases

Discussion paper expected in 2018
Dynamic Risk Management (1)

- Discussion Paper: Portfolio Revaluation Approach to Macro Hedging
- IFRS 9 Financial Instruments becomes effective*
- Dynamic Risk Management: Discussion Paper

2014 | 1 Jan 2018

* Entities can use IFRS 9 hedging requirements or continue to use existing hedge accounting requirements in IAS 39 Financial Instruments: Recognition and Measurement
Dynamic Risk Management (2)

Key question

What should be the information content of financial statements regarding dynamic risk management activities?

Guiding principles

1. Is the information content **improved** considering the objective of financial statements?
2. Can **users understand** the risk management objective? Are they able to **evaluate management** on its ability to **deliver against the stated goal**?
3. Does it allow risk managers to **faithfully** and **transparently** represent their activities in the financial statements?
4. Is the solution consistent with the **Conceptual Framework**?

Focused on solutions involving measurement and disclosure
Financial Instruments with Characteristics of Equity

Classification
- Still a single distinction (liability or equity)
- Underpin principles in IAS 32
- May differ from Conceptual Framework (‘no practical ability to avoid’)

Presentation
- Separate presentation for liabilities based on value of residual
- Expanded statement of changes in equity (including attribution of performance to classes of equity)

Disclosure
- Consider investor information needs re: dilution, liquidity, solvency
- Interaction with EPS?

Discussion Paper expected late 2017
Completed research

Discount rates
[completed March 2017]

- Some issues being considered in other current or planned projects
- List of matters for staff to consider in future projects
- Future education session on negative interest rates
- No other work planned

Share-based payments
[completed May 2016]

- No further work planned

Research summaries will summarise the research, to make it visible and retrievable.
Post-implementation Reviews
Post-implementation reviews (PIRs)

Completed PIRs
- IFRS 8 *Operating Segments*
  - Improvements to IFRS 8 ED—**comments due 31 July 2017**

In progress
- IFRS 13 *Fair Value Measurement*
  - Request for Information—**comments due 22 September 2017**

Future PIRs
- IFRSs 10-12
  - consolidation topics
- IFRS 5
  - discontinued operations

IFRS 3 *Business Combination*
- Definition of a business ED, issued 2016, finalise 2018
- Research project: Goodwill and Impairment
IFRS 17 Insurance Contracts
The first truly international IFRS Standard for insurance contracts
### IFRS 17 Insurance contracts

#### One accounting model for all insurance contracts in all IFRS jurisdictions

<table>
<thead>
<tr>
<th>Who is affected?</th>
<th>When?</th>
</tr>
</thead>
<tbody>
<tr>
<td>450 listed insurers using IFRS Standards</td>
<td>2021 mandatory effective date of the new Standard</td>
</tr>
<tr>
<td>$13 trillion total assets of those listed insurers</td>
<td>3.5 years for companies to implement the new requirements</td>
</tr>
</tbody>
</table>

#### Who is affected?
- 450 listed insurers using IFRS Standards
- $13 trillion total assets of those listed insurers

#### When?
- 2021 mandatory effective date of the new Standard
- 3.5 years for companies to implement the new requirements
# IFRS 17 Insurance contracts

## What changes?

<table>
<thead>
<tr>
<th>More useful and transparent information</th>
<th>Better information about profitability</th>
</tr>
</thead>
</table>

## How did we get feedback?

| 600 comment letters | 900 meetings, round-tables and discussion forums |
### IFRS 17 measurement model

<table>
<thead>
<tr>
<th>Cash flows</th>
<th>Present value of future cash flows</th>
<th>Fulfilment cash flows</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>Risk adjustment</td>
<td>Risk adjustment</td>
</tr>
</tbody>
</table>

**Current value** that incorporates all available information, in a way consistent with observable market information. Updated each period using updated assumptions about cash flows, discount rate and risk.

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Unearned profit of a group of contracts. It is adjusted by changes in estimates and is recognised in profit or loss as insurance coverage is provided.

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All insurance contracts are measured as the sum of:
- **fulfilment cash flows**; and
- **contractual service margin**

---

**合同服务毛利**

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IFRS 17 **资产或负债**
## Recent IFRS Standards

<table>
<thead>
<tr>
<th>Major Standards</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 9 <em>Financial Instruments</em></td>
<td>1 January 2018</td>
</tr>
<tr>
<td>IFRS 15 <em>Revenue from Contracts with Customers</em></td>
<td>1 January 2018</td>
</tr>
<tr>
<td>IFRS 16 <em>Leases</em></td>
<td>1 January 2019</td>
</tr>
<tr>
<td>IFRS 17 <em>Insurance Contracts</em></td>
<td>1 January 2021</td>
</tr>
<tr>
<td>2015 Amendments to the <em>IFRS for SMEs Standard</em></td>
<td>1 January 2017</td>
</tr>
</tbody>
</table>

*includes clarifications to IFRS 15, issued April 2016*
Recent IFRS Standards (2)

Narrow-scope amendments—Effective 1 January 2017

- Recognition of Deferred Tax Assets for Unrealised Losses (amended IAS 12)
- Disclosure Initiative (amended IAS 7)
- Annual Improvements 2014-2016 (amended IFRS 12)
## Recent IFRS Standards (3)

### Narrow-scope amendments—Effective 1 January 2018

<table>
<thead>
<tr>
<th>Standard</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRIC 22</td>
<td>Foreign Currency Transactions and Advance Consideration</td>
</tr>
<tr>
<td>IFRS 9</td>
<td>Financial Instruments with IFRS 4 Insurance Contracts (amended IFRS 4)</td>
</tr>
<tr>
<td></td>
<td>Classification and Measurement of Share-based Payments (amended IFRS 2)</td>
</tr>
<tr>
<td></td>
<td>Transfers of Investment Property (amended IAS 40)</td>
</tr>
<tr>
<td></td>
<td>Annual Improvements 2014-2016 (amended IFRS 1, IAS 28)</td>
</tr>
</tbody>
</table>

### Narrow-scope amendments—Effective 1 January 2019

<table>
<thead>
<tr>
<th>Standard</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRIC 23</td>
<td>Uncertainty over Income Tax Treatments</td>
</tr>
</tbody>
</table>
## Recent IFRS Taxonomy releases

<table>
<thead>
<tr>
<th>Topic</th>
<th>Taxonomy due process stage</th>
<th>Publication date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)</td>
<td>Final Update</td>
<td>Q4 2016</td>
</tr>
<tr>
<td>Common Practice (agriculture, leisure, franchises, retail and financial institutions)</td>
<td>Final Update</td>
<td>Q1 2017</td>
</tr>
<tr>
<td>Annual 2017 IFRS Taxonomy</td>
<td>Not applicable</td>
<td>Q1 2017</td>
</tr>
<tr>
<td>IFRS 17 Insurance Contracts</td>
<td>Proposed Update Comment deadline 18 September 2017</td>
<td>Q2 2017</td>
</tr>
</tbody>
</table>
The IFRS for SMEs Standard

- *IFRS for SMEs* published July 2009
- Amendments issued in May 2015 from initial comprehensive review
  - 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 steps:
  - the next comprehensive review begins in 2019
Wider corporate reporting
the role of the board
Wider corporate reporting: background and context

- Role of the International Accounting Standards Board (Board) examined as part of the IFRS Foundation Trustees’ latest review of structure and effectiveness (2015-16).
- Trustees’ Request for Views (RFV) in July 2015 set out view that Board’s current approach of co-ordination and co-operation with other bodies active in this arena – such as the International Integrated Reporting Council (IIRC) and the Corporate Reporting Dialogue (CRD) - should continue.
- Large majority of respondents agreed with this current strategy.
- Trustees reaffirmed Foundation’s strategy towards wider corporate reporting: Board should play an active role, but not be at the forefront of leading developments in areas outside the traditional boundaries of financial reporting.
- Trustees also agreed to dedicate a modest amount of staff resource to this area to monitor developments and to develop a study of what the future role of the Board should be.
Wider corporate reporting: staff work to date

• Initial research of extensive literature, which has revealed:
  • as anticipated, a confusing myriad of frameworks, standards, goals and codes, but equally
  • growing support for companies to report on a broader range of factors than purely financial
    ones, from a range of stakeholders – investors, regulatory community, accounting
    profession, academia.

• Monitoring developments in the field, including the work of the Financial Stability Board (FSB)
  Task Force on Climate-related Financial Disclosures (TCFD). View is that TCFD
  recommendations relate more to narrative reporting, such as in management commentary.

• Enhanced contacts with bodies such as the IIRC, the CRD and the Sustainability Accounting
  Standards Board (SASB).

• Initial work undertaken on mapping the provisions of the IIRC’s 2013 Integrated Reporting
  (<IR>) Framework with the Board’s 2010 Management Commentary Practice Statement (MCPS).

• Papers presented to the Board at its March 2017 meeting (initial survey of the wider corporate
  reporting landscape).

• Presentation to Advisory Council April 2017.

• Presentation to Accounting Standards Advisory Forum (ASAF) July 2017.
Implications for the Board’s work: general

- Staff view on the basis of the research to date is that wider corporate reporting is **gaining in prominence and importance** and important that the Board is across such developments and **plays more of an active role in them**.

- Does not mean that the Board should involve itself in developing IFRS Standards on integrated/sustainability/other wider reporting issues.

- **But Board should set out a view on how it sees its Standards fitting with wider reporting issues.**
Implications for the Board’s work: options

- At its March 2017 meeting, the Board tentatively decided to play a more active role in this area and considered a number of options.

- Existing Standard-setting activities – question put to Board whether any of the research pipeline projects (Extractive Activities, Pollutant Pricing Mechanisms, Provisions) should be moved to the active research agenda. Board did not push for this.

- Alternative option presented to the Board is a proposal to revise and update the MCPS. Board asked the staff to do further exploratory work before considering whether or not to take on any such project. Board acknowledges that it was not included in the Board’s Work Plan following the latest Agenda Consultation. Advisory Council expressed some caution and agreed that further work needed before any consideration of such a project.

- That further work is now underway.
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- IFRS Foundation

Comment on our work
- go.ifrs.org/comment