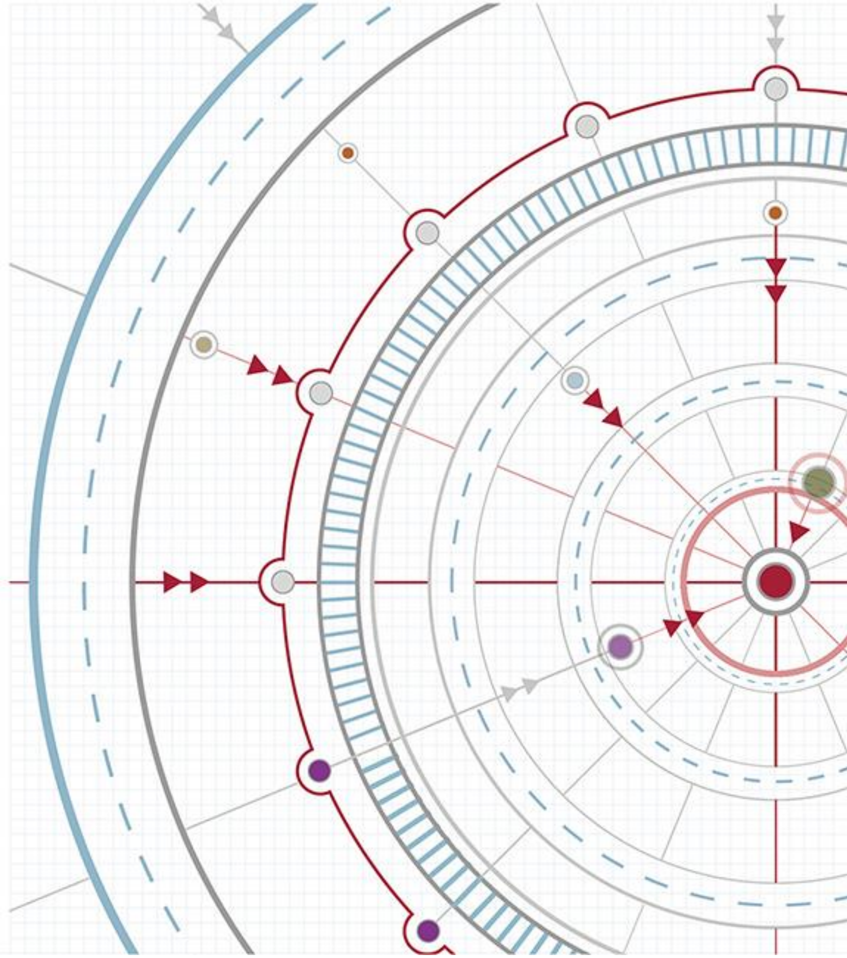
IFRS® Foundation



IASB update

Tom Scott and Ann Tarca IASB members
IAAER World Congress Sydney
Saturday 10 November 2018

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.

What we will cover

- Current work plan
  - Better Communication in Financial Reporting
  - Other projects

- Case Study
  - Conceptual Framework

Current work plan:

Better Communication in Financial Reporting

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Central theme of our work

Better Communication in Financial Reporting

Financial statements

Information outside financial statements

Content

- Primary Financial Statements
- Disclosure Initiative
- Management Commentary

Delivery

- IFRS Taxonomy

Primary Financial Statements – in scope

Statement(s) of financial performance

- EBIT subtotal
- ‘Income/expenses from investments’ category
- Guidance on presentation of management performance measure
- Considering better ways to communicate OCI
- Removing options for presentation of income and expenses eg presentation of profit of associates/JVs

Statement of cash flows

- Eliminating classification options (interest/dividends)
- **(Not)** aligning the operating section between statement of cash flows and statement(s) of financial performance
- Specifying the starting point for the indirect method

Developing templates for the Primary Financial Statements

Achieving greater disaggregation including minimum line items

Primary Financial Statements – not in scope

Statement of financial position

No planned change, except for templates and greater disaggregation

Statement of changes in equity

But FICE project looks at some issues

Disclosure Initiative: the problem

- The Board has identified three main concerns about disclosures in financial statements:
  - not enough relevant information
  - too much irrelevant information
  - ineffective communication

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Disclosure Initiative: projects

Disclosure Initiative

Completed projects

- Amendments to IAS 1 and IAS 7
- Case Studies
- Materiality Practice Statement
- Principles of Disclosure

Work-in-progress

- Targeted Standards-level Review of Disclosures
- Definition of Material

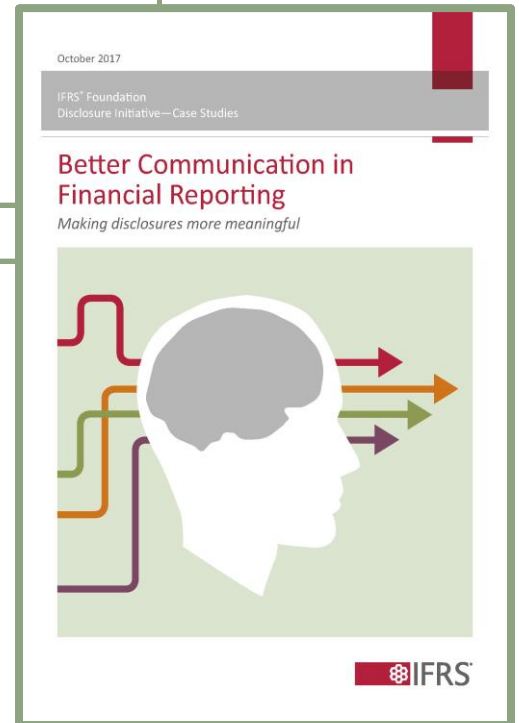
Help at hand – disclosure case studies

Purpose

- Demonstrate that better communication is already possible
- Inspire others to improve communication

Content

- Focuses on the seven principles of effective communication from the Principles of Disclosure Discussion Paper
- Shows how companies disclosed information before and after enhancing communication in their financial statements
- Describes how companies improved the way they communicate (the process)



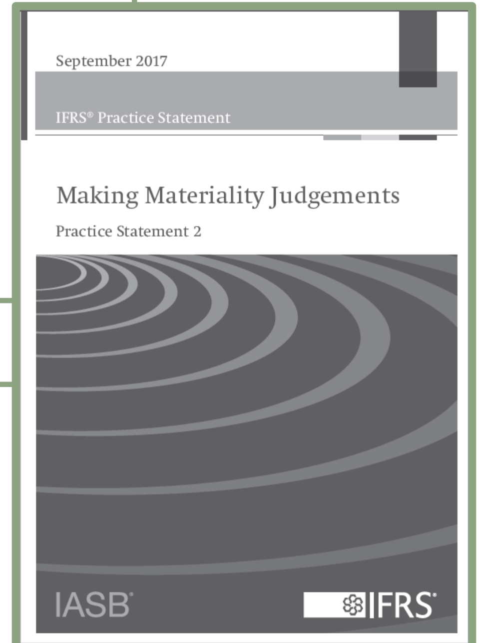
Help at hand – materiality judgements

Purpose

- Provide guidance to companies on making materiality judgements when preparing financial statements using IFRS Standards

Content

- ‘One-stop shop’ for all the requirements on materiality in IFRS Standards
- Additional practical guidance and examples



Principles of Disclosure

Objective

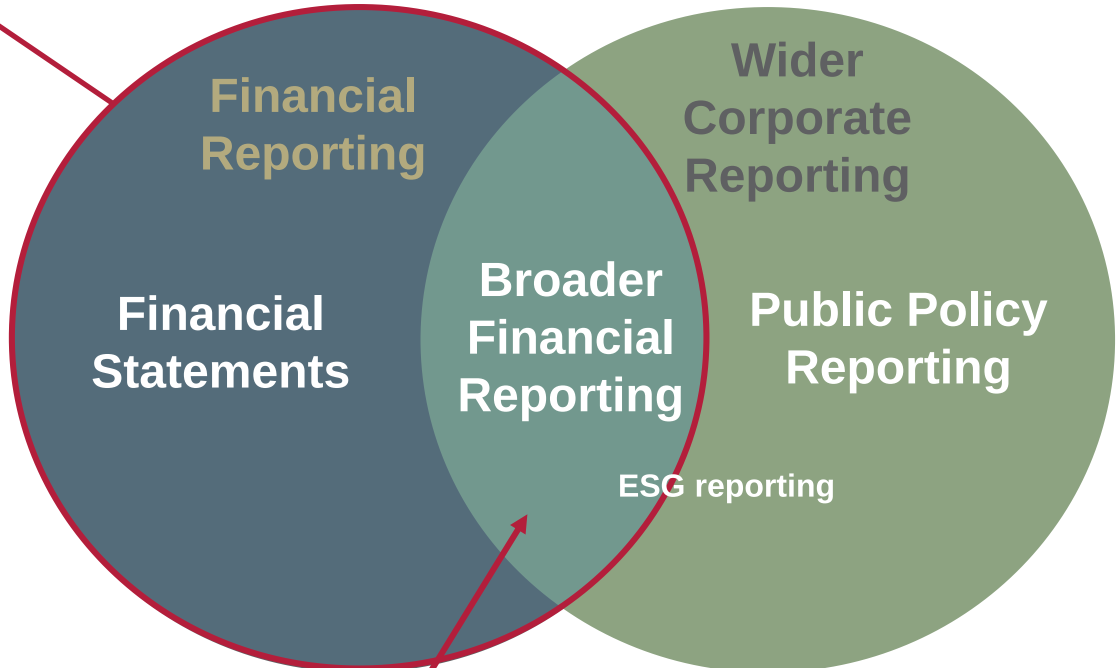
Identification of disclosure issues

Next steps

- New project - *Targeted Standards-Level Review of Disclosures*
  - *Guidance for the Board* to use when developing and drafting disclosure requirements (including electronic reporting considerations)
  - Review *IAS 19* and *IFRS 13* disclosures
- Move presentation topics to *Primary Financial Statements*
- Develop guidance to help entities decide which *accounting policies* to disclose

Management Commentary

IASB interest lies in Financial Reporting



Management commentary:
A narrative report that provides broader financial value relevant information useful to primary users of financial statements

The IFRS Taxonomy

Reflects the presentation and disclosure requirements of IFRS Standards/*IFRS for SMEs* Standard) and related common reporting practice in a timely and accurate manner

Consists of 'elements' that are used by preparers to tag the information in IFRS financial statements

Makes IFRS disclosures more accessible to users of structured electronic data

Facilitates communication between preparers and users

The IFRS Taxonomy – areas of focus

Common reporting practice

- IFRS 13 *Fair Value Measurement*
- Research XBRL fillings to identify additional common practice elements

Implementation support

- Update to materials, such as *Using the IFRS Taxonomy—A preparer's guide*
- Implementation guidance for specific elements

Entity-specific disclosures

- Working with XBRL International to improve accessibility of entity-specific disclosures in a structured report

The impact of new or amended IFRS Standards on the IFRS Taxonomy in the next 12 months is expected to be limited

Current work plan:

Other projects

Financial instruments with characteristics of equity (FICE)

Challenges

- IAS 32 works well for most financial instruments – but challenges applying it to complex financial instruments
- Limited information available to investors about equity instruments
- Lacks a clear rationale for classification

Response

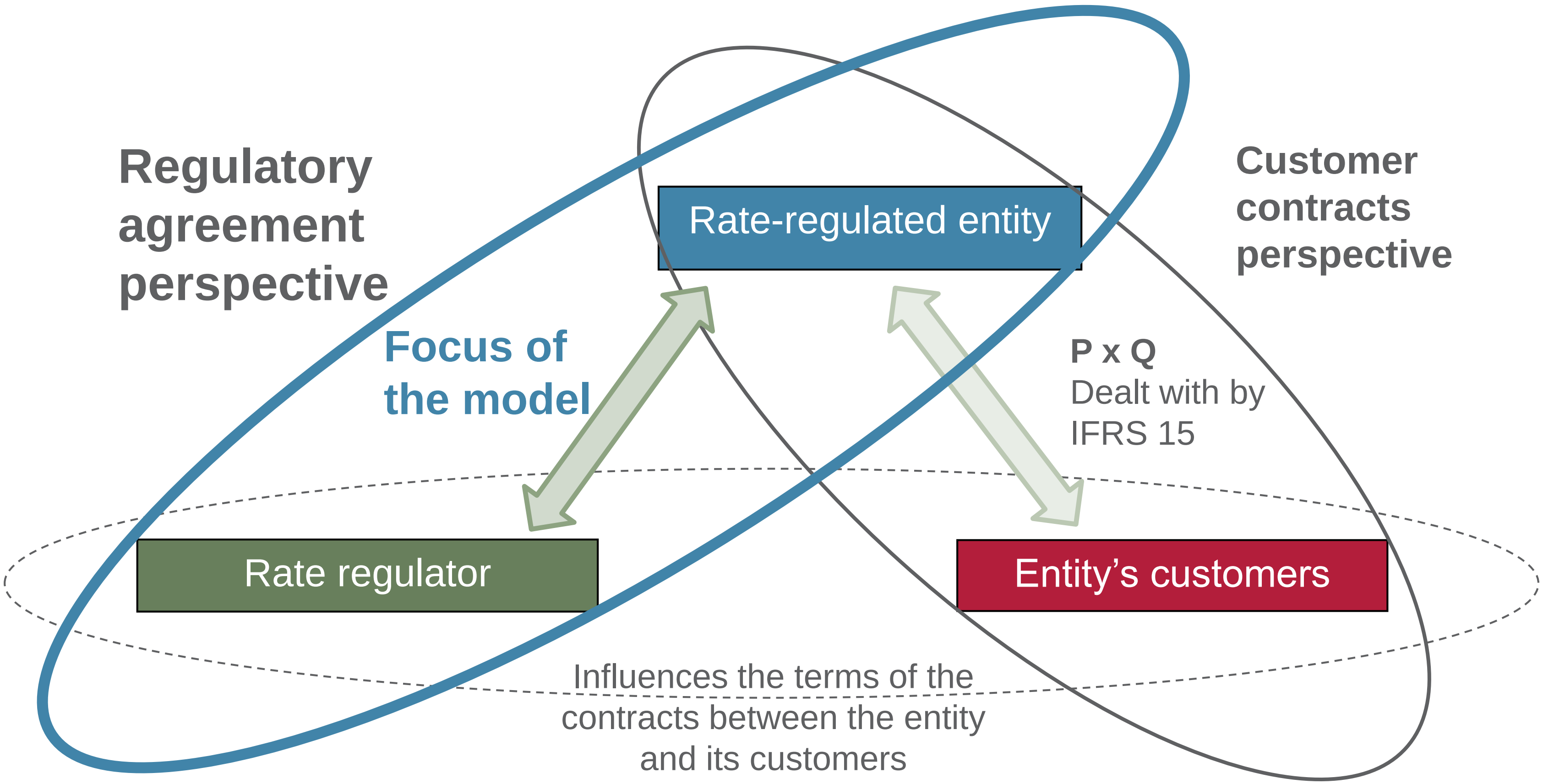
- Articulate classification principles – clear rationale
- Limit changes to IAS 32
- Propose additional information through presentation and disclosure

FICE – the Board's preferred approach

Amount feature / Timing feature	Contains obligation for <u>an amount independent</u> of the entity's available economic resources	Contains <u>no</u> obligation for an amount independent of the entity's available economic resources
Transfer of economic resources required at a specified time other than at liquidation	**Liability**	**Liability**
Transfer of economic resources required <u>only at liquidation</u>	**Liability**	**Equity**

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.



Rate-regulated Activities—the model being developed

Challenge

How should companies recognise assets and liabilities arising from the effects (timing and amount) of **defined rate regulation**?

Project scope

Regulatory framework that:

- is **binding** for both company and regulator
- establishes a **rate-setting mechanism** for goods or services that creates assets and liabilities due to **timing differences** arising when the regulated rate in **one period** includes amounts relating to required activities carried out by the entity in a **different period**

Supplementary model

Would not amend existing IFRS Standards

Board discussions throughout 2018 → **Output:** Discussion Paper or Exposure Draft in 2019

Business Combinations under Common Control

Business Combinations under Common Control (BCUCC) are excluded from the scope of IFRS 3 *Business Combinations*

currently companies account for BCUCC using:

acquisition method as set out in IFRS 3	**predecessor method** but there is diversity in practice in how the method is applied

Concerns about the diversity in practice raised by various interested parties, notably security regulators

BCUCC – methods of accounting

Decision process

single method
for all transactions within the scope?

which method?

different methods
for different transactions?

which methods?

how to choose?

Alternatives to explore

- Acquisition method, as in IFRS 3?
- Predecessor method? If yes, how to apply it?
- Other methods?

Dynamic Risk Management (DRM)

Objective

- Improve information regarding risk management and how risk management activities affect the entity’s current and future economic resources

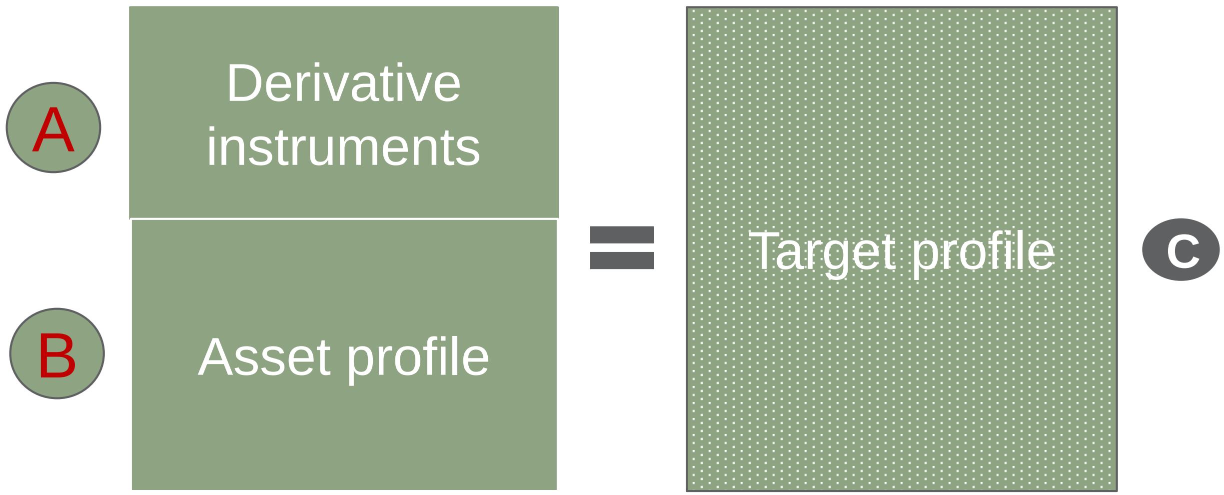
Guiding principles

- Transparency
- Consider capacity constraints
- Dynamic nature
- Performance measurement

Focused on solutions involving both measurement and disclosure

Outline of the DRM model

Assuming perfect alignment:



- Asset profile (B) measured at amortised cost (per IFRS 9)
- Changes in fair value of derivative instruments (A) are recognised in OCI and reclassified to P&L over the time horizon of the target profile
- P&L reflects the target profile

Goodwill and Impairment

✓ **Three objectives the Board decided to pursue for addressing the interrelated problems identified in the research project:**

Objective A	Identifying disclosures to enable investors to assess: • management's rationale for the business combination • if the post-acquisition performance of the business combination meets expectations set at the acquisition date
Objective B	Simplifying the accounting for goodwill by: • permitting an indicator-only approach as to whether an impairment test is required • exploring whether to reintroduce amortisation of goodwill
Objective C	Improving the calculation of value in use by permitting: • cash flow projections that may include future enhancements to the asset • the use of post-tax inputs in the calculation of value in use

Research pipeline

Projects starting in coming months	Remaining pipeline projects (to start in 2019-2020)
• Variable and contingent consideration • Provisions • Extractive activities • Pension benefits that depend on asset returns • SMEs that are subsidiaries	• Equity method • Pollutant pricing mechanisms • High inflation: scope of IAS 29

Post-implementation Reviews

Completed – no action	Completed – changes ahead	Future PIRs
IFRS 8	IFRS 3	IFRS 10, 11, 12
IFRS 13		IFRS 5

2018 Publications

Final documents	Consultation documents
• Definition of a Business- IFRS 3 (September 2018) • Definition of Material (Q4 2018)	• Financial Instruments with Characteristics of Equity (comments due 7 January 2019) • Costs considered in assessing whether a contract is onerous (Exposure Draft: Q4 2018)

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Publications

Effective 1 January 2019

- IFRS 16 *Leases*
- IFRIC 23 *Uncertainty over Income Tax Treatments*
- Amendments to:
  - IFRS 9: *Prepayment Features with Negative Compensation*
  - IAS 28: *Long-term Interests in Associates and Joint Ventures*
  - IAS 19: *Plan Amendment, Curtailment or Settlement*
- Annual Improvements 2015-2017 Cycle (IFRS 3, IFRS 11, IAS 12, IAS 23)

Publications

Effective after 1 January 2019

- *Conceptual Framework for Financial Reporting (2020)*
- IFRS 17 *Insurance Contracts (2021)*

Conceptual Framework

Overview and Case Study

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What is the *Conceptual Framework*?

A practical tool that assists

Board	Preparers	All
• to develop Standards	• to develop consistent accounting policies	• to understand and interpret Standards

A comprehensive set of concepts for financial reporting

Balance between high level concepts and sufficient detail

Highlights of the 2018 *Conceptual Framework*

Previous version of the *Conceptual Framework* useful but some improvements needed

incomplete	out of date	unclear

Main improvements

New concepts	Updates	Clarifications
Concepts on reporting entity, derecognition, measurement, unit of account and presentation and disclosure, including guidance on the use of profit or loss and other comprehensive income	The definitions of an asset and a liability, guidance supporting those definitions and recognition criteria	The roles of stewardship, prudence, substance over form and measurement uncertainty in financial reporting

Objective of general purpose financial reporting

Provide financial information **useful** to primary users of financial reports in making decisions about providing resources to the entity

buy, hold or sell

provide or settle loans

vote and influence management

clarified

Assess the prospects for **future net cash inflows**

Assess **management's stewardship** of the entity's resources

clarified

To make those assessments users need information about

economic resources, claims and changes in them

how efficiently/effectively management discharges its responsibilities

Qualitative characteristics

Fundamental qualitative characteristics

Relevance	**Faithful representation** clarified
• Capable of making a difference to the decisions made by users • Predictive or confirmatory value	• Represents the substance of the economic phenomena • Complete, neutral and free from error

Enhancing qualitative characteristics

Comparability	Verifiability	Timeliness	Understandability

Cost constraint

Elements of financial statements – assets and liabilities

Asset (updated)

- Present economic resource
- Controlled by the entity
- As a result of past events
- A right
- Potential to produce economic benefits

Liability (updated)

- Present obligation
- As a result of past events
- Transfer of an economic resource
- No practical ability to avoid the transfer

Recognition criteria

updated

Meet the definition of an element of financial statements

Relevance	**Faithful representation**
Existence uncertainty	Measurement uncertainty
Low probability of a flow of economic benefits	Recognition inconsistency (accounting mismatch)
	Presentation and disclosure of resulting income, expenses and changes in equity

Cost constraint

It is often a combination of factors that determines whether recognition provides useful information

Elements of financial statements – equity, income and expenses

Equity	The residual interest in the assets of the entity after deducting all its liabilities

Financial Instruments with Characteristics of Equity research project explores possible refinements in how to distinguish liabilities from equity

Income	Increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims
Expenses	Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims

Information about income and expenses is just as important as information about assets and liabilities

Measurement bases

new

Mixed measurement model

Historical cost	Current value
includes Amortised cost	Fair value; Value in use; Fulfilment value; Current cost
Derived from transaction or other event that gave rise to the asset or liability	Updated to reflect conditions on the measurement date
Information about margins	Information about changes in prices and other factors

Selecting a measurement basis

new

Relevance

Characteristics of the asset or liability

Sensitive to market factors or risks

Contribution to future cash flows

Directly or indirectly in combination other assets

Faithful representation

Measurement inconsistency between related assets or liabilities

(accounting mismatch)

Measurement uncertainty

Too High → Not a faithful representation?

Information in both the statement of financial position and the statement(s) of financial performance

Enhancing qualitative characteristics and cost constraint

Presentation and disclosure – objectives and principles

new

To consider when developing presentation/disclosure requirements in Standards

Balance between:

- giving entities the **flexibility** to provide useful information
- requiring information that is **comparable**

Presentation/ disclosure objectives to help entities to:

- identify useful information
- decide how to communicate it in the most effective manner

Effective communication principles:

- entity-specific information is more useful than ‘boilerplate’
- duplication of information makes financial statements less understandable

Profit or loss and OCI

new

Statement of profit or loss

- **Primary**, but not the only, source of information about performance
- Profit or loss is a required (sub)total
- In principle, all income and expenses are included in the statement of profit or loss

Other comprehensive income

- **Exceptional circumstances**
- Only changes in current values of assets and liabilities
- In principle, OCI items are recycled

Classification into profit or loss and OCI and recycling

Relevance | **Faithful representation**

Only the Board can make decisions on OCI and recycling

Conceptual Framework
Case Study 1- Cryptocurrency

Holding cryptocurrency for investment purposes

- On 30 April 20X0, Company A acquired 100 units of a cryptocurrency, Crypto, for CU450 per unit (total value CU45,000). The cryptocurrency was acquired to diversify Company A’s long-term investment portfolio.
- Crypto has been in circulation for five years and is actively traded on cryptocurrency exchanges. On 31 December 20X0 the price of 1 Crypto was CU630.
- Please, focus on case study 1 or 2 as assigned. For each case study, please consider the questions on the slides following case study 2 in developing accounting requirements for either the cryptocurrency or ICO as assigned.

Conceptual Framework
Case Study 2 - Initial Coin Offering

Acquiring an Initial Coin Offering

- On 25 June 20X0 a start-up company announced an Initial Coin Offering (ICO). The company plans to issue crypto tokens (AccoTokens) in exchange for cash.
- It will use funds from the ICO to help develop a new e-accounting platform. Acquirers of the AccoTokens will be able to use the tokens to pay transaction fees on the new platform when it becomes operational.
- All tokens were sold within a week of the ICO.
- Company A bought 1,000 AccoTokens for CU9,400 or CU9.4 per token.
- At the end of the year, the e-accounting platform is still under development. The price of AccoTokens on the cryptocurrency exchange on 31 December 20X0 is CU5.3 per token. Trading of AccoTokens has been infrequent.
- Please, focus on case study 1 or 2 as assigned. For each case study, please consider the questions on the slides following case study 2 in developing accounting requirements for either the cryptocurrency or ICO as assigned.

Q1. Do you think that Company A has an asset as a result of acquiring cryptocurrencies or initial coin offerings?

Criterion	Met?	
	Crypto (cryptocurrency)	AccoTokens (ICO)
Right		
Controlled by entity		
As a result of past events		
Potential to produce economic benefits		
Meets the definition of Asset (Yes/No)?		

Questions

- Q1. Do you think that Company A has an asset as a result of acquiring cryptocurrencies or initial coin offerings?

- **Crypto**

a) YES

b) NO

- **AccoTokens**

c) YES

d) NO

Q2. If the acquired cryptocurrencies (ICOs) meet the criteria defining an asset, should the entity recognise them in its financial statements as at 31 December 20X0?

Factor
The following factors might suggest that recognition would not provide relevant information. Do any of them apply to these cryptocurrencies? (a) existence uncertainty (b) low probability of inflow of economic benefits
Would any of these factors affect whether recognition of these cryptocurrencies can provide a faithful representation? (a) measurement uncertainty (b) accounting mismatch (c) presentation and disclosure of resulting income, expenses and changes in equity. For example, if acquired in exchange for cash, would recognising an expense provide a faithful representation?
Would the benefit of the information provided by recognition justify the costs of providing and using that information?
Should the acquiring entity Recognise an Asset?

Slido Polling Questions

- Q2. If the acquired cryptocurrencies (or initial coin offerings) meet the criteria defining an asset, should the entity recognise them in its financial statements as at 31 December 20X0?
- **Crypto**

a) YES

b) NO

- **AccoTokens**

c) YES

d) NO

-

Q3. If Company A recognises its cryptocurrency (ICO), how should they be measured? At acquisition? At 31 December 20X0 (year-end)

Factor	Comments	
	Crypto (cryptocurrency)	AccoTokens (ICO)
Which measurement basis would provide most relevant information?		
Characteristics (variability / sensitivity)		
Contribution to cash flows		
Would information provided by the most relevant measurement basis provide a faithful representation of Company A's holdings of cryptocurrencies?		
Measurement uncertainty		
Accounting mismatch		
Cost constraint		
Selected measurement basis?		

Questions

- Q3. If Company A recognises its cryptocurrency (or initial coin offerings), how should they be measured? At acquisition? At 31 December 20X0 (year-end)

Crypto at acquisition

a) Fair Value

b) Historical Cost

Crypto at 31 December 20X0

c) Fair Value

d) Historical Cost

Questions

- Q3. If Company A recognises its cryptocurrency (or initial coin offerings), how should they be measured? At acquisition? At 31 December 20X0 (year-end)

Accotoken at acquisition

a) Fair Value

b) Historical Cost

Accotoken at 31 December 20X0

c) Fair Value

d) Historical Cost

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Further questions to think about

- Q4a. For Crypto (cryptocurrency), if the market was not actively traded would it have an influence on your previous answers?
- Q4b. For AccoTokens (ICO), if the market was actively traded would it have an influence on your previous answers?
- Q5. If a current value measurement basis is selected, are there any factors that would suggest to the Board that income or expenses from remeasurements should be included in other comprehensive income, rather than profit or loss?
- Q6. What disclosures do you think would be necessary about the companies holdings of cryptocurrencies or ICOs?

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