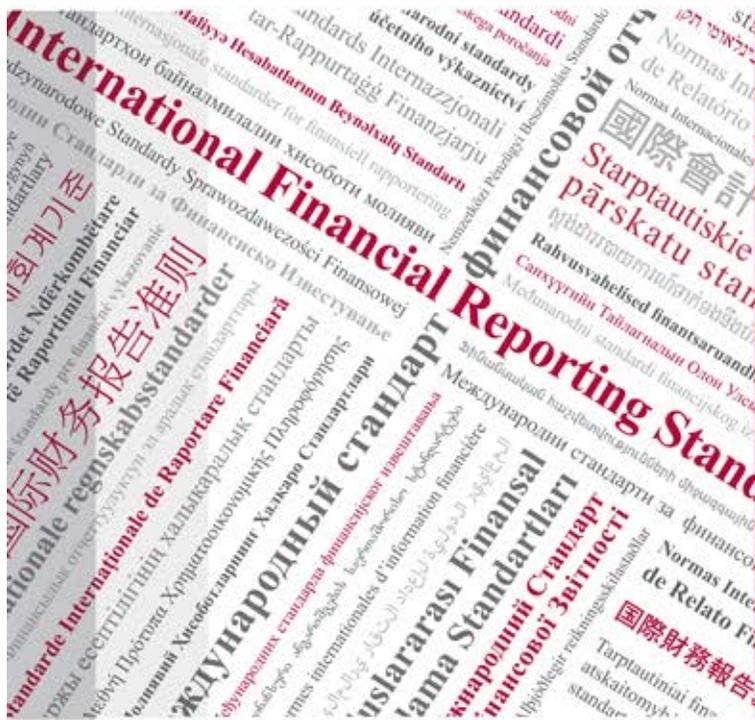


International Financial Reporting Standards



IASB – Aktuelle Projekte Martin Edelmann

Januar 2015

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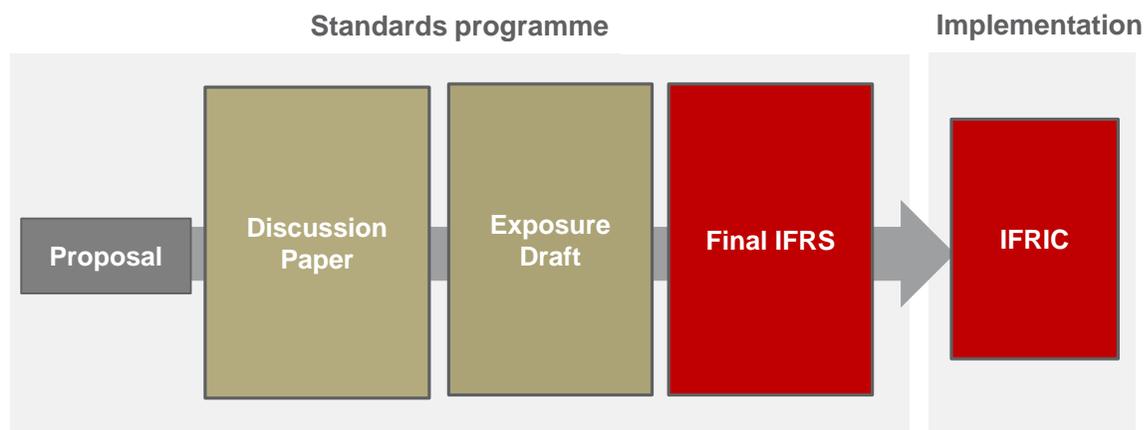
- Our “new” process
- Major projects
- Research projects
- Implementation (PIR)
- Where to now – agenda consultation

How we develop Standards

Evolution of our process

The standard-setting process

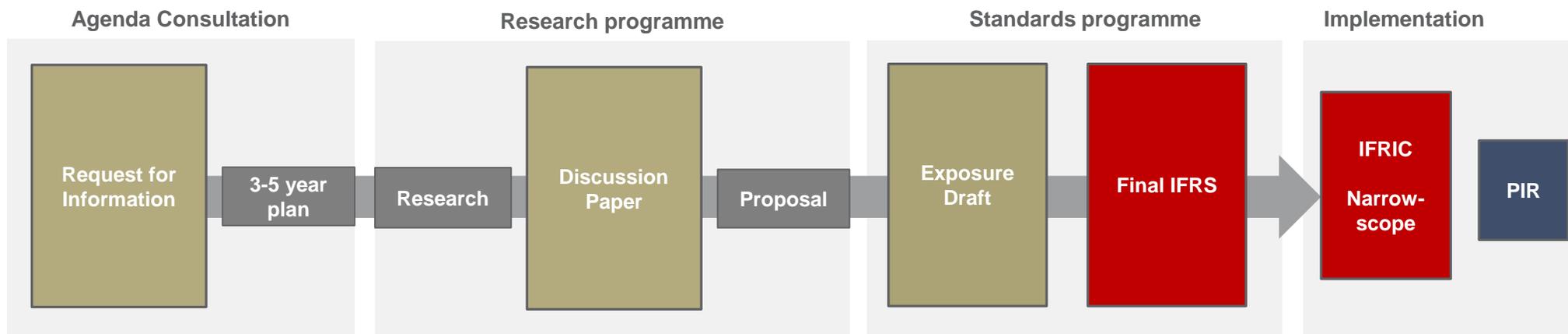
2001 to 2006



The standard-setting process

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Today



- In 2007, Trustees introduced Post Implementation reviews
- In 2011, Trustees introduced the three-yearly public Agenda Consultation
- In 2012, Trustees supported a move to more **evidence-supported decision making**, with more emphasis put on the research phase of the process

Evidence supported decision making

- Perceptions that:
 - Projects not being completed
 - Projects not being completed on time
 - Most proposals are being exposed more than once, with major changes from the previous proposals
- Endorsement problems, and increased demands from the IFRS community to justify change
- Fear that once a project is on the IASB's work programme a new Standard is inevitable
- Limited resources (of the IASB and of the wider IFRS community)

The research programme was created to help address these problems

Research programme

- A broad research and development programme
- Emphasis on defining the problem
 - Identify whether there is a financial reporting matter that justifies an effort by the IASB
 - Evidence based
- Leads to project proposals:
 - do more research; or
 - add to the Standards-level programme, or
 - recommendation not to develop an IFRS
- The programme is designed to **shorten** the time needed to develop improvements to financial reporting, by:
 - Clarifying the problem up front, before a solution is developed
 - Feeding manageable projects into the exposure draft phase on a timely basis (eg the *Disclosure Initiative*)

- The programme is new, and some of the outputs will be new.
- There is scope for traditional *Discussion Papers* as well as smaller and more focused consultative documents:
 - Position papers
 - Research papers
 - Requests for Information
- The key is to get timely and helpful input.
- Example
 - Disclosure Forum – the forum was a special event and the resulting feedback statement set out the IASB's priorities.

Major Standards-level projects

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Major IFRSs

| Next major project milestone | | | | |
|---|---------------------|-------------------------|--------------|-----------------------|
| | 2014 Q4 | 2015 Q1 | 2015 Q2 | 2015 Q3 |
| Upcoming Standards | | | | |
| Insurance Contracts | | Redeliberations | | |
| Leases | | | | Target IFRS (H2 2015) |
| Comprehensive review of the IFRS for SMEs | | Target IFRS for SMEs | amended SMEs | |
| Issued Discussion Papers | | | | |
| Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging | | Comment letter analysis | | |
| Rate-regulated Activities | Public consultation | | | |

Major IFRSs

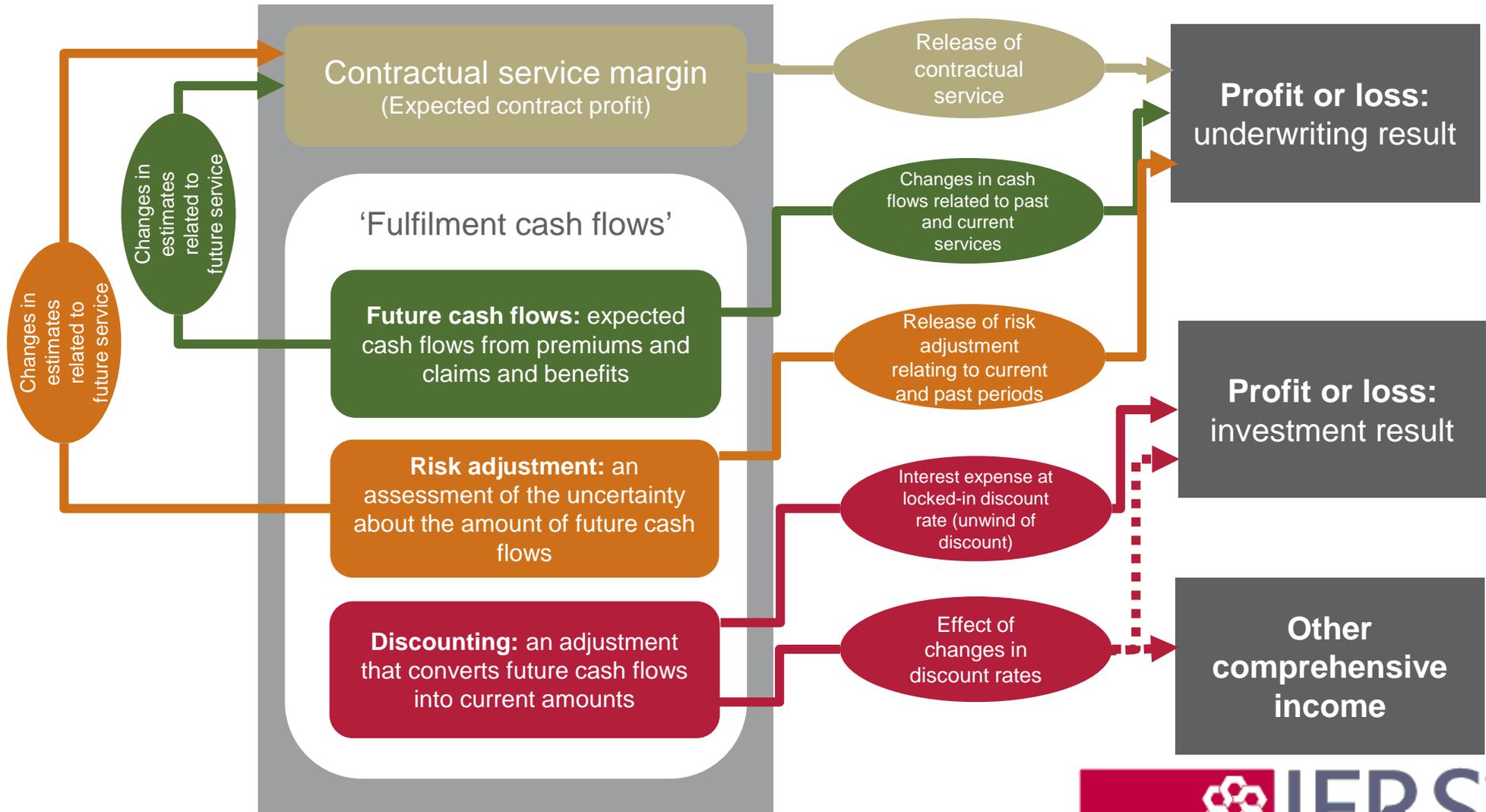
| Next major project milestone | | | | |
|------------------------------|---------|---------|-----------|---------|
| | 2014 Q4 | 2015 Q1 | 2015 Q2 | 2015 Q3 |
| Upcoming Discussion Papers | | | | |
| Disclosure Initiative | | | | |
| Principles of disclosure | | | Target DP | |

Insurance contracts

- Objective – to provide a single principle-based Standard that would increase comparability and transparency of entities that issue insurance contracts.
- IASB issued revised Exposure Draft in June 2013. Targeted issues:
 - Unlocking on contractual service margin
 - Mirroring
 - Presentation of revenue
 - Interest expense in profit or loss
 - Effective date and transition
- Redeliberations started in March 2014
- IASB plans to finalise the work on the Standard by the end of 2014 and to issue it in 2015

The IASB's general model

Non-participating contracts



Permit two views of performance

Non-participating contracts

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Statement of Comprehensive Income

| | 20XX |
|---|-----------|
| Insurance contracts revenue | X |
| Incurred claims and expenses | (X) |
| Operating result | X |
| Investment income | X |
| Interest on insurance liability | (X) |
| Investment result | X |
| Profit or loss | X |
| Effect of discount rate changes on insurance liability (optional) | (X) |
| Total comprehensive income | XX |

Interest expense is either current or 'locked-in', depending on accounting policy choice

If interest expense is 'locked-in', effect of difference between current and locked-in rates is presented in OCI

- IASB still considering how it needs to modify its general model when it is applied to contracts with participating features.
- Critical issues are:
 - What, if any, are the circumstances in which the entity's share of returns on underlying items should be considered to be part of the consideration received for the contract?
 - Should the provision of guarantees under a contract be treated as a service? If so, what is the pattern of delivery of the service?
 - What should be the pattern of recognising the contractual service margin in profit or loss when the contract provides both asset management and insurance coverage?
 - Should an entity disaggregate changes in the insurance contract in a way that will allow the presentation of the cost of financing an insurance contract in a way that matches the investment income presented in profit or loss from the assets?

- Status: Board redeliberating 2013 ED
- Main decisions:
 1. Lessee: **All leases on-balance sheet** (except for short-term leases and leases of small assets), with interest and amortisation presented separately in income statement
 2. Lessor: In essence, no change to existing lessor accounting
- Next steps: Publication of final standard expected 2015
(Effective Date TBD)

IASB responding to feedback in redeliberations:

- Single lessee model
- Exemption for short-term and small asset leases
- Portfolio application
- Simplified measurement of liability
 - Exclude variable payments and most optional payments
- Simplified separation of lease and non-lease payments
- In essence, no change to existing lessor accounting

The Discussion paper “Accounting for Dynamic Risk Management”: a Portfolio Revaluation Approach

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- DP 2014/1 published on April 2014; comment period ended 17/10/2014
- Objective
 - DP explores an accounting approach to better reflect dynamic risk management activities in financial statements.
- Status
 - Undertook outreach activities to gather feedback on the approach explored in the DP. Feedback will complement the comment letters to identify areas on which efforts will most likely need to be focused during the deliberations.
- Next steps
 - A comment letter analysis is planned during Q1 2015.

At a glance...

- The IASB is exploring an accounting approach to better reflect dynamic risk management (DRM) activities in entities' financial statements
- The Discussion Paper (DP) uses dynamic interest rate risk management by banks for illustrative purposes
 - However, the approach considered in the DP is intended to be applicable to other risks (for example, commodity price risk and FX risk)
- Should we be trying to develop a special model?
 - If so, is the approach in the DP useful?
- Scope is critical:
 - All dynamically managed exposures or only hedged exposures?
 - Mandatory or optional?

Rate regulated activities

- IFRS today has no comprehensive standard for rate-regulated activities
- Interim relief for first-time adopters of IFRS
 - Issued IFRS 14 *Regulatory Deferral Accounts* in January 2014
 - Permits grandfathering of previous GAAP accounting practices for recognition, measurement, impairment and derecognition
 - Enhanced presentation and disclosure matters
 - Effective date is 1 January 2016, early application is permitted
- Research project
 - Is considering how rate regulation affects the amount, timing and certainty of revenues and cash flows and what information is needed to help users understand the effects
 - Request for Information (published end of March 2013)
 - Discussion Paper (published September 2014)
 - Comment period ends 15 January 2015

Disclosure Initiative

Implementation

Research

Ongoing activities

Amendments to IAS 1

Reconciliation of liabilities from financing activities

Materiality

Principles of Disclosure

Review of existing Standards (Drafting guide)

Digital reporting

Amendments to IAS 1

- Comment letter deadline in July
- IASB redeliberations completed
- Final amendments expected to be published in 2014
- Planned effective date 1 January 2016, earlier application permitted

Reconciliation of liabilities from financing activities

- Proposed amendments to IAS 7
- IASB redeliberations completed
- Exposure Draft expected to be published in 2014

Materiality

- IASB discussed summary of research in September
- Discussions with ASAF, WSS, IFRS AC in September / October
- Working with IAASB and IOSCO
- IASB to discuss next steps in November

Principles of Disclosure

- IASB discussed the role of the primary financial statements/notes and communication principles in October
- Further discussions in 2014 and early 2015
- Expect to publish a Discussion Paper in the second quarter of 2015

- IFRS for SMEs published July 2009
- Comprehensive review began mid-2012
- Exposure Draft (ED) issued October 2013
 - Comment period ended March 2014
 - Comment letter analysis published May 2014
 - SME Implementation Group report of recommendations published in October 2014
 - IASB commenced redeliberations of proposed amendments in the ED in October 2014
- Next step: The IASB will issue the amendments in the first half of 2015

Conceptual Framework

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- Why?
 - Existing *Conceptual Framework* has helped developing, revising and understanding IFRSs. However, some areas were missing, unclear or out of date
- Agenda consultation
 - Priority project
- Scope of the *Conceptual Framework* project
 - Focus on problems in the real world
 - Update, improve and fill in gaps
 - No fundamental rethink but resuming previous work

Tentative decisions to date

- Objective and Qualitative Characteristics (QC)
 - Increase the prominence of stewardship within the overall objective
 - Retain faithful representation as a QC and reinstate explicit reference to substance over form
 - Reintroduce reference to prudence and describe as caution under conditions of uncertainty, consistent with neutrality

Tentative decisions to date (2)

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- Definitions
 - Clarify definitions of assets and liabilities
 - Equity/ liability
 - Explore how to distinguish liabilities from equity, including whether to amend the definitions, in a research project

Tentative decisions to date (3)

- Recognition
 - ED will propose factors to consider in deciding whether to recognise an asset or a liability
 - Consider relevance, faithful representation and cost/benefit
 - Not intended to broaden or narrow the range of recognised assets or liabilities
- Derecognition
 - Describe and discuss full derecognition, partial derecognition and continued recognition

Tentative decisions to date (4)

- Measurement
 - Consideration of the objective, the QCs and cost-benefit is likely to result in mixed measurement
 - The factors to consider when selecting a measurement basis include:
 - Nature of information produced in both the statement of comprehensive income and statement of financial position
 - How the asset or liability contributes to future cash flows, depending partly on the nature of the business activities
 - The characteristics of the asset or liability
 - How measurement uncertainty affects relevance
 - Cost constraint (cost/ benefit)
 - The relative importance of the factors will vary

Tentative decisions to date (5)

- Profit or loss and OCI
 - Describes profit or loss as the primary, but not the only, source of information about an entity's performance
 - Requires profit or loss as a total or subtotal
 - Rebuttable presumption that income and expense are included in profit or loss
 - High-level guidance to the IASB on the use of OCI
 - Rebuttable presumption that income and expense included in OCI are subsequently recycled



Research projects

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Short- and medium-term research projects

| | | 2015 | | |
|--|--|---------------------------------|----|----|
| | Q1 | Q2 | Q3 | Q4 |
| Business combinations under common control | Board discussion | | | |
| Disclosure Initiative | | | | |
| General disclosure review | Board discussion | | | |
| Materiality | Board discussion | Target Draft Practice Statement | | |
| Principles of disclosure | | Target DP | | |
| Discount rates | Board discussion | | | |
| Emissions Trading Schemes | Board discussion | | | |
| Equity method of accounting | Board discussion | | | |
| Financial Instruments with characteristics of equity | Board discussion | | | |
| Inflation | Board discussion | | | |
| Liabilities—amendments to IAS 37 | Pending developments in the Conceptual Framework project | | | |
| Performance Reporting | Board discussion | | | |



Longer-term research projects

| | |
|--|---|
| Extractive activities/Intangible assets/ R&D activities | These projects are longer term projects which the IASB will start to discuss publicly in 2015 or later. |
| Foreign currency translation | |
| Income taxes | |
| Post-employment benefits (including pensions) | |
| Share-based payments | |

Post-implementation Reviews

- The IASB reviews each new Standard or major amendment.
- A PIR is an opportunity to assess the effect of the new requirements on investors, preparers and auditors, considering:
 - issues that were important or contentious during the development of the Standard;
 - issues that come to the attention of the IASB after the publication of the Standard; and
 - unexpected costs or implementation problems encountered.
- Seek input from preparers, auditors, securities regulators and investors
- Conduct review of academic studies on the Standard
- Timing of the review
 - After two years of implementation.

Post-implementation review on IFRS 3 *Business Combinations*

- **Request for Information (Rfi) published on 30 January 2014**
 - (comment period ended on 30 May 2014)
- Feedback received on the following issues (among others):
 - Challenges and complexity of testing goodwill for impairment
 - Subsequent accounting for goodwill (impairment only approach vs. amortisation and impairment approach)
 - Challenges in applying the definition of a business
 - Identification and fair value measurement of intangible assets such as customer relationships and brand names
 - Fair value measurement of contingent consideration and usefulness of subsequent accounting
 - Usefulness of accounting for step acquisitions and loss of control

- Leases and Insurance to be completed
- Conceptual Framework
- Research Agenda
 - BCUCC
 - Equity/Liability
 - Equity method
 - FX
 - Extractives activities
 - Income taxes
 - Pensions
 - Share-based payments
- Which (if any)
- Any others?
- Period of calm

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