

IASB Technical Update

Kathryn Donkersley
November 2021

Overview

New requirements

Current and forthcoming consultations out for comment

Redeliberations and other projects

Supporting consistent application of IFRS Standards

Strategy and Governance projects

A grayscale world map is the background for the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the continents. Additionally, there are several dotted lines that form a grid-like pattern across the map, intersecting the curved lines.

New requirements

What is required when?

1 January 2021	1 January 2022	1 January 2023
Interest Rate Benchmark (IBOR) Reform—Phase 2	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> (Amendments to IAS 16)	<i>Classification of Liabilities as Current or Non-current</i> (Amendments to IAS 1)*
	<i>Reference to the Conceptual Framework</i> (Amendments to IFRS 3)	IFRS 17 Insurance Contracts (amended June 2020)
	<i>Onerous Contracts—Cost of Fulfilling a Contract</i> (Amendments to IAS 37)	<i>Definition of Accounting Estimates</i>
	<i>Annual Improvements to IFRS Standards 2018–2020</i>	Disclosure of Accounting Policies
		Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

* IASB tentatively decided to defer the effective date of the amendments to 1 January 2024

Interest Rate Benchmark (IBOR) Reform—Phase 2

Identified problem

The replacement of interest rate benchmarks with alternative benchmark rates could affect the usefulness of information provided in financial statements prepared applying IFRS Standards

The amendments



- Provide a practical expedient for changes to contractual cash flows required by IBOR reform
- Amend hedge accounting requirements to prevent discontinuation of hedge accounting
- Require companies to provide disclosures explaining the risks arising from IBOR reform and how they are managing transition to alternative benchmark rates



Effective date

Annual reporting periods beginning on or after 1 January 2021

Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

Identified problem

Diversity in reporting the proceeds from selling items before an item of PPE is available for use

The amendments



- Prohibit deducting sales proceeds from the cost of an item of PPE
- Require a company to recognise any such proceeds (and related costs) in profit or loss in accordance with applicable IFRS Standards

Other requirements

- Measurement of the costs of items produced and sold in accordance with IAS 2 *Inventories*
- Specific disclosures for proceeds and costs when the sale of items is not part of a company's ordinary activities
- Definition of testing activities—assessment of the technical and physical performance of the asset only (not financial performance)



Effective date

Annual reporting periods beginning on or after 1 January 2022

Onerous Contracts—Costs of Fulfilling a Contract (Amendments to IAS 37)

Identified problem

Diverse views on which costs to include in the cost of fulfilling a contract when assessing whether a contract is onerous

The amendments



Specify that when assessing whether a contract is onerous, the cost of fulfilling the contract comprises those costs that **relate directly** to the contract. This includes both:

- the **incremental costs**; and
- an **allocation of other costs** that relate directly to contract activities



Effective date

Annual reporting periods beginning on or after 1 January 2022

Definition of Accounting Estimates

Identified problem

Companies can find it difficult to distinguish between a change in accounting policy and a change in accounting estimate, especially when it relates to a change in a measurement method

The amendments



- Introduce a definition of ‘accounting estimates’
- Provide clarifications, such as
 - estimation techniques and valuation techniques are examples of measurement techniques used to develop accounting estimates
 - a change in accounting estimate that results from new information or new developments is not the correction of an error



Effective date

Annual reporting periods beginning on or after 1 January 2023

Disclosure of Accounting Policies

Identified problem

- Users say that accounting policy disclosures today are often not useful
- Stakeholders' views differ about 'significant' accounting policies required by IAS 1 *Presentation of Financial Statements*

The amendments



- Amend IAS 1 to require companies to disclose their *material* accounting policy information rather than their significant accounting policies
- Clarify that not all accounting policy information that relates to material transactions, other events or conditions is material to the financial statements
- Add guidance and examples to the materiality practice statement, which will explain how to apply the materiality process to identify material accounting policy information



Effective date

Annual reporting periods beginning on or after 1 January 2023

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

Objective

- Clarify the **deferred tax** accounting for transactions for which an entity recognises, on initial recognition, both an asset and a liability, such as **leases** and **decommissioning obligations**

The amendments

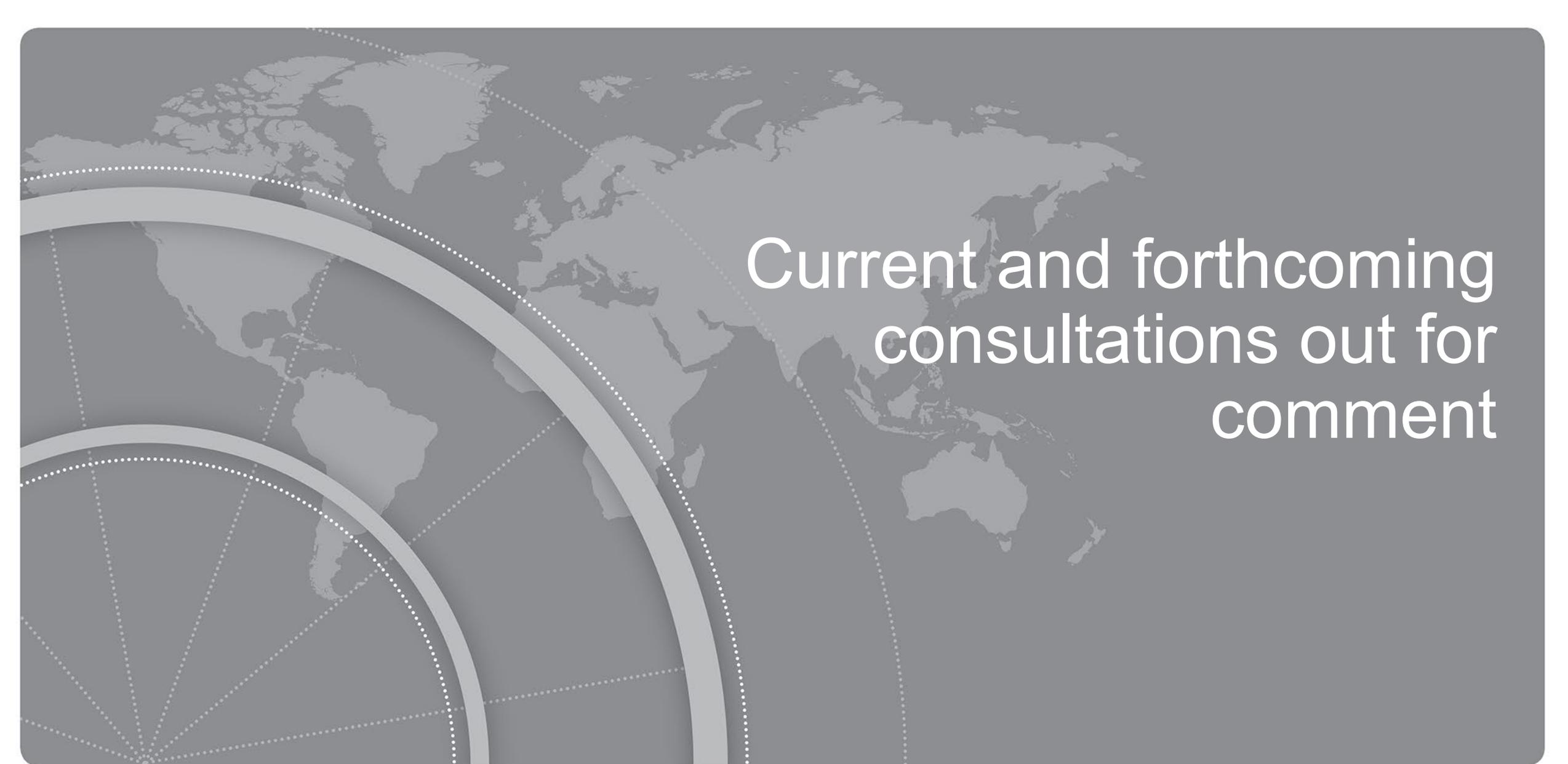


- **Narrow the scope of the recognition exemption** in IAS 12 so that it does not apply to transactions that give rise to equal amounts of taxable and deductible temporary differences
- Will result in **all entities recognising deferred tax for leases** and other transactions in the scope of the amendments, reducing diversity in reporting



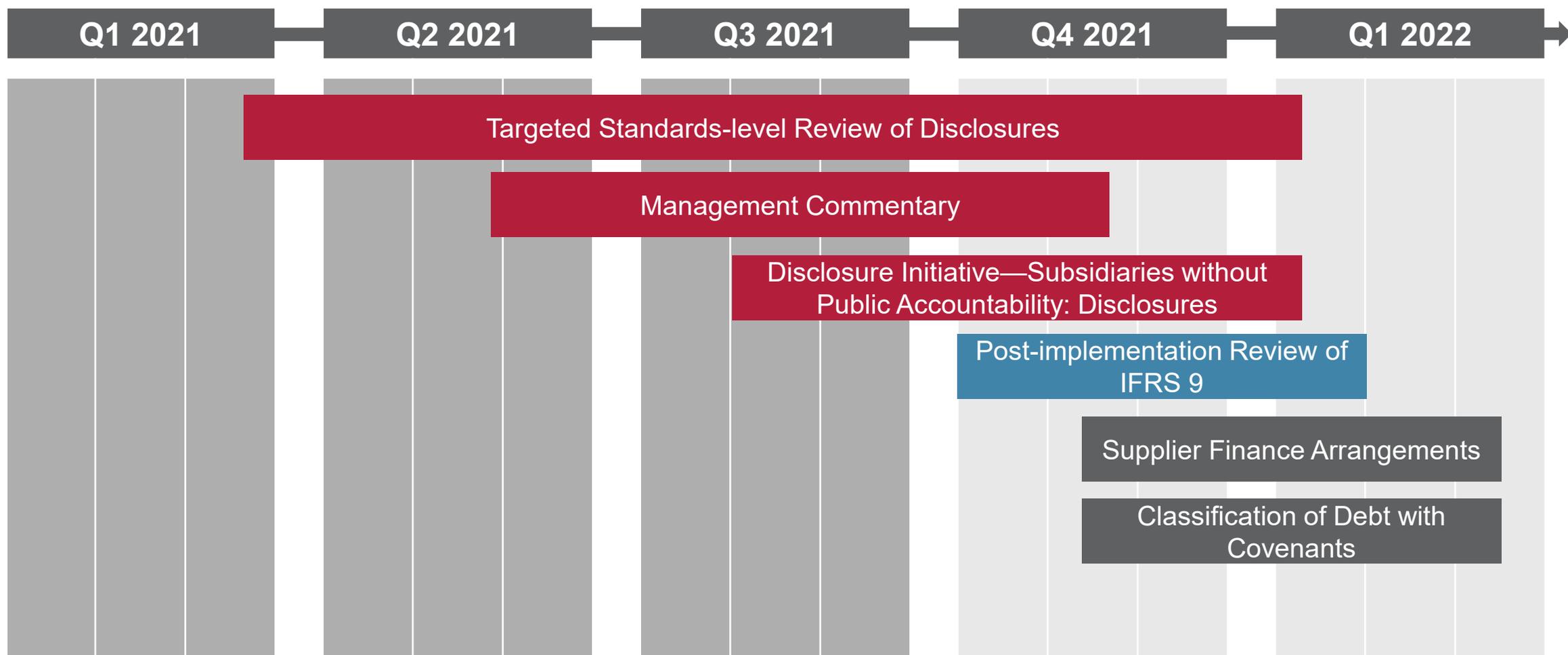
Effective date

Annual reporting periods beginning on or after 1 January 2023



Current and forthcoming
consultations out for
comment

Overview of main consultations



■ Research projects
 ■ Standard-setting projects
 ■ Maintenance projects

Disclosure Initiative—Targeted Standards-level Review of Disclosures



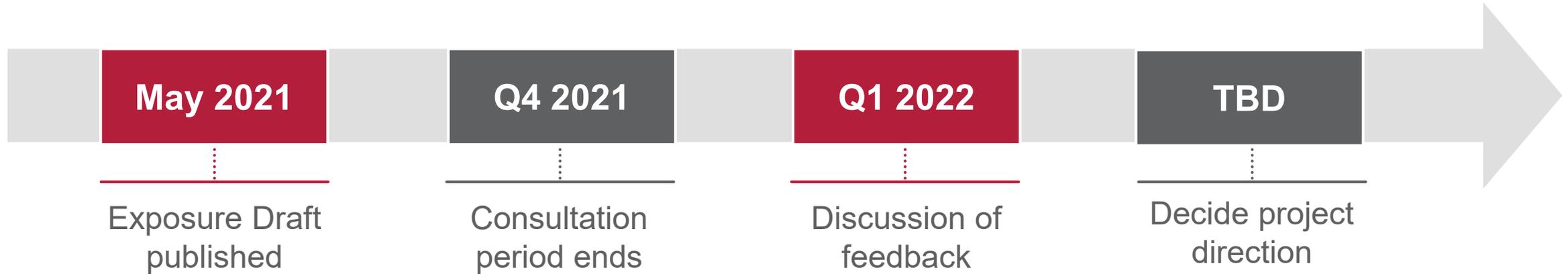
Objective

- Improve the Board’s approach to developing disclosure requirements in a way that enables companies to enhance their judgement and provide more decision-useful information for investors

Main proposals

- 1 New approach for the Board to use when developing and drafting disclosure requirements in IFRS Standards (proposed Guidance)
- 2 Replace disclosure requirements in IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits* with a new set of disclosure requirements developed applying the proposed Guidance
- 3 Focus compliance on detailed disclosure objectives rather than prescriptive requirements, thus requiring companies to apply judgement

Management Commentary



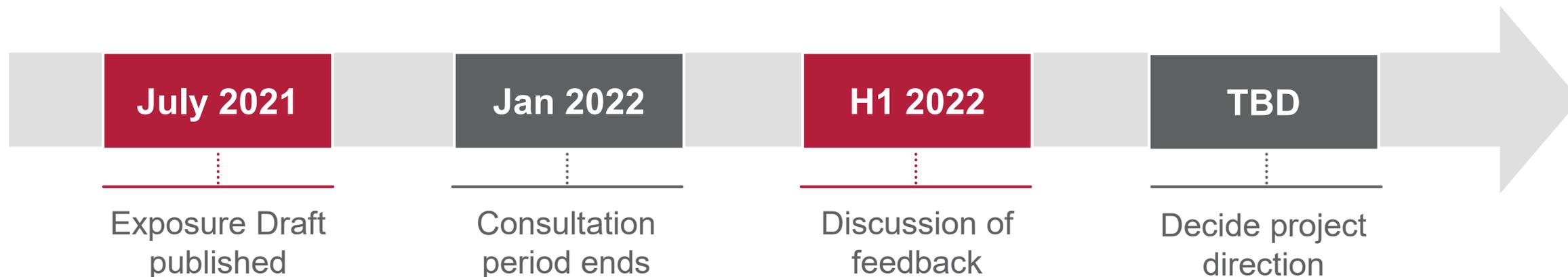
Objective

Overhaul IFRS Practice Statement 1 to provide a **comprehensive framework** for preparing management commentary—building on recent developments in narrative reporting

Features of the proposals

- 1 Focus on information needs of **investors** and **creditors**
- 2 Disclosure objectives + supporting guidance
- 3 Would bring together in one report **financial**, **sustainability** and **other** information about matters fundamental to entity's long-term prospects

Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures



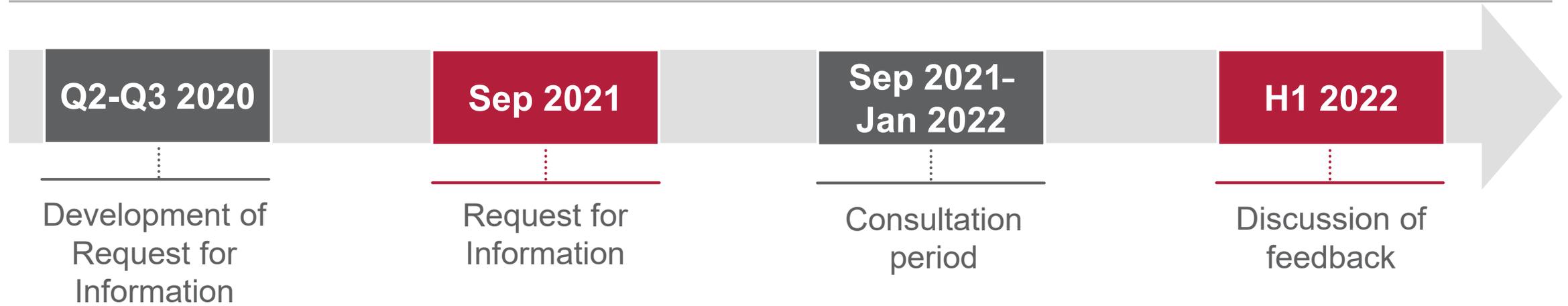
Objective

To permit eligible subsidiaries to apply the disclosure requirements in the draft Standard and the recognition, measurement and presentation requirements in IFRS Standards.

Features of the proposals

- 1 Sets out **reduced disclosure requirements** for eligible subsidiaries
- 2 A **voluntary standard** forming part of the IFRS Standards
- 3 Would **reduce costs** for preparers and **maintain usefulness** of the financial statements

Post-implementation Review of IFRS 9— Classification and Measurement



Objective

- Assess whether the classification and measurement requirements in IFRS 9 are working as intended

Topics in the Request for Information

- | | | |
|---|--|-----------------------|
| 1 | Business model, SPPI, Fair value changes in equity instruments | Financial assets |
| 2 | Presentation of own credit gains and losses | Financial liabilities |
| 3 | Modifications to contractual cash flows, Effective interest method, Transition to IFRS 9 | Other topics |

Non-current Liabilities with Covenants

Objective

Improve the information about liabilities with covenants provided through classification (as current or non-current), presentation and disclosure in financial statements

Approach

- Specify that covenants with which an entity must comply **after the reporting period** do not affect classification of a liability as current or non-current at the end of the reporting period.
- Add **presentation and disclosure requirements** for non-current liabilities subject to covenants
- Clarify situations in which an entity **does not have a right to defer settlement**

Next milestone

Exposure draft expected Q4 2021

Supplier Finance Arrangements

Objective

Provide information that would help investors determine the effects of supplier finance arrangements on a company's liabilities and cash flows.

Approach

- **Explain** the type of arrangements to be included within the scope of the proposed amendments
- Add **qualitative and quantitative disclosure** requirements for supplier finance arrangements to meet overall and specific disclosure objectives
- Add supplier finance arrangements **as an example** within the existing liquidity risk disclosure requirements in IFRS 7

Next milestone

Exposure Draft expected Q4 2021

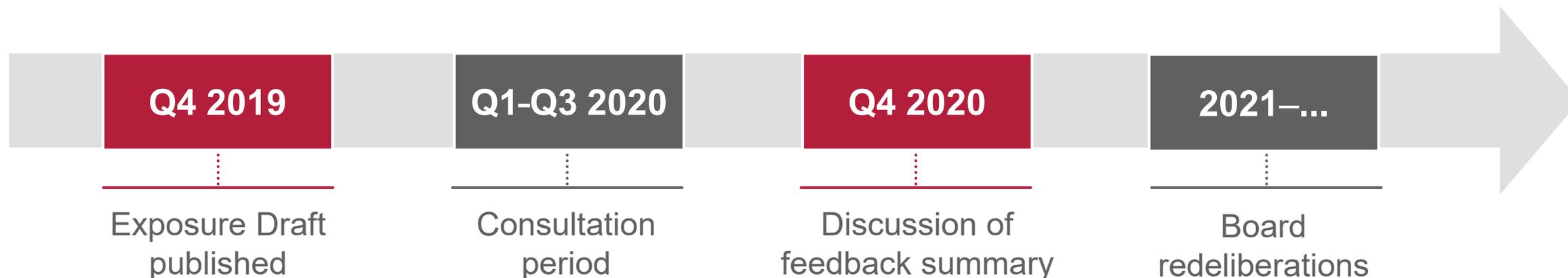
A grayscale world map is the background for the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the frame from the bottom left towards the top right. Additionally, there are several dotted white lines that form a grid-like pattern across the map, representing latitude and longitude.

Redeliberations and other projects

Board redeliberating ...

	Next steps
Primary Financial Statements	IFRS Standard
Second Review of the <i>IFRS for SMEs</i> Standard Financial Instruments with Characteristics of Equity	Exposure Draft
Goodwill and Impairment Lease Liability in a Sale and Leaseback Dynamic Risk Management	Decide Project Direction
Rate-regulated Activities Business Combinations under Common Control Lack of Exchangeability Amendment to IFRS 17	Feedback Discussion

Primary Financial Statements



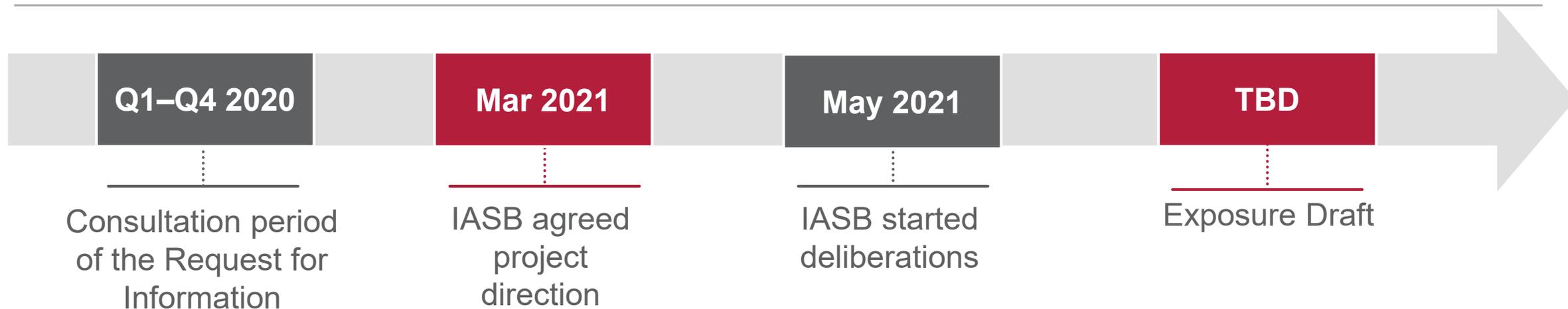
Objective

- Improve communication in financial statements
- Focus on information included in the statement of profit or loss

Main proposals

- 1 Require additional **defined subtotals** in statement of profit or loss
- 2 Strengthen requirements for **disaggregating information**
- 3 Require disclosures about **management performance measures**

Second Review of the *IFRS for SMEs* Standard



Objective

- Update the *IFRS for SMEs* Standard for new requirements in IFRS Standards that are in the scope of the review

Approach

- Apply alignment approach to decide how to update the *IFRS for SMEs* Standard
- The alignment approach uses the principles of relevance to SMEs, simplicity and faithful representation, including the assessment of costs and benefits, to identify possible amendments

Goodwill and Impairment



Preliminary views



Objective

- Improve information companies provide about their acquisitions

1

- Disclose management's objectives for acquisitions and subsequently disclose the performance against those objectives
- Some targeted improvements to existing standards

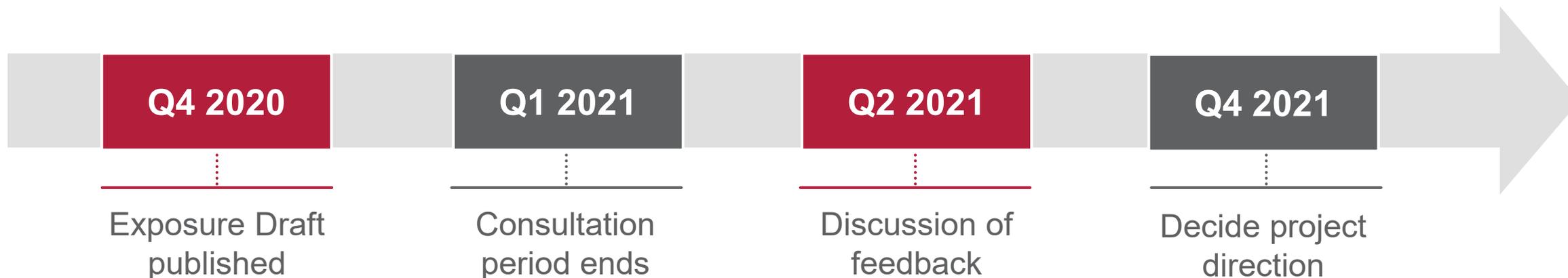
2

- Retain impairment-only model for goodwill
- Simplify impairment test

3

- Present amount of total equity excluding goodwill
- Do not change recognition of intangibles separately from goodwill

Lease Liability in a Sale and Leaseback



Objective

- Improve the measurement requirements for sale and leaseback transactions — particularly those with variable payments

Proposed amendment to IFRS 16 *Leases*

- 1 Specify the method used in initially measuring the right-of-use asset and liability arising in a sale and leaseback transaction
- 2 Specify subsequent measurement requirements for the lease liability in a sale and leaseback transaction

Board considering research or deciding project direction...

Provisions—Targeted Improvements to IAS 37

- **Align requirements** for identifying liabilities with *Conceptual Framework*
- Clarify which **costs** to include in the measurement of a provision
- Specify whether **discount rates** used should reflect entity's own credit risk

Equity Method

- Identify application questions in the equity method and decide which of these problems to address
- Address application questions by identifying and explaining the principles that underlie IAS 28

Pension Benefits that Depend on Asset Returns

- Explore how a capped approach would apply with the use of illustrative examples; and
- Assess the use of pension benefits that depend, wholly or partly, on the return on a specified pool of assets ('reference assets')

Extractive Activities

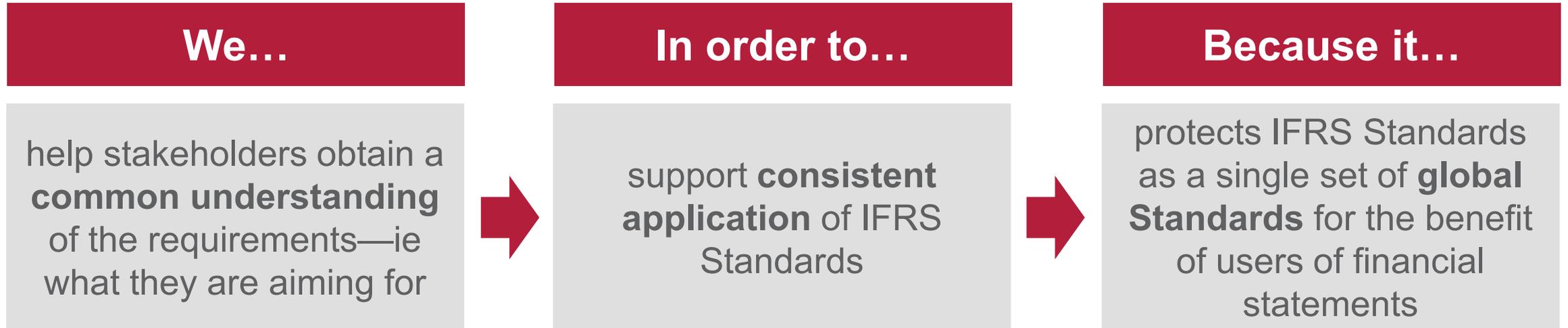
- Explore developing requirements or guidance to improve the disclosure objectives and requirements about an entity's exploration and evaluation expenditure and activities
- Explore removing the temporary status of IFRS 6

A grayscale world map is the background. Overlaid on the left side are several concentric, curved lines that sweep across the map. Some of these lines are solid, while others are dotted. The overall aesthetic is clean and professional, suggesting global connectivity and financial standards.

Supporting consistent application of IFRS Standards

What we have been doing to support Standards in effect

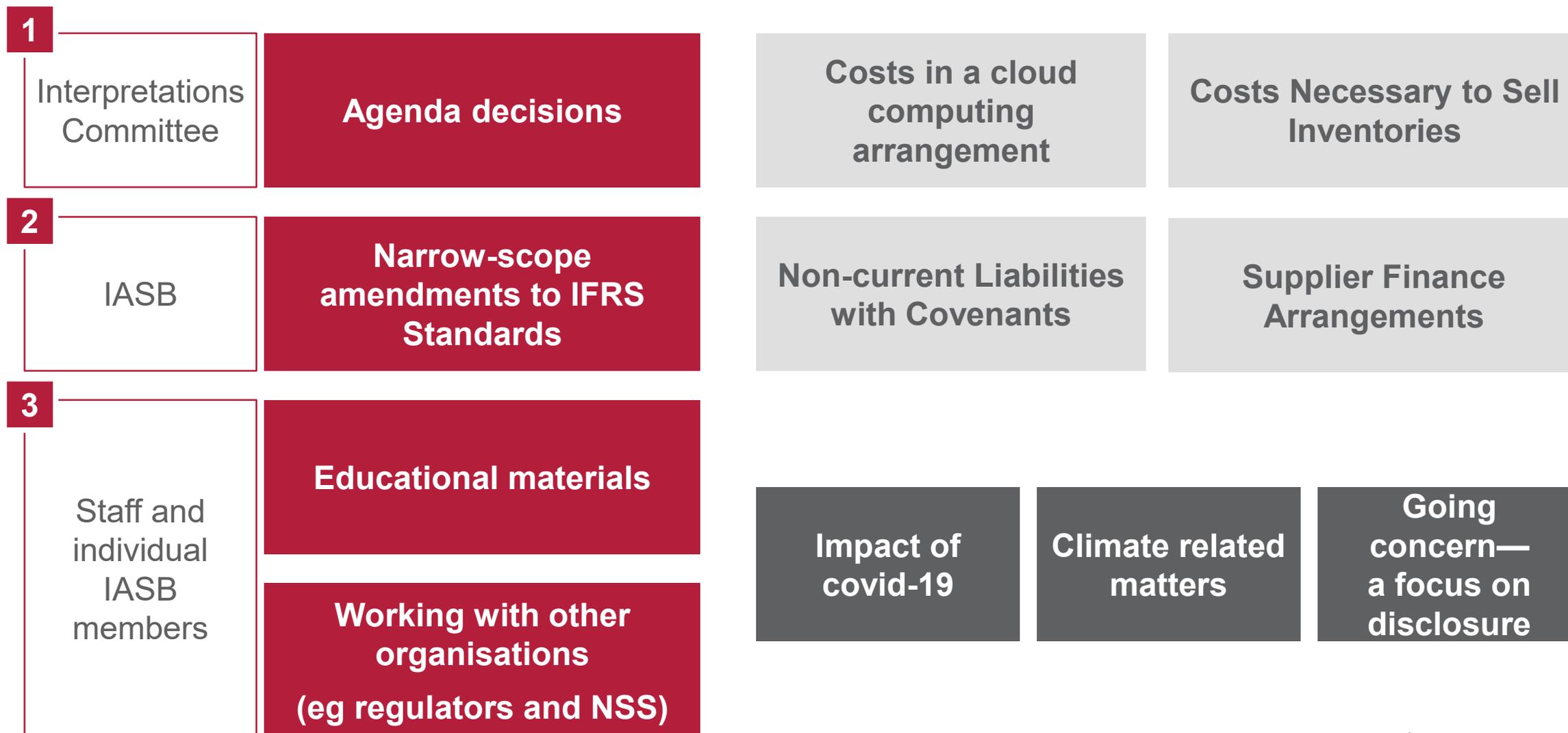
Why we support consistent application



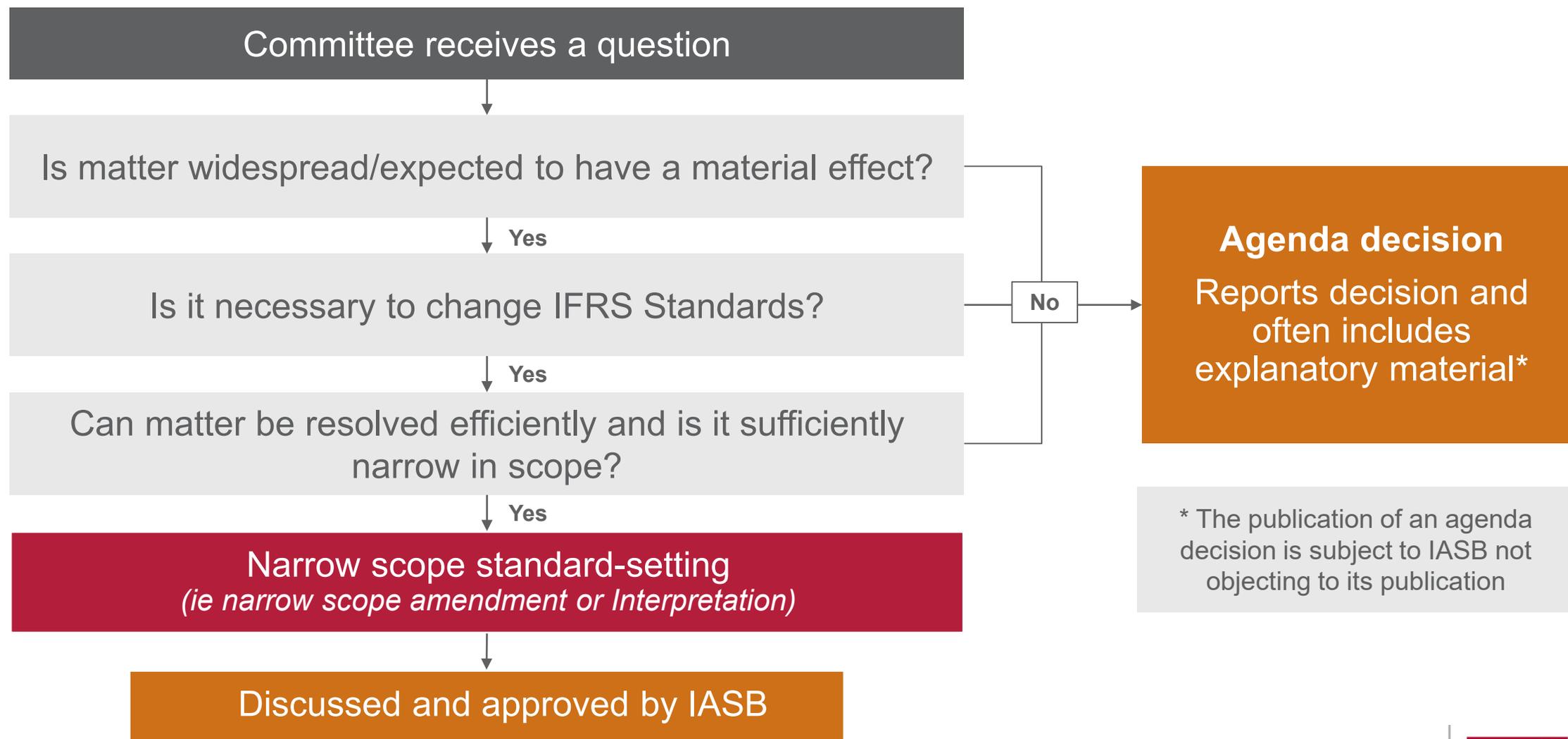
What's the challenge?



How we support consistent application



The Interpretations Committee's process



Committee's work: Overview of 2021 activities



11 addressed by Committee through agenda decisions (most including explanatory material)

1 work in progress

2 addressed through a narrow-scope amendment

Five Committee meetings held in 2021 to date

Sample of recent agenda decisions

Accounting for Warrants that are Classified as Financial Liabilities on Initial Recognition
(IAS 32 *Financial Instruments: Presentation*)

Non-refundable Value Added Tax on Lease Payments
(IFRS 16 *Leases*)

Hedging Variability in Cash Flows due to Real Interest Rates
(IFRS 9 *Financial Instruments*)

Deferred Tax related to an Investment in a Subsidiary
(IAS 12 *Income Taxes*)

Player Transfer Payments
(IAS 38 *Intangible Assets*)

Attributing Benefit to Periods of Service
(IAS 19 *Employee Benefits*)

Configuration or Customisation Costs in a Cloud Computing Arrangement
(IAS 38 *Intangible Assets*)

Costs Necessary to Sell Inventories
(IAS 2 *Inventories*)

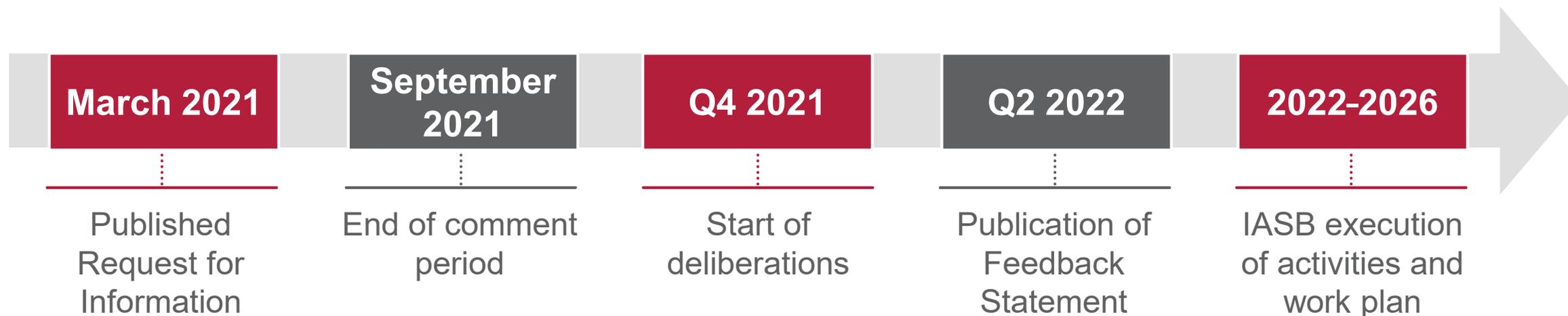
Preparation of Financial Statements when an Entity is No Longer a Going Concern
(IAS 10 *Events after the Reporting Period*)



Strategy and Governance projects

Third agenda consultation and Sustainability Reporting

Third Agenda Consultation

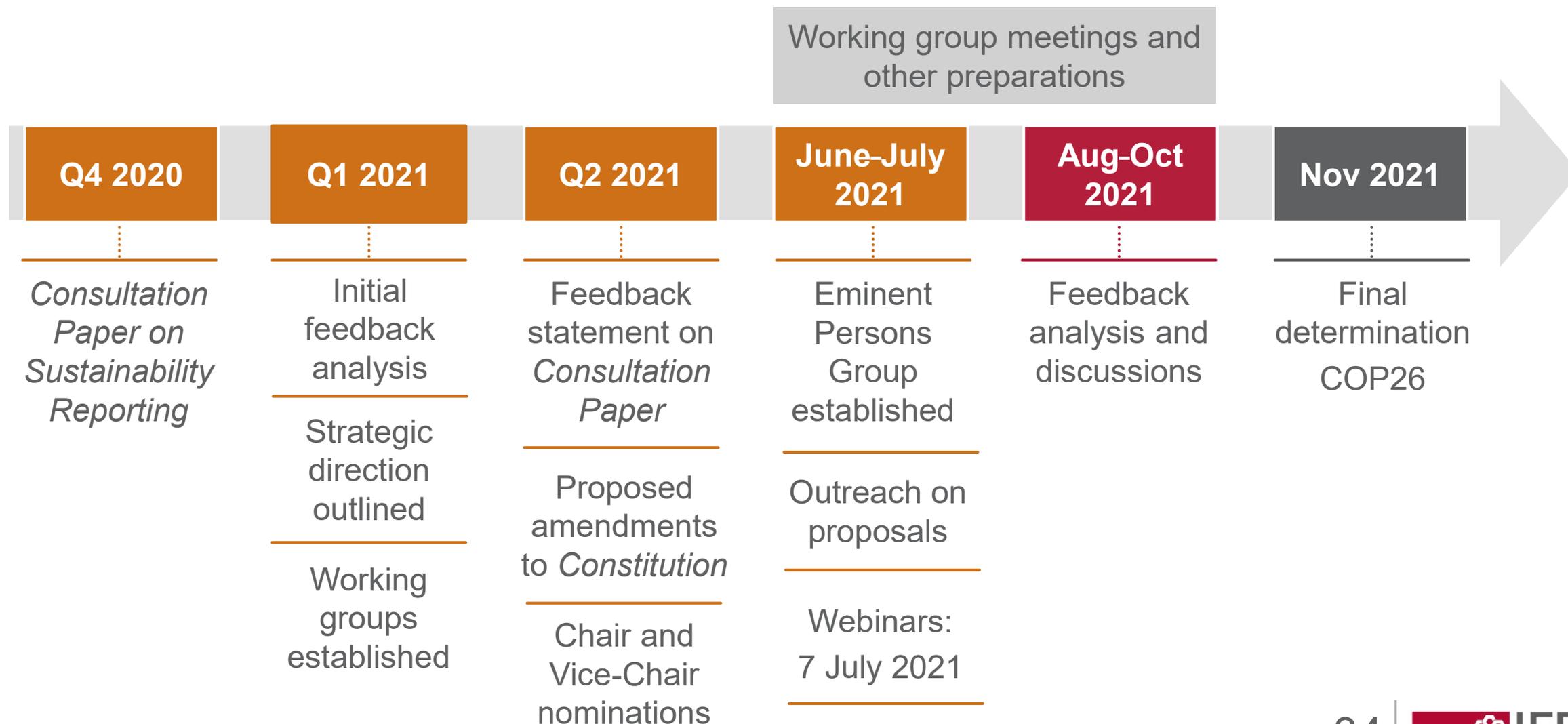


Objective of the agenda consultation

To seek views on

- the strategic direction and balance of the IASB's activities
- the criteria for assessing the priority of financial reporting issues that could be added to the work plan
- new financial reporting issues that could be given priority in the IASB's work plan

Sustainability Reporting—Road to COP26



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Questions?

Disclosure Requirements in IFRS Standards—A Pilot Approach

Kathryn Donkersley
November 2021

Overview

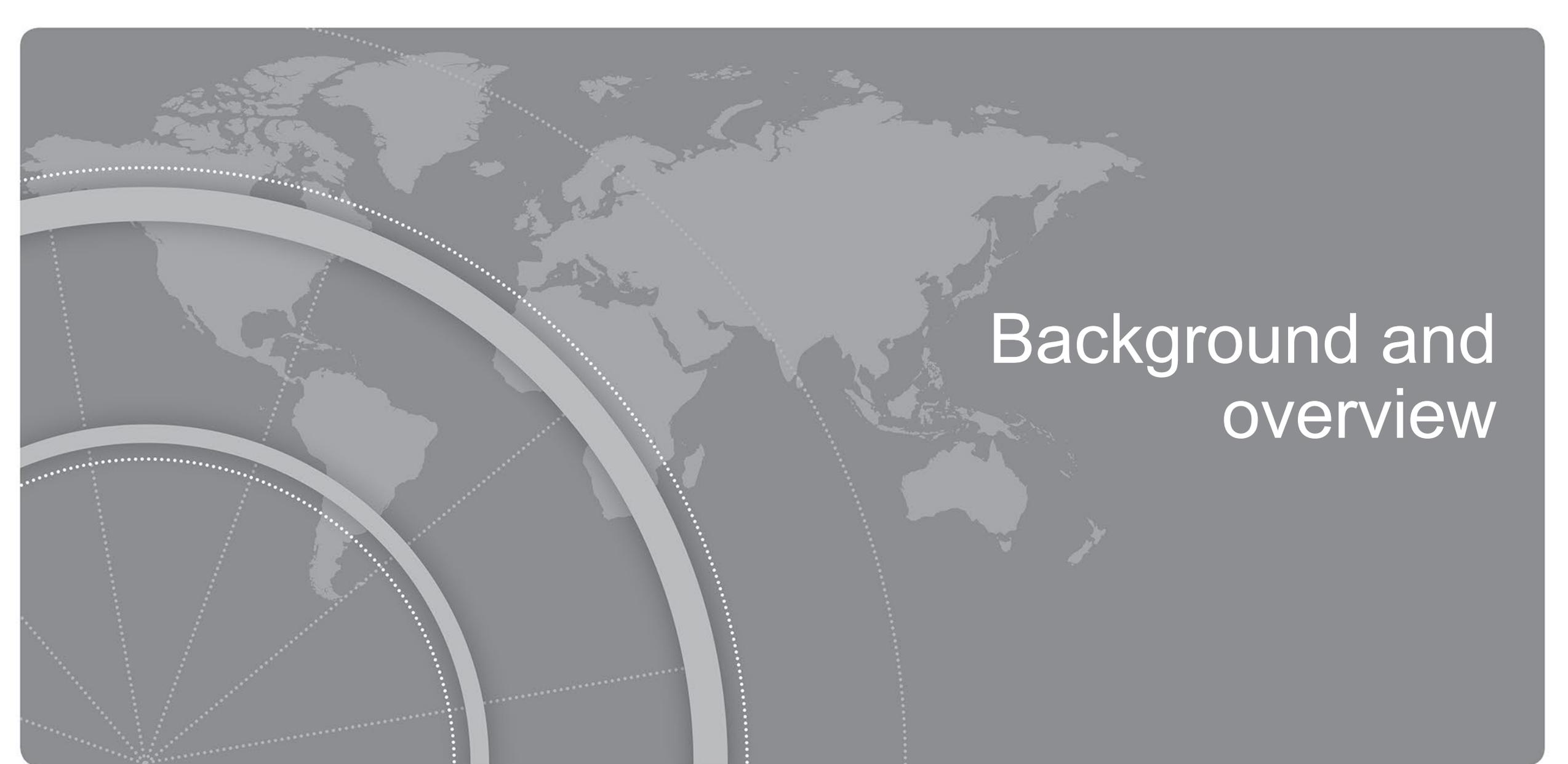
Background and overview

Proposed new approach

Proposed new approach—hot discussion topics

Application to two test Standards—IFRS 13 and IAS 19

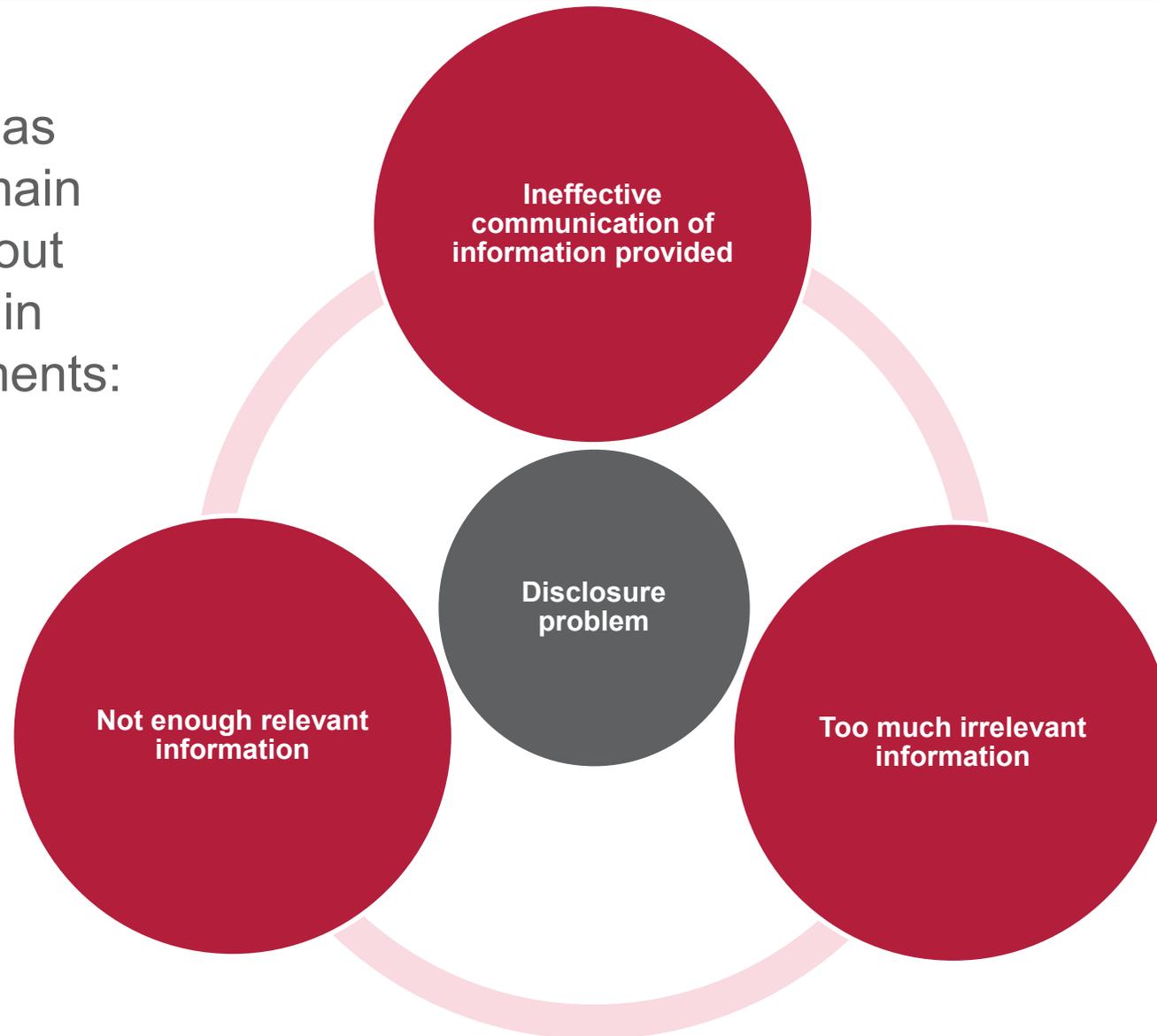
How to get involved in the consultation

A grayscale world map is the background for the slide. Overlaid on the map are several curved, semi-transparent lines that sweep across the globe from the bottom left towards the top right. Additionally, a network of dotted lines is visible, suggesting a global grid or data flow.

Background and overview

The overall disclosure problem

The Board has heard three main concerns about disclosures in financial statements:



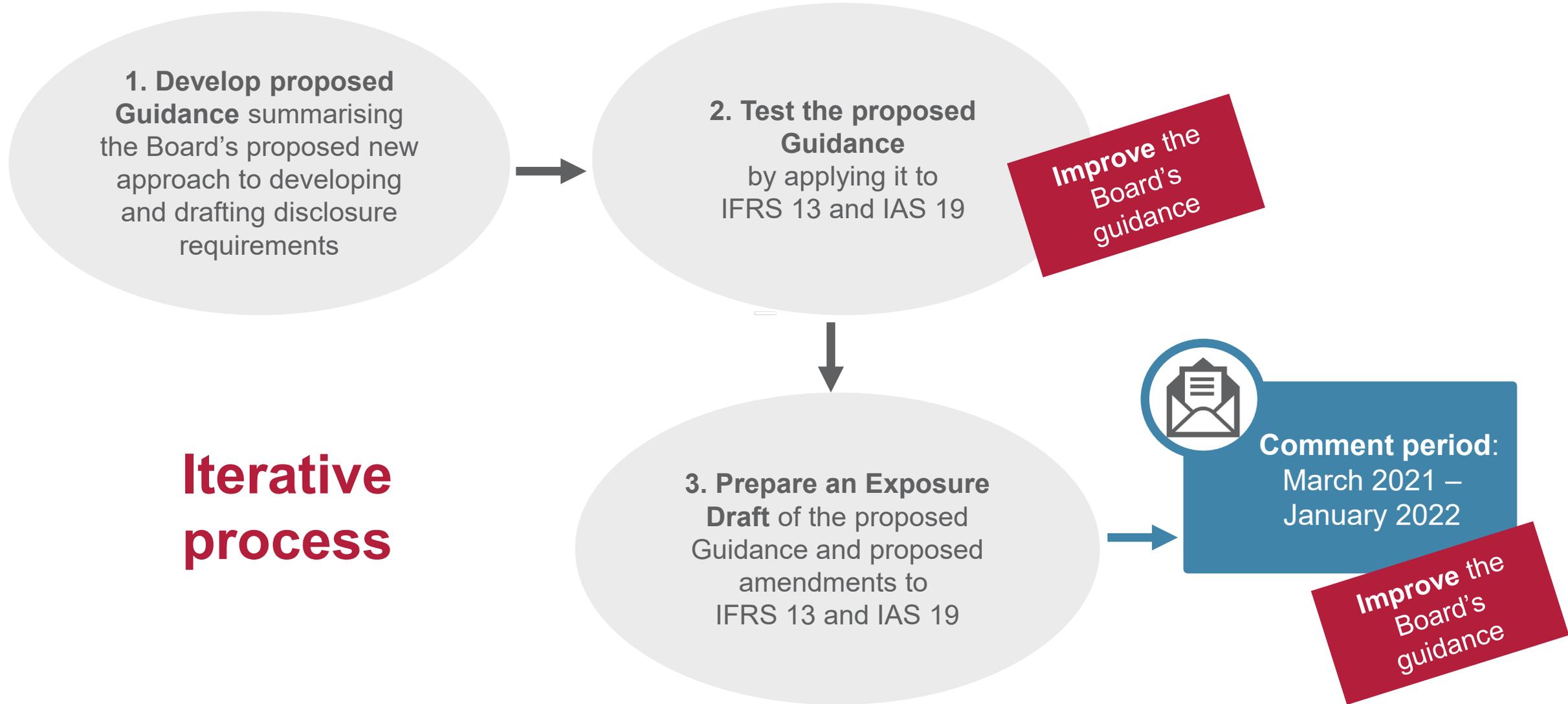
Catalyst for change

“Addressing the overall disclosure problem will require all those involved in financial reporting to play their part”



By taking steps to improve the requirements in IFRS Standards, the Board would **kick-start the process and enable stakeholders to improve the way they approach financial statement disclosures**

Project approach



A grayscale world map is the background for the slide. Overlaid on the map are several curved, overlapping bands and a network of dotted lines that suggest a global or interconnected theme.

Proposed new approach

Disclosure requirements based on stakeholder needs

What is the issue?



Companies may not always understand why information is useful, so they find it difficult to make effective judgements

Board's main proposals

Understand what investors want:



- What information is useful and why
- What analysis they intend to perform
- How detailed the information needs to be
- Whether information is critical or 'nice-to-have'



Clearly explain investor needs in the Standards



Develop specific disclosure objectives, along with explanations of what investors may do with the information provided

Detailed disclosure objectives

What is the issue?



The easiest way to achieve compliance is to apply disclosure requirements like a checklist

Board's main proposals

Require companies to comply with disclosure objectives. Compliance can only be achieved by applying judgement.

Overall disclosure objective



- describe overall information needs of investors
- require companies to assess whether the information provided in the notes by complying with specific disclosure objectives meets overall investor needs (ie whether additional information is needed)

Specific disclosure objectives



- describe detailed information needs of investors
- require companies to disclose all material information to enable those specific needs to be met

Language that encourages judgement

What is the issue?



Complying with high volumes of prescriptive requirements does not leave time to apply materiality judgements

Board's main proposals

- Place the compliance requirement on disclosure objectives, and not on items of information. This would mean a company is required to **focus on making effective materiality judgements**.
- Minimise requirements to disclose particular items of information. This would **remove a perceived compliance burden** and make clear that only material information should be disclosed.

Satisfying specific disclosure objectives



To help companies apply judgement in determining what to disclose to comply with specific disclosure objectives, the Board would:

supplement each specific disclosure objective with an explanation of why investors want information and what they may do with it

identify items of information to meet each specific disclosure objective

link every item of information to one or more specific disclosure objectives

develop application guidance and illustrative examples where helpful



Proposed new
approach—hot
discussion topics

Need for judgement

Current requirements

Prescriptive, Standards-level requirements to **disclose particular items of information**



Overarching **requirement in IAS 1** to apply judgement in complying with those requirements

Proposals

Prescriptive, Standards-level requirements to apply judgement and **satisfy disclosure objectives**



Additional guidance included in the Standards help companies determine how to comply with those objectives



Under both scenarios:

- Companies are required to apply judgement and disclose all material information
- Audit and enforcement includes reviewing the application of judgement

How would the proposed approach help with the audit and enforcement of judgement?

Reinforcing IAS 1 requirements at an individual Standards level

- Compliance with disclosure objectives can only be met by applying judgement
- Removes any perception that applying requirements like a checklist achieves compliance

Providing a sound basis for challenging judgement

Requirements and guidance included in the Standards

Detailed and specific disclosure objectives

Explanations of what investors may do with the information provided

Explicitly link disclosure objectives with items of information

Items of information, application guidance and illustrative examples

Robust process for developing requirements based on investor information needs

How might the proposed approach affect comparability?

Board's view on comparability

Information between entities with similar circumstances should be comparable

Uniform and comparable information are not the same

If each entity applies judgement to meet the same disclosure objective, the content of that information should be comparable in all material respects even if the information looks different.

This results in **meaningful comparability**.

Proposals can result in similar information

The proposals:

- include specific and detailed disclosure objectives
- require companies to meet each objective
- explicitly link each objective to items of information

The proposals would result in comparable information between companies when that information is:

- material to both companies; and
- useful to investors.

What would be the effect of the proposals on digital reporting?

Applying the proposed approach, an IFRS taxonomy element would be created for each...

Overall disclosure objective

Specific disclosure objective

Item of information

Companies would use these elements to identify all information disclosed to satisfy a disclosure objective (block tagging)

Companies would not need to create their own extensions when disclosing these items of information.



Investors would be able to extract all information relating to each disclosure objective from a company's financial statements



Investors would be able to extract and compare similar items of information

Will companies need to create their own extensions?

- Sometimes—most commonly for unique or unusual items of information needed to satisfy a particular disclosure objective
- The Board expects its proposed approach to identify information that is relevant to multiple companies. Such information would be captured in the Standards and an IFRS Taxonomy element created



Application to two test
Standards—IFRS 13
and IAS 19

Proposed amendments to IFRS 13



Key messages from stakeholders

Proper application of materiality is critical. Detailed disclosures often:

- focus on immaterial fair value measurements; and
- do not contain information about material fair value measurements.

Today's disclosures are onerous to prepare

Investors rarely ask a company questions about its detailed fair value measurement disclosures



Board's main proposals

- **Disclosure objectives that explain and focus on key investor needs.**
- Require companies to focus on the appropriate level of detail.
- Removal of a perceived Level 3 checklist; requiring a company to focus disclosure on exposure to uncertainty in all material fair value measurements.

Companies are **required** to satisfy disclosure objectives. Items of information will help companies to apply judgement.

Proposed amendments to IAS 19



Key messages from stakeholders

Focus on the risk: defined benefit plans

Investors prioritise information about future cash flow effects of defined benefit obligations

Ineffective communication about the effect of defined benefit plans on the primary financial statements is a problem

Many of today's disclosures are onerous to prepare



Board's main proposals

- **Disclosure objectives that explain and focus on key investor needs.**
- Removal of less decision-useful and costly information, such as a detailed assumption-by-assumption sensitivity analysis.

Companies are **required** to satisfy disclosure objectives. Items of information will help companies to apply judgement.

Get involved in this consultation



Check out the [Snapshot](#) for more information about the proposals



Access the consultation documents:

- [Exposure Draft and Illustrative Examples](#)
- [Basis for Conclusions](#)



Watch our [hot topics webinar](#) for an overview of the likely effects of the proposals

Give us your feedback:

- Participate in [fieldwork](#); and/or
- Submit a comment letter:
 - ✓ Online at: <https://www.ifrs.org/projects/open-for-comment/>
 - ✓ By email to: commentletters@ifrs.org

A world map in shades of gray is the background. Overlaid on the map are several curved lines: a thick black arc, a thick red arc, and several dotted lines in white, orange, red, and blue. The lines are centered on the left side of the map and curve towards the right.

IFRS® Foundation

Subsidiaries without Public Accountability: Disclosures

Kathryn Donkersley
November 2021

Overview

Objective of the project

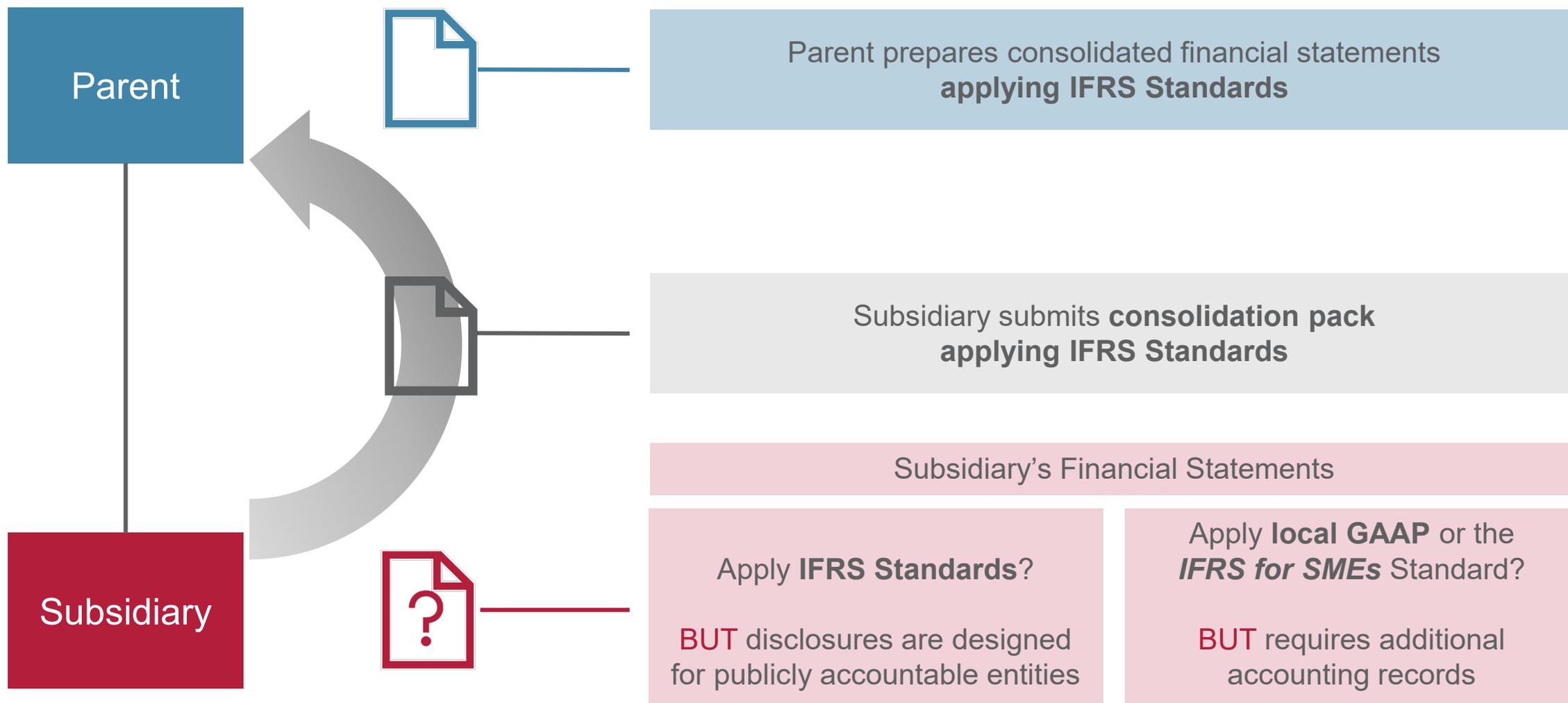
Developing the disclosure requirements

Structure and application of the draft IFRS Standard

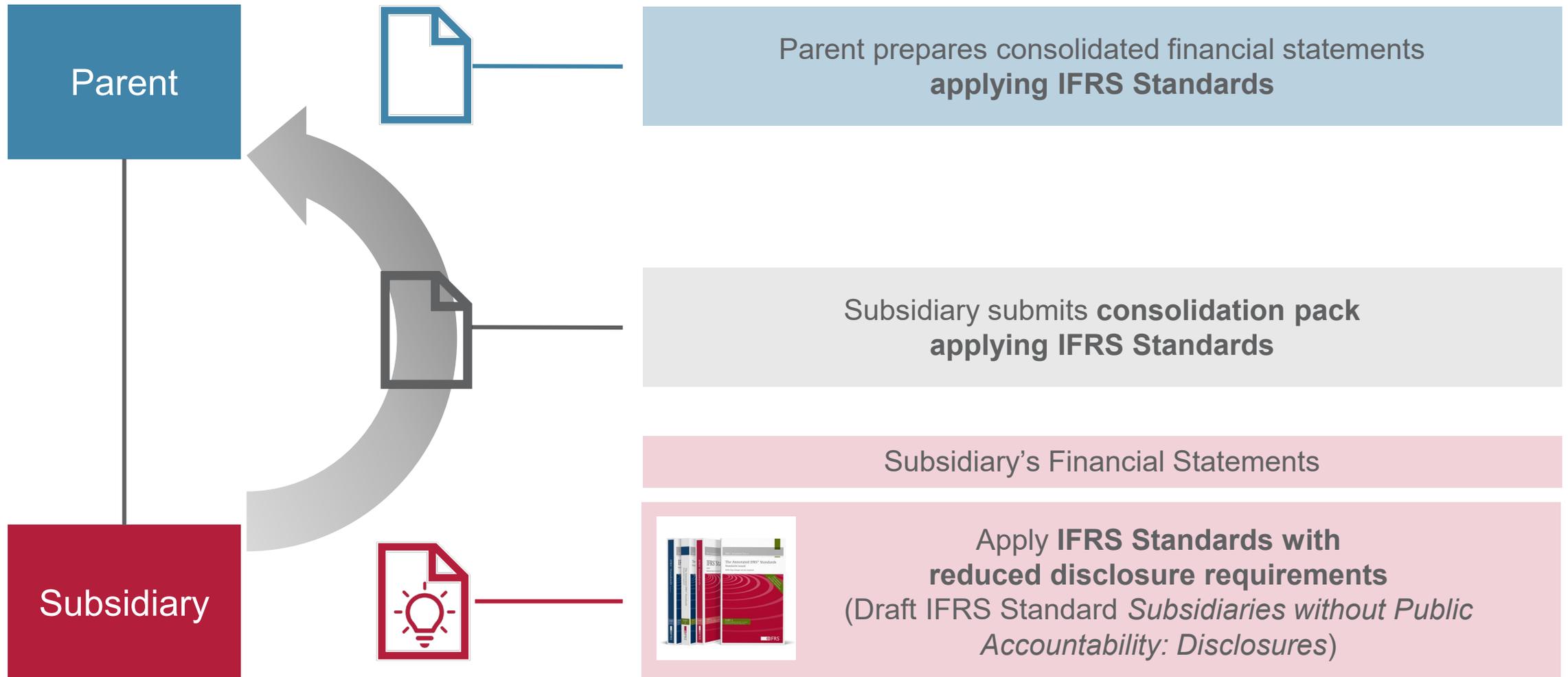


Objective of the project

Why is the IASB undertaking this project?



Exposure Draft proposals



Benefits of the proposals

Reduced costs for preparers

- single set of accounting policies applied
- one set of accounting records
- reduced work for finance team

Tailored disclosures for users

- disclosures designed for non-publicly accountable entities
- disclosures tailored towards users' needs



A preparer said “we have hundreds of subsidiaries around the world that do not have public accountability, that individually report applying IFRS Standards and prepare general purpose financial statements for local requirements—these subsidiaries can benefit from these proposals”.

Proposed Scope

Scope

Voluntary application in consolidated or individual financial statements available to subsidiaries at the end of the reporting period:

- a) that do **not have public accountability**; and
- b) whose parent prepares consolidated financial statements available for public use that comply with IFRS Standards

Who has public accountability?



Equity or debt instruments
traded in public market

or



Hold assets in a fiduciary capacity
for a broad group of outsiders

Includes most banks and insurance companies

A grayscale world map is the background, with several thick, curved white lines and dotted lines overlaid on it, suggesting a globe or a network. The text is positioned on the right side of the map.

Developing the disclosure requirements

Developing the disclosure requirements

Approach

Start with the disclosure requirements in the *IFRS for SMEs* Standard and tailor to reflect recognition and measurement requirements in IFRS Standards

Why?

Disclosure requirements in the *IFRS for SMEs* Standard are:

- **substantially reduced** from IFRS Standards
- intended to **meet information needs of users** of financial statements of non-publicly accountable entities

In tailoring disclosure requirements, the IASB applied the principles it used to develop the disclosure requirements in the *IFRS for SMEs* Standard

This approach does not require the IASB to develop new disclosure requirements

Developing the disclosure requirements

Is there a recognition or measurement difference between IFRS Standards and the *IFRS for SMEs* Standard?

Yes

Use and tailor the disclosure requirements in IFRS Standards

Apply to the disclosure requirements in IFRS Standards the principles used to develop the disclosure requirements in the *IFRS for SMEs* Standard (see slide 16)

No

Use the disclosure requirements in the *IFRS for SMEs* Standard

Minor updates to:

- align terms and language with IFRS Standards
- update paragraph cross-references

In limited cases, the IASB made exceptions to this approach

Which IFRS Standards?

Which IFRS Standards?

The Exposure Draft proposes reduced disclosure requirements for all IFRS Standards issued as at 28 February 2021 and exposure drafts published as at 1 January 2021, except for:

- IFRS 17 *Insurance Contracts*
- IFRS 8 *Operating Segments*
- IAS 33 *Earnings per Share*
- Exposure Draft *General Presentation and Disclosures*

IFRS Standards and *IFRS for SMEs* Standard



* Disclosure requirements in the *IFRS for SMEs* Standard was used as a starting point.



Structure and application of the draft IFRS Standard

Structure of the draft IFRS Standard

Main body

Objective

Scope

Electing to apply the draft IFRS Standard

Interaction with IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Application of disclosure requirements

Disclosure requirements
(organised by IFRS Standard)

Appendices

A

Disclosure requirements in IFRS Standards replaced by the draft IFRS Standard

B

Effective date and transition

C

Amendments to other IFRS Standards

FAQs

Compliance statement

The Exposure Draft proposes a subsidiary discloses it has applied the draft IFRS Standard, and this disclosure be located with the explicit and unreserved statement that the financial statements have been prepared in compliance with IFRS Standards

Interaction with IFRS 1

The commencement or cessation of application of the draft IFRS Standard does not, in itself, result in an entity meeting the definition of a first-time adopter (see slide 24)

Transition

The Exposure Draft does not include transition requirements

Maintenance

The IASB will consider amendments to the draft IFRS Standard when it publishes an exposure draft of a new or amended IFRS Standard

Timeline



The Exposure Draft *Subsidiaries without Public Accountability: Disclosures* is open for comment until 31 January 2022. The Exposure Draft can be accessed [here](#).

The Snapshot that provides an overview of the IASB's proposals can be accessed [here](#).

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Questions?

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