

Supporting consistent application

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International Accounting Standards Board

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

Overview

Recent agenda decisions

Narrow-scope amendments

Overview

Objective in supporting the Standards

We...

help stakeholders obtain a **common understanding** of the requirements - ie what they are aiming for

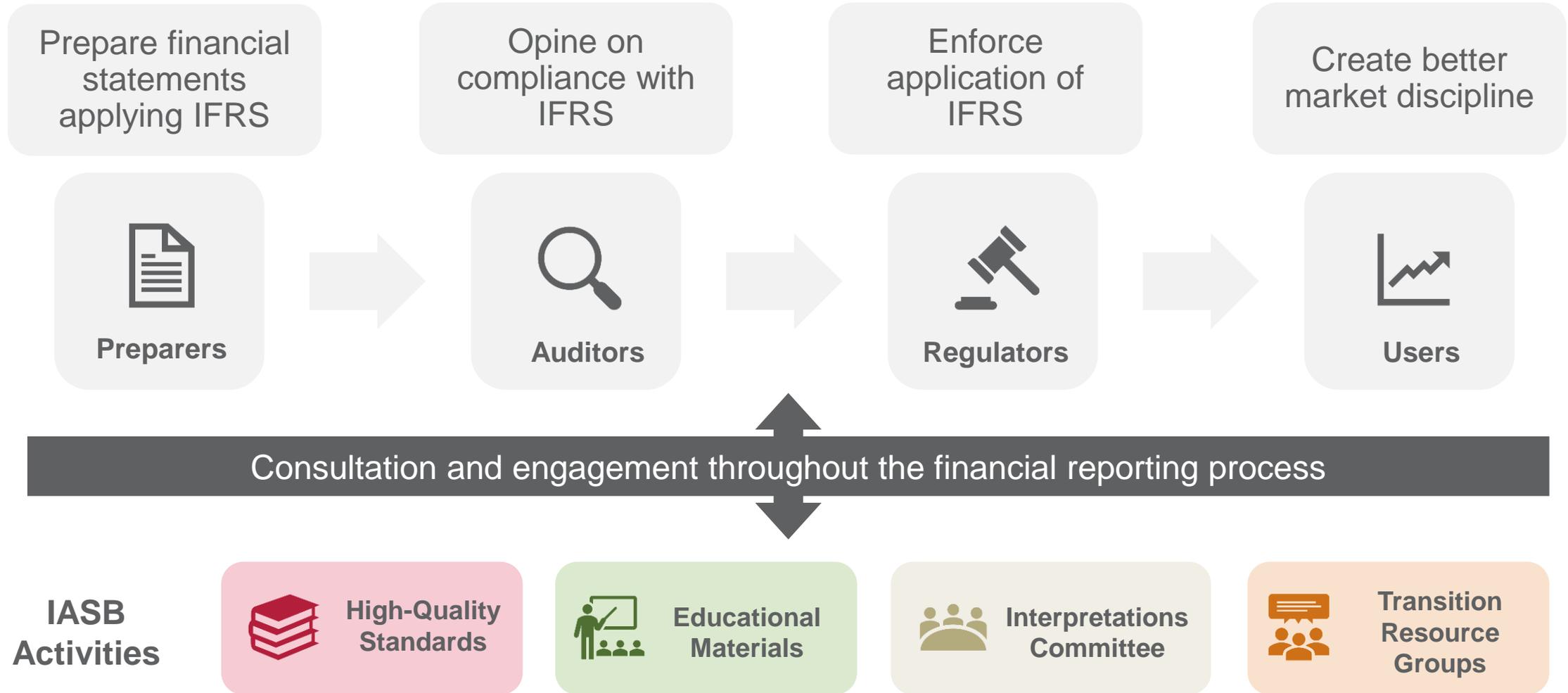
In order to...

support **consistent application** of IFRS Standards

Because it...

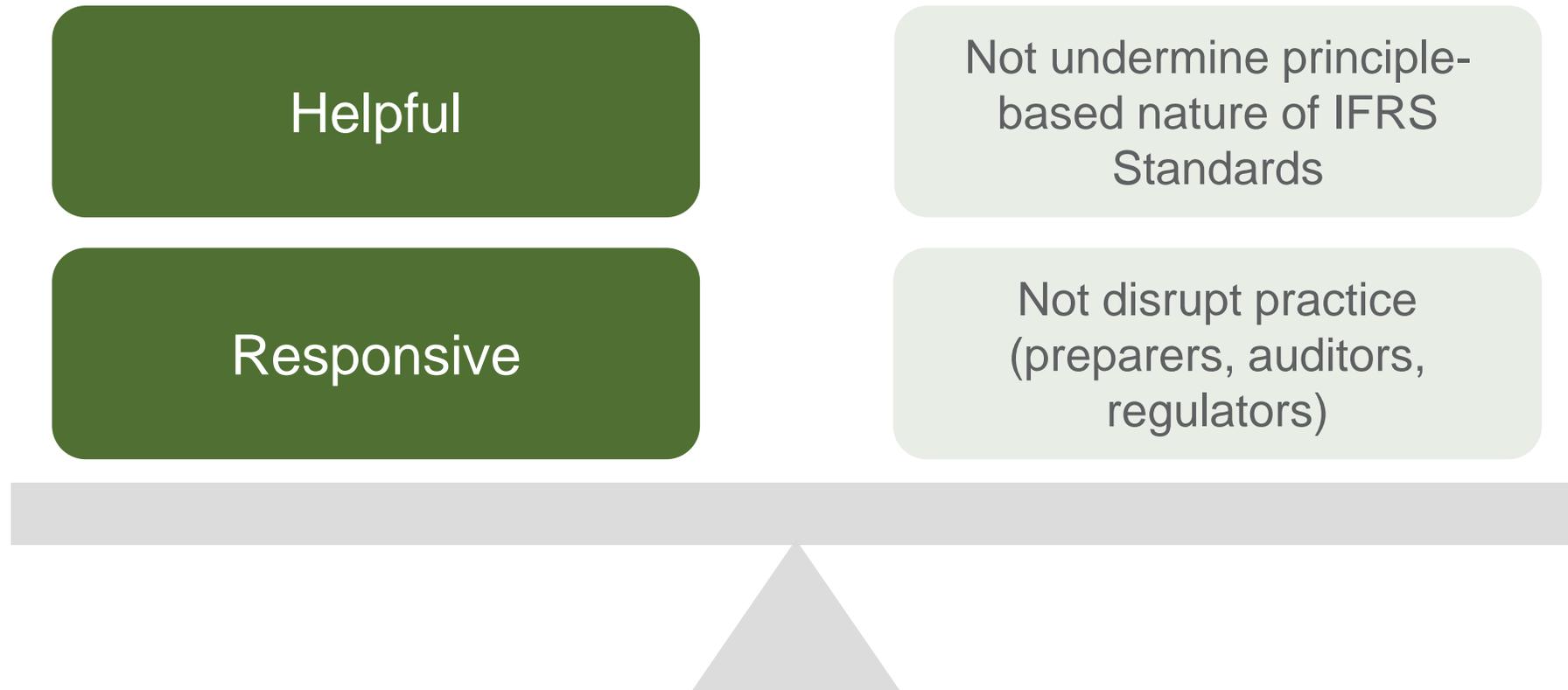
protects IFRS Standards as a single set of **global Standards** for the benefit of users of financial statements

Our role versus the role of others

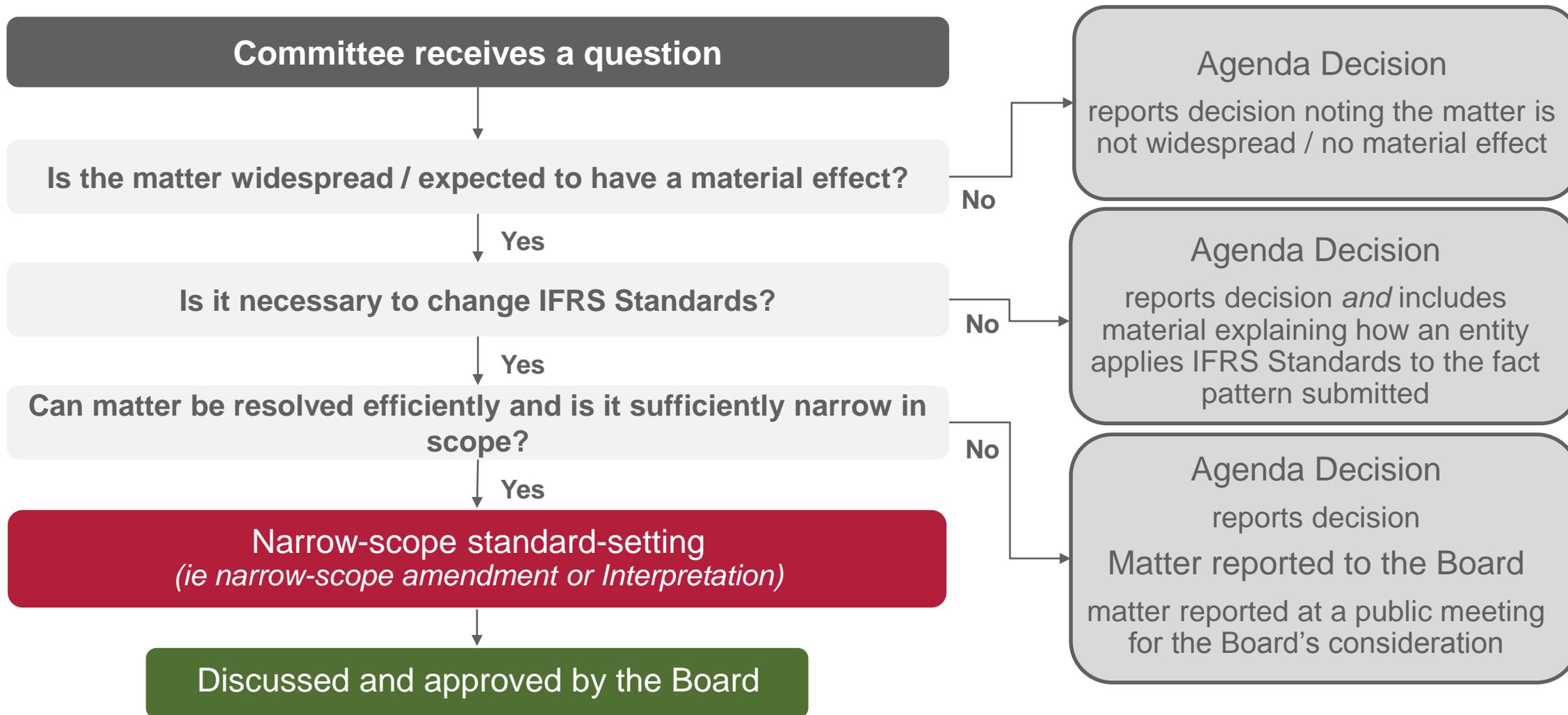


The challenge

- In supporting implementation and application of the Standards, our challenge is to balance:



The Committee's process



Committee's work: Overview of 2019 activities*



28 addressed by Committee through agenda decisions with explanatory material

2 Work in progress

* Four Committee meetings held in 2019 (to date)
(January, March, June and September)

Improving visibility of Agenda Decisions

Annotated Bound Volume

- Published annually
- Agenda decisions alongside applicable requirements



Podcasts

- Recorded quarterly
- Discusses topics addressed at Committee meetings



Compilation of Agenda Decisions

- To be published twice a year



On the website

- By date
- By IFRS Standard



Sufficient time for implementing agenda decisions

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New insights about IFRS application in agenda decisions



Explanatory material in agenda decisions provides new insights



Entities may determine a need to change their accounting policy



Some changes require time to implement

Board's view

The Board expects companies to be entitled to sufficient time to implement changes in accounting policy that result from an agenda decision

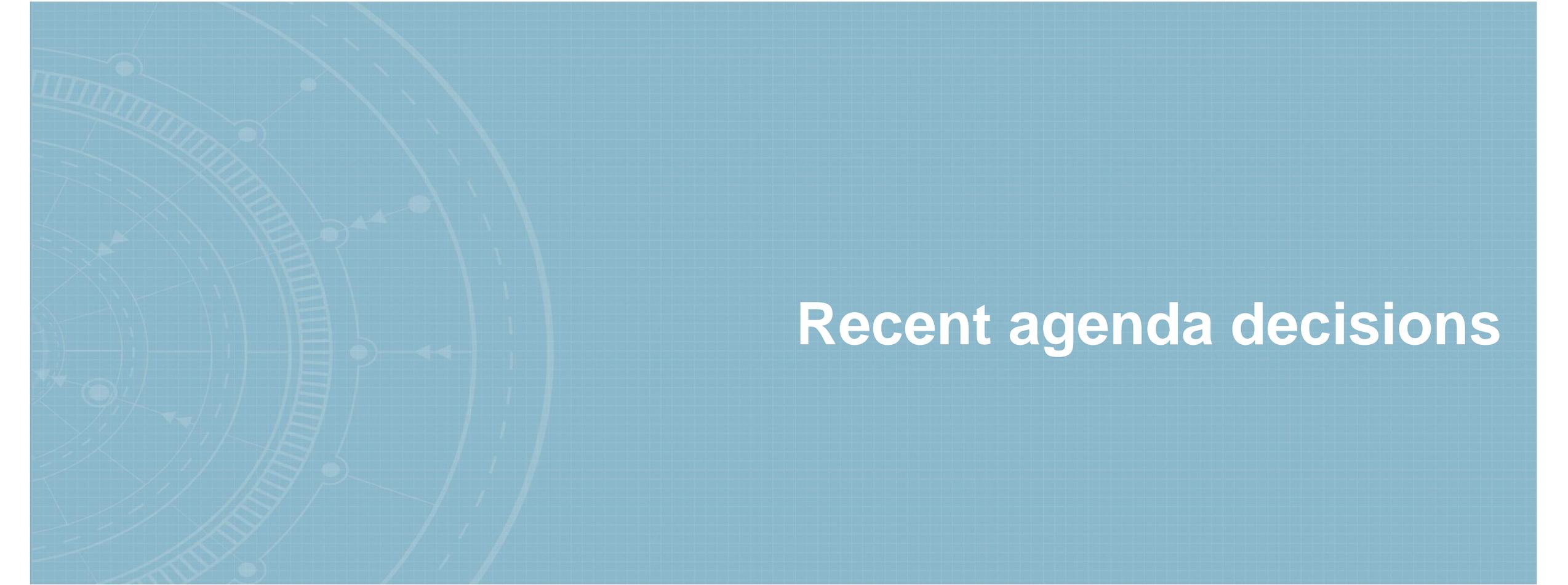
How the Board is trying to help?

New rubric in IFRIC Update

Feature: Agenda decisions—time is of the essence

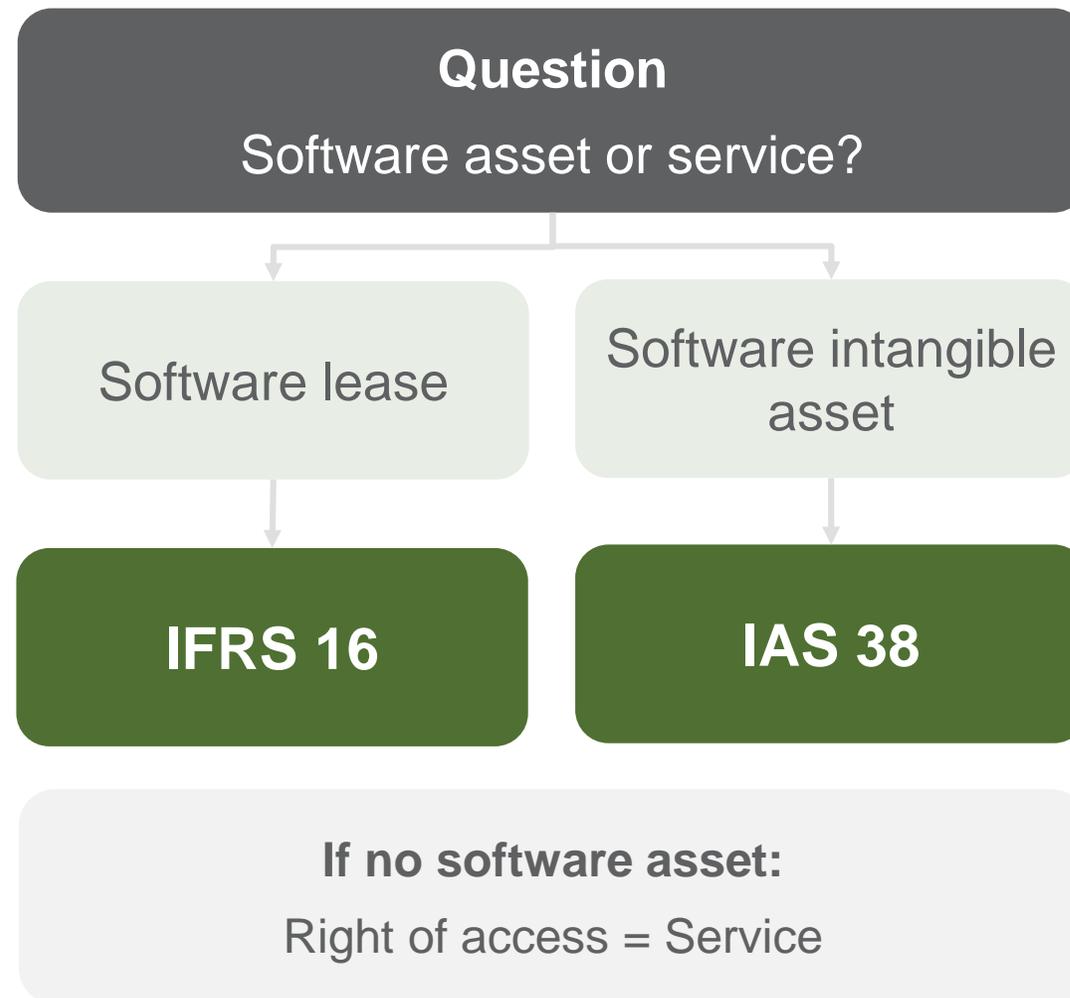
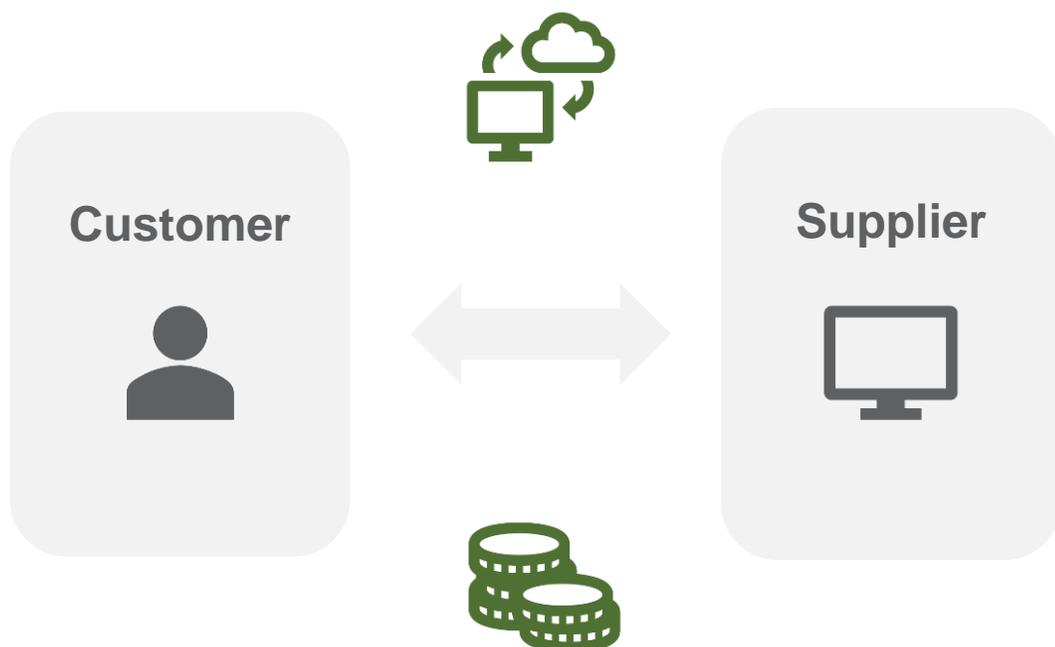
More information on our website:

www.ifrs.org



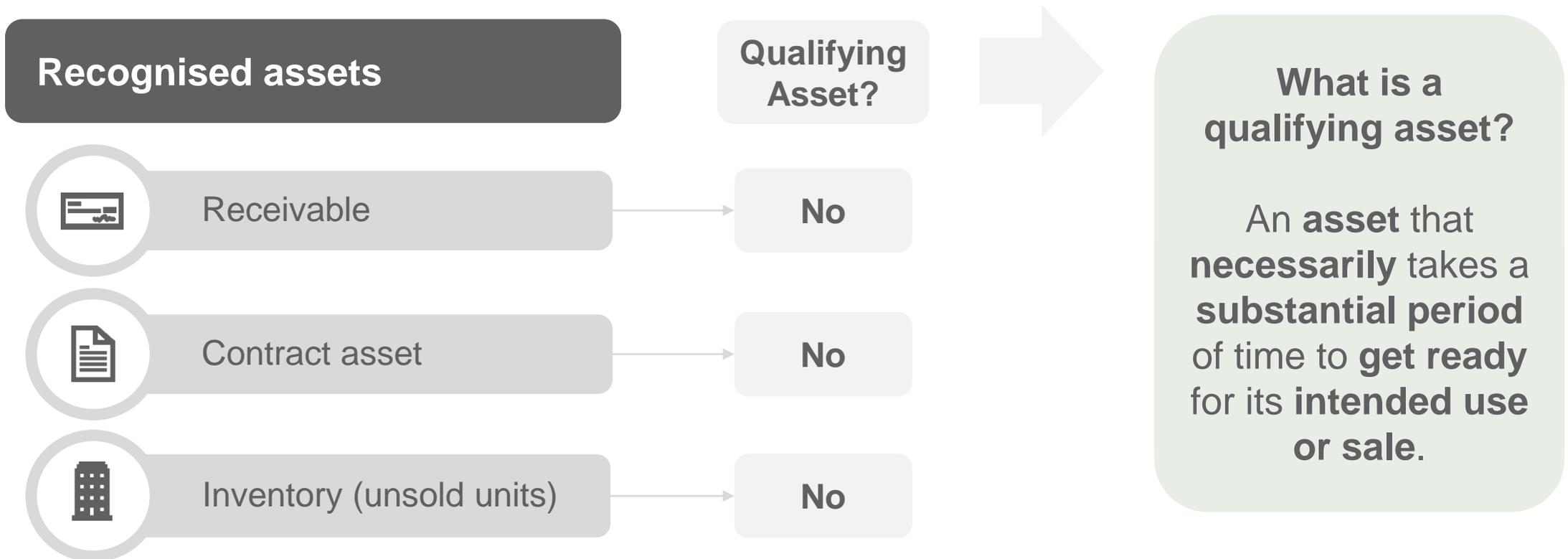
Recent agenda decisions

'Software as a service'

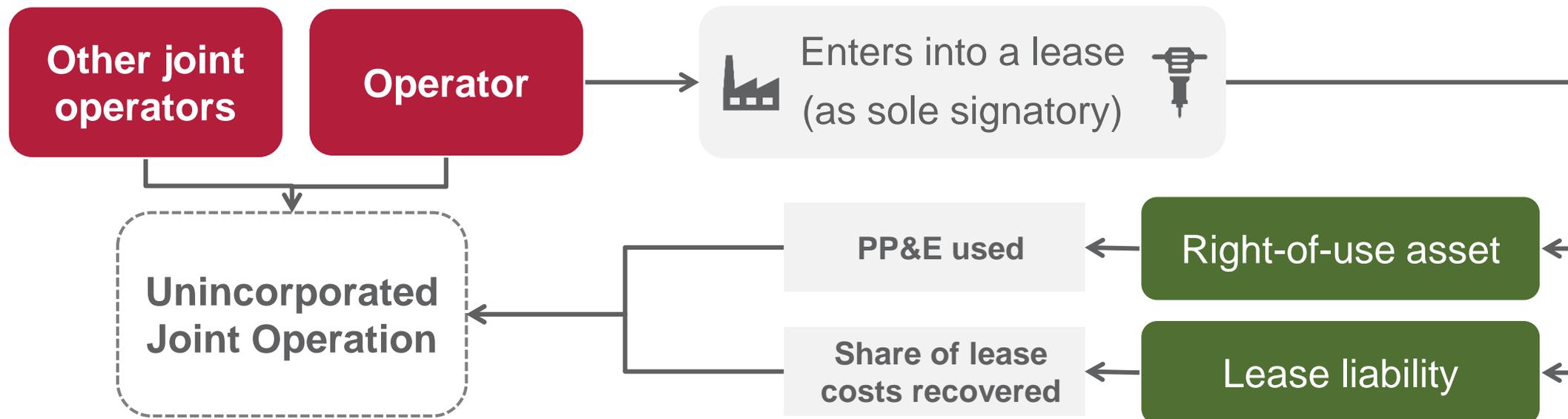


Over time transfer of constructed good (IAS 23)

Does an entity capitalise borrowing costs in relation to construction of residential real estate units transferred to the customer over time?



Lease liabilities in joint operations (IFRS 11)



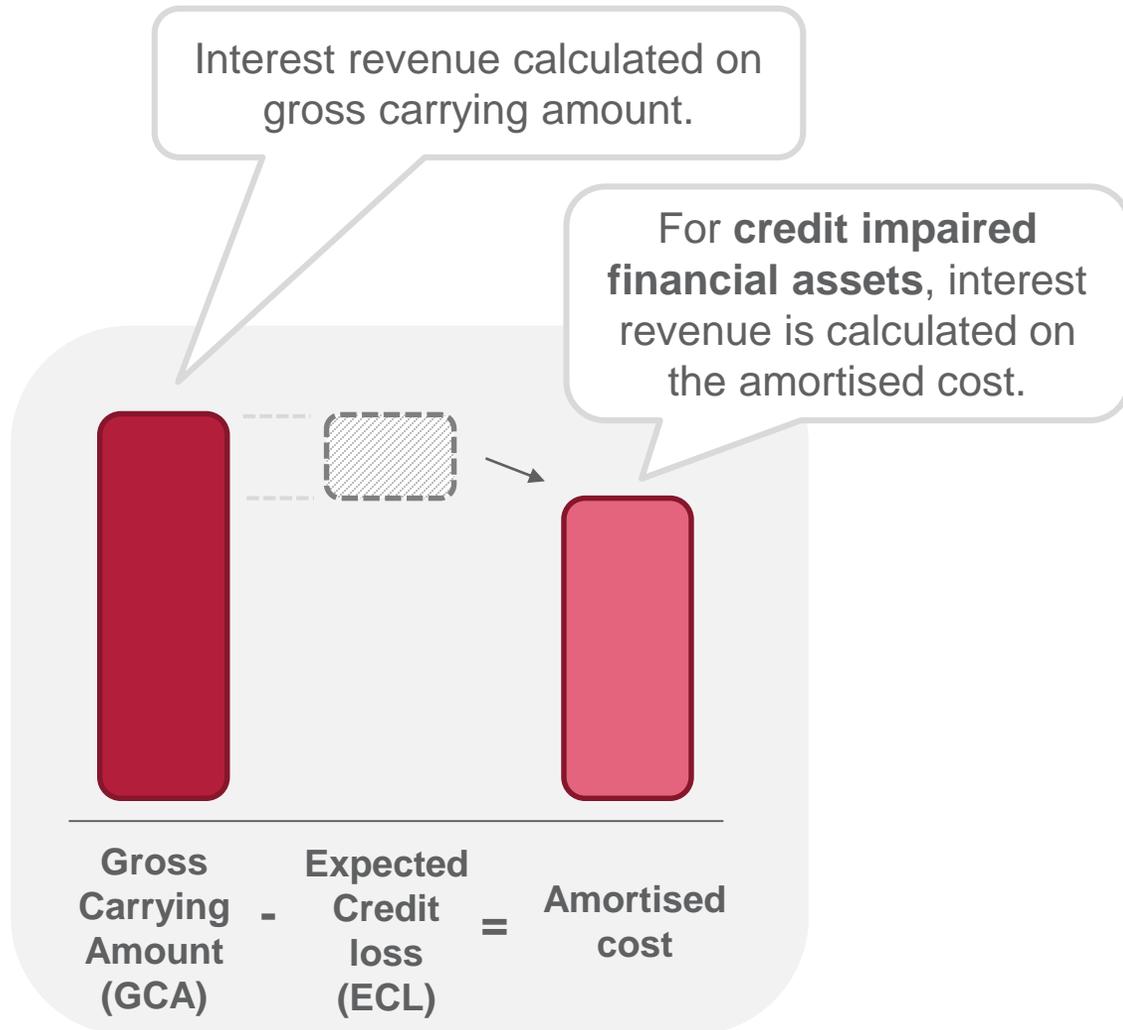
Question

Does the operator recognise the **entire lease liability** or **only its share**?

Conclusion

- All contractual arrangements
- **Primary responsibility**

Curing of a credit-impaired financial asset (IFRS 9)



A credit-impaired financial asset subsequently cures (ie paid in full or no longer credit-impaired)

$$\text{Interest (GCA)} - \text{Interest (Amortised cost)} = \text{Difference when curing}$$

Question
How should an entity present the difference?

Interest revenue 

Reversal of impairment loss 

Physical settlement of contracts to buy or sell a non-financial item (IFRS 9)

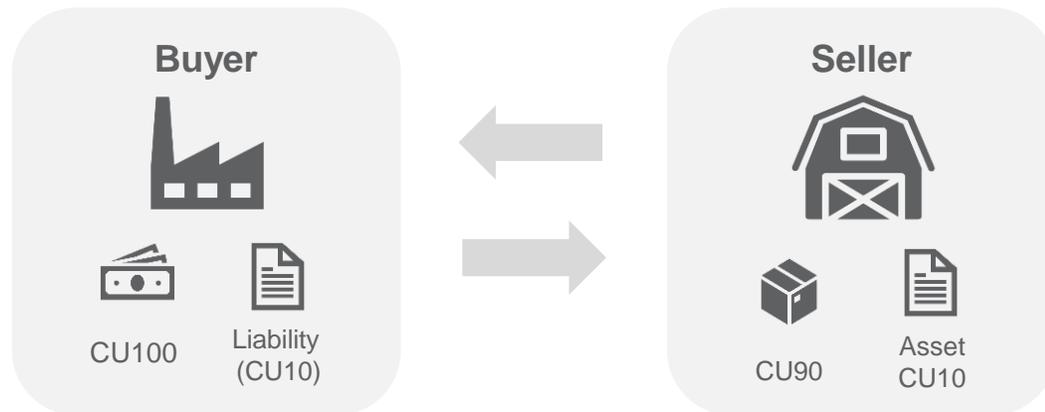
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Contracts fail the own-use scope exception in IFRS 9

Accounted for as derivatives at FVPL

Example of fact pattern (purchase)

- Contract to buy a commodity in the future for CU100.
- On settlement, FV of the derivative is (CU10).



Question

Should an entity reverse the loss of CU10 from the derivative liability on physical settlement?

Inventory

Cash paid
+
Settlement of
derivative

Revenue

Cash received
+
Settlement of
derivative

No reversal of FV gains or losses on derivative

Does a contract include an initial service that is separate from the ongoing service promised in the contract?



Customer pays a non-refundable upfront fee.



Entity performs activities at contract inception.



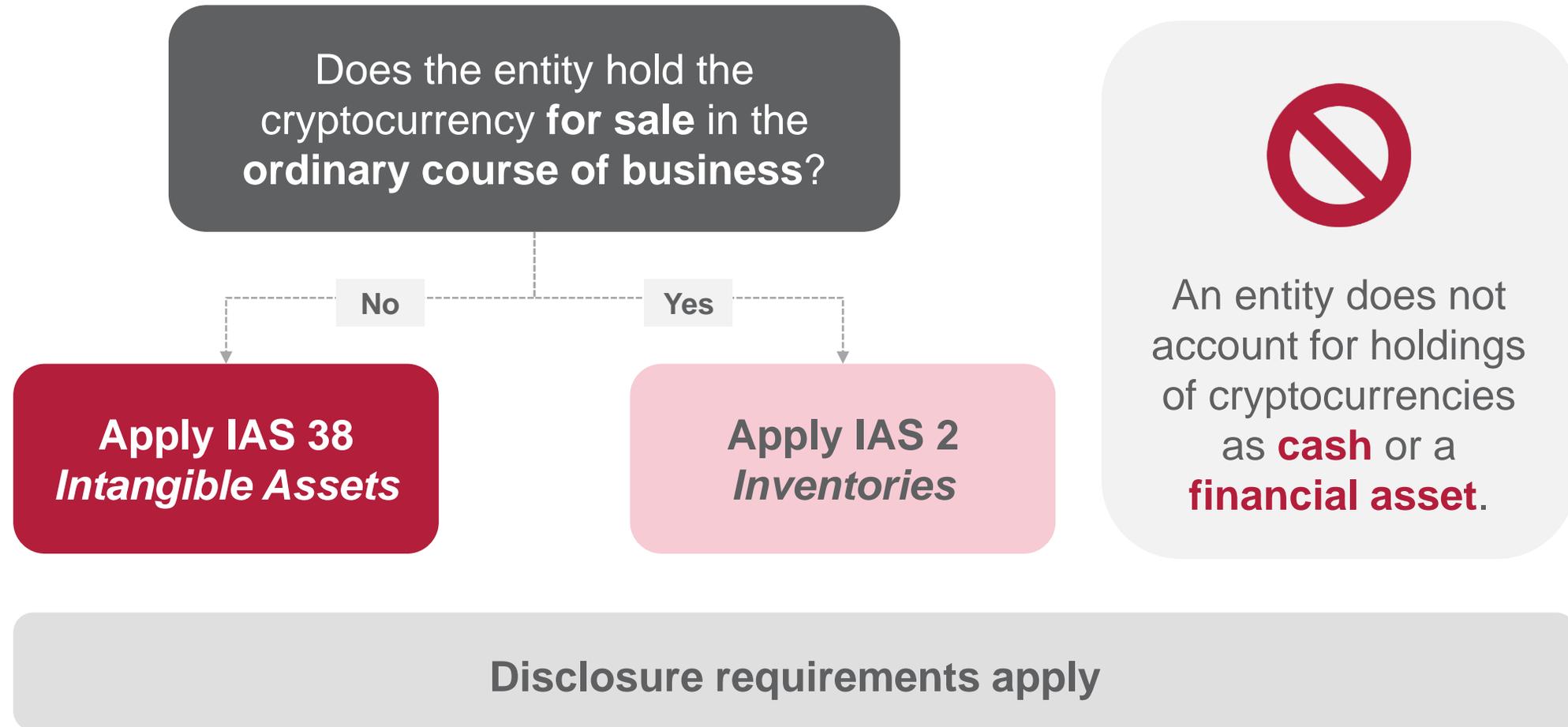
Do those activities transfer a good or service to the customer?

Fact pattern in the request

Stock exchange charges:
Non-refundable upfront fee
and an **ongoing listing fee**.

Undertakes activities to **enable admission to the exchange**.

Conclusion: Stock exchange does not promise to transfer any service other than the service of being listed on the exchange.



Committee's September meeting

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Agenda decisions to finalise

Incremental borrowing rate
(IFRS 16)

Subsequent expenditure
(IAS 41)

Compensation for delays or cancellations
(IFRS 15)

Changes in liabilities arising from financing liabilities
(IAS 7)

Fair value hedge of FX risk on non-financial assets
(IFRS 9)

Presentation of uncertain tax liabilities or assets
(IAS 1)

New Topics

Translation of a hyperinflationary foreign operation
(IAS 29)

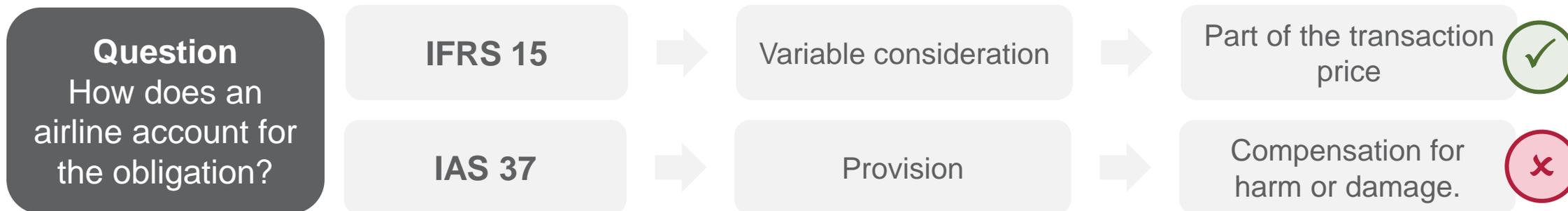
Definition of a lease – shipping contract
(IFRS 16)

Training costs to fulfil a contract
(IFRS 15)

Note: The Committee will discuss the tentative agenda decision on 'Lease term on cancellable leases (IFRS 16)' at its November 2019 meeting.

Airline's obligation to compensate customers for delayed or cancelled flights

Summary of the fact pattern



Conclusion: The compensation relates to the entity's promise to transport the customer from one specified location to another within a specified time period after the scheduled flight time.

Therefore, the compensation gives rise to **variable consideration**.

Fair value hedge of FX risk on non-financial assets (IFRS 9)

Fair value hedge of FX risk on non-financial assets held for consumption

The Committee assessed:

Can an entity have **exposure to foreign currency risk** on a **non-financial asset held for consumption** that could affect profit or loss?

Can it be a **separately identifiable** and **reliably measurable** risk component?

Can such designation be consistent with an entity's **risk management activities**?

An entity considers whether:

Fair value determined **only in one** particular foreign currency.

Hedged risk relates to changes in fair value arising from **translation**.

Does the entity really **manages exposure** to changes in fair value due to FX risk?



Also consider all other applicable requirements in IFRS 9, including those related to the **designation of hedging instruments** and **hedge effectiveness**.

Narrow-scope amendments

Identified problem

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

Exposure Draft *Onerous Contracts—Cost of Fulfilling a Contract* (Proposed amendments to IAS 37)

Tentative decisions



Specify that when assessing whether a contract is onerous, the cost of fulfilling the contract comprise those that relate directly the contract. These costs consist of:

- ✓ the **incremental costs**; and
- ✓ an **allocation of costs** that relate directly to fulfilling that and other contracts.



Next steps:

Discuss due process steps at a future meeting.

Annual Improvements to IFRS Standards 2018 – 2020

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IFRS 1

Subsidiary as a first-time adopter

Simplify the application of IFRS1 by a subsidiary that becomes a first-time adopter after its parent in relation to measurement of cumulative translation differences.

IFRS 9

Fees in the '10 per cent' test for derecognition of financial liabilities

Clarify the fees an entity includes in assessing the terms of a new or modified financial liability for determining whether to derecognise a financial liability.

Illustrative Examples accompanying IFRS 16

Lease Incentives

Remove any potential for confusion regarding lease incentives by amending Illustrative Example IE3.

IAS 41

Taxation in fair value measurements

Align the fair value measurement requirements in IAS 41 with those in other IFRS Standards.

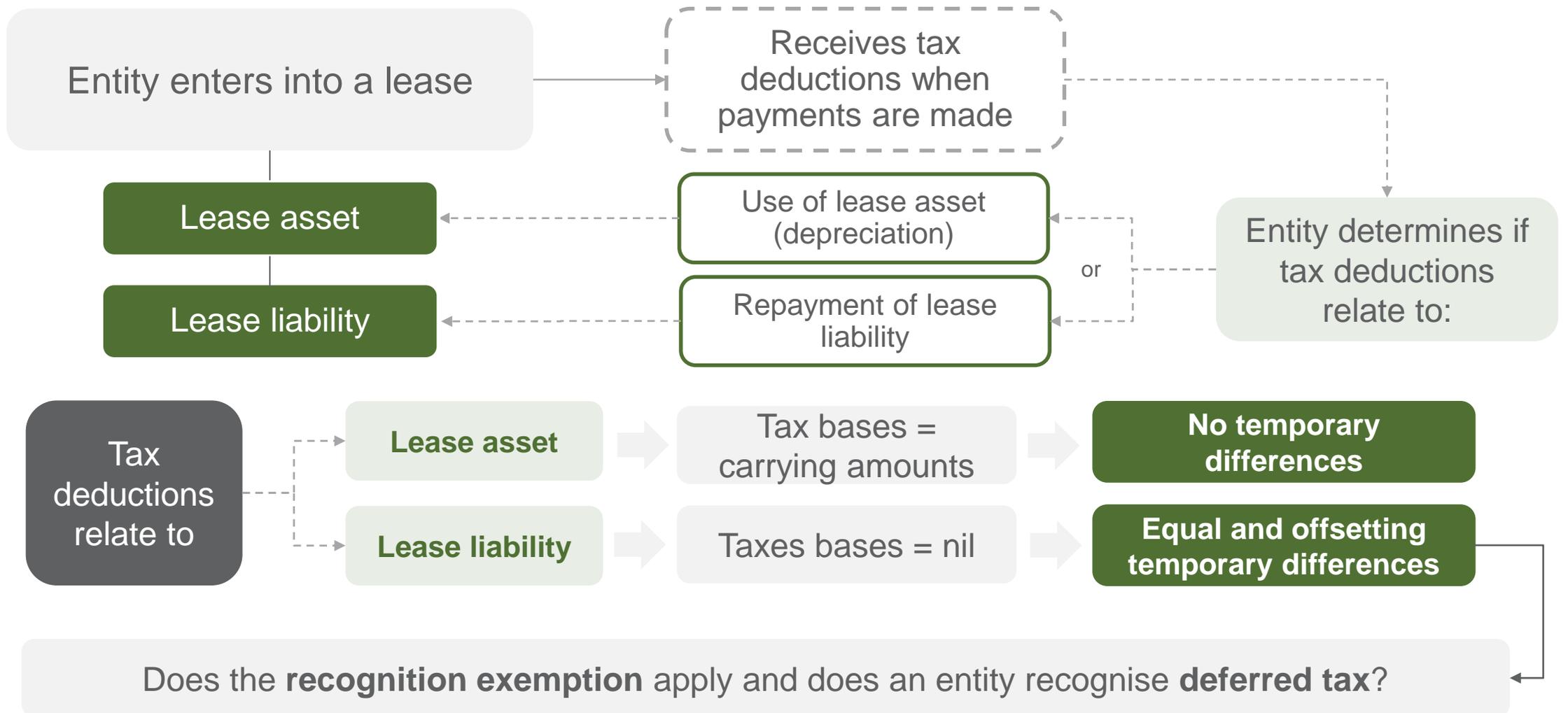
Comment period ended on
20 August 2019.



Next steps:

To be discussed by the Board in Q4 2019.

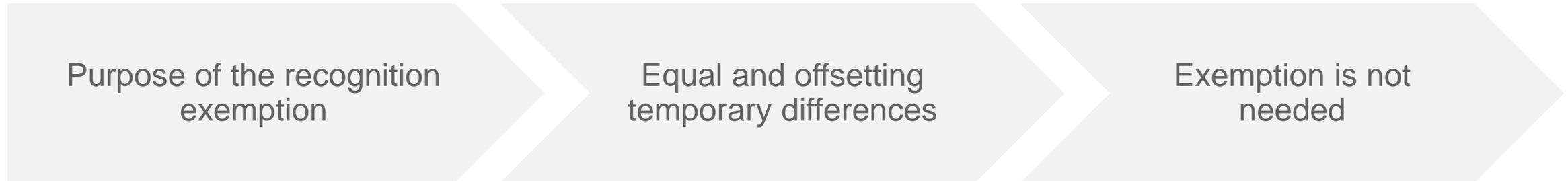
Deferred tax related to assets and liabilities arising from a single transaction



Deferred tax related to assets and liabilities arising from a single transaction

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Board proposes amending IAS 12 *Income Taxes*



Narrowing the scope of the recognition exemption

An entity recognises deferred tax **to the extent** that the transaction gives rise to **equal amounts** of **deferred tax assets** and **liabilities**.



Reasons for the amendment

- Faithful representation
- Reduce diversity
- Narrow in scope



Share your views

- Comment letter deadline:
14 November 2019

Property, plant and equipment (PPE)—Proceeds before intended use (IAS 16)

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Identified problem

Diversity in how entities report the proceeds from selling items before an item of PPE is available for use.

Board's approach

Prohibit deducting sales proceeds from the cost of an item of PPE and require an entity 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 an entity's ordinary activities.
- ✓ Definition of testing activities—assessment of the technical and physical performance of the asset only (not financial performance).



Next steps:

Issue amendments in Q1 2019.

Research

The exchange rate an entity uses when a currency's exchangeability is lacking.

Staff proposals

Narrow-scope amendments to IAS 21

Identify the circumstances in which exchangeability is lacking

Require estimation of spot exchange rate.

Provide disclosures

Next steps



- To be discussed by the Board in Q4 2019.

Questions?



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