IASB Updates October 2018

FIA Seminar

November 2018

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Acknowledgements

This presentation is based on various documents including

- Conceptual Framework, published by IASB in March 2018
- World Standard-Setters Conference Papers published by IASB in October 2018

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Presentation Summary

Section	Activities
Introduction	Discussion of background
Conceptual Framework Finalised	Discussion of main points Video presentation
Goodwill & Impairment Under Discussion	Discussion of main points Questions/Responses
Better Communication Under Discussion	Discussion of main points Questions/Responses

Introduction

International Accounting Standards Board (IASB)

- Based in London, UK
- Staffed by board members, technical experts etc.
- Publish IFRS & handle Education, Translation etc.

World Standard Setters Conference

- Annual event
- Followed by International Forum of Standard Setters
  - attended by regional groupings including Asian-Oceanian Standard Setting Group (AOSSG), EFRAG, PAFA

Part 1

IASB Conceptual Framework

Overview

IASB issued a revised framework in March 2018

- For IASB projects, it is effective immediately
- For reporting entities, it is effective for reporting periods commencing from 1 January 2020 (earlier adoption permitted)

The framework underpins standards but doesn't supersede them

- If an event or condition is specifically addressed in a Standard or an Interpretation, reporting entities must apply that Standard/Interpretation [IAS 8.7]

Applying the Framework

If an issue is not specifically addressed in any IFRS or Interpretation, management must use its judgement

- to develop & apply an accounting policy that results in relevant & reliable information [IAS 8.10]
- considering the following sources in descending order:
  1. requirements/guidance in IASB standards & interpretations dealing with similar/related issues
  2. definitions, recognition criteria & measurement concepts in the framework [IAS 8.11]
  3. most recent pronouncements of other standard-setters & accepted industry practices
     - provided they don't conflict with sources above [IAS 8.12]

Applying the Framework

Consider cryptocurrency or carbon emission permits

Criteria	Met?	
Right	✓	Legal basis [encryption, documentation etc.]
Controlled by the entity	✓	Holder can decide how and when to use/sell it
Result of a past event	✓	Through purchase, exchange, issue etc.
Potential to produce economic benefits	✓	Can be exchanged for resources, services etc.
Conclusion		**Meets the asset definition**

Main Revisions

Video

1. Greater guidance on measurement
   - Previously criticised for lack of prescription
2. Revised definition of liability
3. Additional clarification

Prudence is *"exercise of caution when making judgements under conditions of uncertainty."*

   a) Prudence supports neutrality
      - Does NOT permit over/under-statement of assets or liabilities OR imply asymmetry e.g. require more persuasive evidence to recognize assets compared to liabilities

   b) Importance of stewardship relative to economic decisions
      - Users' decisions are based on future prospects and their own evaluation of management's stewardship

   c) Use of OCI only in exceptional circumstances

Guidance on Measurement

See Chapter 6

1. Information provided by each measurement base
   1. Historical Cost
   2. Current Value
      - Fair Value, Value in use, Current cost
2. When selecting a measurement basis, consider:
   1. Relevance
   2. Faithful representation
   3. Qualitative characteristics and cost constraint
3. Using multiple measurement bases
   - Provide supplementary disclosure through notes
4. Cash-flow based measurement techniques

Standards still take preference.
See individual IFRS for detailed measurement guidance.

Definition of Liability

We already knew most of this

For a liability to exist, 3 criteria must all be satisfied:

1. the entity has an obligation (paragraphs 4.28–4.35);
2. the obligation is to transfer an economic resource (paragraphs 4.36–4.41); and
3. the obligation is a present obligation that exists as a result of past events (paragraphs 4.42–4.47)

A liability is always owed to another party (or parties)

- could be a person or another entity, a group of people or other entities, or society at large.
- not necessary to know their identity e.g. customers and warranties?

Obligation

This is new!

A duty or responsibility that an entity has no practical ability to avoid

Must have the potential to require the entity to transfer an economic resource to another party/ parties).

- Doesn't need to be certain, or even likely, that the entity will be required to make the transfer
  - e.g. may only be required if a specified uncertain future event occurs
- Only necessary that
  1. the obligation already exists; and
  2. it would require the entity to transfer an economic resource in at least one circumstance

Part 2

Goodwill & Impairment

In July 2018, IASB tentatively decided to pursue 3 objectives to address problems identified in the research phase

Disclosure Objectives

Goodwill arises from business combinations

Considering additional disclosure objectives about the acquired business:

1. For combinations in the current period, disclose information that helps users understand
   a) strategic rationale and key value drivers of the business combination
      Largely met by existing requirements in IFRS3
   b) factors identified at the acquisition date that an entity will use to assess the success of a business combination.
2. For combinations that occurred in prior periods, disclose information that helps users
   a) assess the extent to which past combinations have been successful, as measured by success factors identified at the acquisition date

Proposed Additional Disclosures

For Objective 1.a on Slide 14

a) Primary reasons for paying any premium and the value of those elements that support the goodwill recognised on acquisition

b) Quantitative assessment of synergies, etc. together with an assessment of the costs to achieve these synergies;

c) Separate disclosure of debt and pension obligations assumed on acquisition;

d) Types and classes of intangible assets recognised

e) Valuation techniques and significant inputs to measure the values of the assets acquired and liabilities assumed

Proposed Additional Disclosures

For Objective 1.b and 2 on Slide 14

Considering possible approaches

1. achievement of acquisition date synergies
2. achievement of acquisition date financial/operating KPIs
3. comparison of actual vs forecast cash flows
4. contribution of the acquisition to annual changes in segment/CGU return on assets
5. progress in achieving acquisition date payback period

Simplified Accounting for Goodwill

Stakeholder views are polarized

Arguments against amortization

1. Amortisation model (arguably) doesn't provide useful information for users
   - could be offset by improved disclosures?
2. Determining the amortisation period is difficult

Arguments for amortisation

1. Amortisation model is a less-costly way to reduce carrying amount of goodwill on the statement of financial position
2. Impairment test provides limited information about performance of the acquisition

Simplified Accounting for Goodwill

Issues to be resolved

1. How should useful life of goodwill be determined
   - should there be an upper limit on that useful life?
2. How should the amortisation method be determined?
3. Should goodwill be treated differently to indefinite life intangible assets?

App Questions

If amortisation of goodwill was reintroduced:

a) how should the useful life of goodwill be determined?

1 = Standard sets maximum life

2 = Standard provides factors to consider

3 = Unsure

b) what amortisation method should be used?

1 = Straight-line

2 = Reducing balance

3 = Either Straight-line OR Reducing method

4 = Unsure

c) should indefinite-lived intangible assets also be amortised?

1 = Yes, 2 = No, 3 = Unsure

Improving Calculation of VIU

Possible amendments to IAS 36

Remove requirements to:

1. exclude cash flows arising from a future restructuring or from a future enhancement
2. use pre-tax inputs in calculating VIU, and to disclose pre-tax discount rates used

Benefits:

- would reduce the costs and complexity of the impairment test in IAS 36; and
- are relatively straight forward

Part 3

Better Communication

Key considerations include the need for comparability and allowing firms flexibility in how they report

Classification of Cash Flows

Eliminating classification options (interest/dividends)

Cash flows	Classification
Interest incurred on financing activities	Financing
Interest paid that is capitalized as part of the cost of an asset	Financing
Dividends paid	Financing
Dividends received	Investing
Interest received	Investing

Provides a consistent starting point for the indirect method for reporting operating cash flows

- profit before investing, financing and income tax

Defined Subtotals for Profit & Loss

Profit from consolidated entities, before investing, financing and income tax **(business profit)**	Excludes share of profit from ALL JVs and associates
Profit before **investing,** financing & income tax	Excludes share of profit from **non-integral JVs & associates** Excludes income/expenses from investments ▪ i.e. income/ expenses from assets that generate a return individually and largely independently of other resources held by the entity
Profit before **financing** & income tax	

Defined Subtotals for Finance Items

1	Interest income from cash and cash equivalents calculated using effective interest method
2	Other income from cash and cash equivalents and **financing activities**
3	Expenses from **financing activities**
4	Other **finance income**
5	Other **finance expenses** ▪Includes specified items such as unwinding of the discount on liabilities that do not arise from financing activities

App Questions

a) Do you support revised classification of cash flows?

1 = Yes

2 = No

3 = Unsure

b) Do you find additional subtotals in P&L useful?

1 = Yes

2 = No

3 = Unsure

Definition of ‘Material’

In May 2018 IASB decided to

- change the definition of material in IAS 1 to the definition proposed in the 2017 Exposure Draft:

  ‘Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of a specific reporting entity’s general purpose financial statements make on the basis of those financial statements’

- include a clear description and examples to explain the concept of ‘obscuring information.’

Expected to publish final amendment in November 2018.

Additional Resources

To support the issues covered in this seminar

Subject	Source/Presenter	Link
Changes to the framework	Hans Hoogervost IASB Chairman	Video
Revised framework	IASB	IASB website
Summary of revised framework	Deloitte	Document

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