MONTHLY UPDATES (January 2020) – What’s new from the International Accounting Standards Board (IASB)

The topics discussed at the IASB’s January 2020 meetings were on the following:

1. Business Combinations under Common Control
3. Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)
5. IBOR Reform and its Effects on Financial Reporting: Phase 2
6. Amendments to IFRS 17 Insurance Contracts
1. Business Combinations under Common Control

The Board met to discuss its research project on Business Combinations under Common Control.

The Board tentatively decided that when a receiving entity in a business combination under common control reports on that combination by applying a predecessor approach it would be required:

a. to measure consideration paid in assets at the carrying amounts of those assets at the date of the combination.
b. to measure consideration in the form of incurred liabilities towards the transferor or liabilities assumed from the transferor at the carrying amounts of those liabilities, as determined in accordance with applicable IFRS Standards, on the initial recognition of those liabilities at the date of combination.
c. to recognise transaction costs as an expense in the statement of profit or loss in the period in which they are incurred.
d. to recognise costs related to the issue of debt or equity instruments in accordance with IAS 32 Financial Instruments: Presentation and IFRS 9 Financial Instruments.
e. to recognise as a change in equity any difference between the consideration paid and the carrying amounts of assets and liabilities received.

The Board tentatively decided not to prescribe:

a. how a receiving entity would measure consideration paid in its own shares; and
b. in which component or components of its equity a receiving entity would present any difference between the consideration paid and the carrying amounts of assets and liabilities received.

These tentative decisions complete the Board’s discussions about how a predecessor approach would be applied by a receiving entity.

Next steps

At a future meeting, the Board will discuss what information an entity should disclose about its transactions within the scope of the project. The Board will also decide what type of consultation document to publish for this project and whether to begin the balloting process for that document.

2. Disclosure Initiative: Targeted Standards level Review of Disclosures

The Board met to discuss:

a) Expected future cash flows for defined benefit plans

The Board continued its discussion on information that could meet the specific disclosure objective on expected future cash flows for defined benefit plans that the Board tentatively agreed at its July 2019 meeting.
The Board tentatively decided:

a. to clarify that the specific disclosure objective is intended to refer to information about the expected effect of a defined benefit obligation on an entity’s future cash flows.

b. to require an entity to explain the methods used to meet the specific disclosure objective.

c. to identify information an entity may but is not required to provide to meet the specific disclosure objective, such as:

   i. descriptions of funding agreements or policies that affect any expected future contributions that meet the defined benefit obligation at the end of the reporting period. Such agreements could include those reached with plan trustees or managers.

   ii. quantitative information about any expected future contributions that meet the defined benefit obligation at the end of the reporting period.

   iii. descriptions of regulatory or other agreements that affect any expected future contributions, including any known minimum funding requirements.

   iv. information about the expected pattern or rate of future contributions. For example, information about whether future contributions are expected to be greater than, similar to or less than those made in the current reporting period and why.

The Board also tentatively decided to include application guidance in IAS 19 to explain how an entity applies judgement to determine, in the entity’s own circumstances, the relevance of the information the Board has tentatively decided to include.

b) Comparison between the Board’s tentative decisions and the disclosure requirements in IAS 19 Employee Benefits

The Board considered how its tentative decisions about disclosures in IAS 19 compare to the disclosure requirements in the Standard and whether those tentative decisions should be refined.

For defined benefit plans, the Board tentatively decided:

a. to leave unchanged its tentative decisions about the specific disclosure objectives on:
i. amounts in the primary financial statements.
ii. expected future cash flows resulting from the defined benefit obligation.
iii. the time period over which payments to closed plans will continue to be made.
iv. the significant actuarial assumptions an entity uses to determine the defined benefit obligation.

b. with respect to the high-level, catch all disclosure objective, to list features or characteristics an entity could use to disaggregate information on defined benefit plans.

c. to identify asset or liability-matching investment strategies as an example of information an entity may but is not required to provide to meet the specific disclosure objective on the nature and risks of defined benefit plans.

d. to identify information an entity may but is not required to provide to meet the specific disclosure objective on the nature and risks of defined benefit plans, such as:
   i. a description of plan amendments, curtailments and settlements; and
   ii. the fair value of the entity’s own transferable financial instruments held as plan assets and the fair value of plan assets that are property occupied or other assets used by the entity.

e. to amend the specific disclosure objective and information on drivers of change in the net defined benefit liability or asset that could meet the objective:
   i. to require an entity to disclose a tabular reconciliation of the main drivers of change in the net defined benefit liability or asset;
   ii. to include drivers of change relating to any reimbursement rights; and
   iii. to add three examples of drivers of change:
      1. interest income or expense.
      2. changes in the effect of limiting a net defined benefit asset to the asset ceiling.
      3. gains and losses from settlement.

The Board tentatively decided to leave unchanged its tentative decisions on defined contribution plans, short-term employee benefits, other long-term employee benefits and termination benefits.

For multi-employer plans, the Board tentatively decided to identify information an entity may but is not required to provide to meet the specific disclosure objective on the nature and risks of the plans, namely:
a. for all multi-employer defined benefit plans, a description of the agreed allocation of a deficit or surplus on the wind-up of the plan or on the entity’s withdrawal from the plan; and

b. for a multi-employer defined benefit plan accounted for as a defined contribution plan, the fact that the plan is a defined benefit plan and information about any deficit or surplus in the plan that may affect the amount of future contributions to be paid by the entity.

With regard to group plans, the Board tentatively decided that:

a. for a group plan accounted for as a defined benefit plan, an entity may but is not required to disclose the contractual agreement or stated policy for charging the net defined benefit cost to individual group entities to meet the specific disclosure objective on amounts in the primary financial statements arising from defined benefit plans during the period;

b. for a group plan accounted for as a defined contribution plan, an entity may but is not required to disclose any deficit or surplus in the plan that could affect the amount of future contributions to be paid by the entity to meet the specific disclosure objective on the nature and risks of defined benefit plans; and

c. an entity can satisfy the disclosure objectives by cross-referring to the disclosures in another group entity’s financial statements if the other entity’s financial statements are available to users on the same terms and at the same time as the entity’s financial statements.

**Next steps**

At a future meeting, the Board will:

a. consider whether to amend IFRS 13 *Fair Value Measurement* to include a separate disclosure objective and information that could be used to meet the objective on the effect of fair value measurement on the statement of financial performance; and

b. discuss the lessons learned during the testing phase of the targeted Standards-level review of disclosures and any resulting potential amendments to the Board’s draft guidance for developing and drafting disclosure objectives and requirements.
3. Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)

The Board met on to finalise its amendments to IFRS 3 Business Combinations.

a) Transition and effective date

The Board tentatively decided:

a. to require an entity to apply the amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2022;

b. to permit an entity to apply the amendments earlier if at the same time the entity also applies all the amendments made by Amendments to References to the Conceptual Framework in IFRS Standards; and

c. not to require an entity that applies the amendments early to disclose that it has done so.

b) Due process

The Board decided that the amendments do not require re-exposure.

Next step

The Board plans to issue the amendments in the second quarter of 2020


The Board met to decide whether to add to its work plan a project to amend aspects of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and, if so, what the scope of the project should be.

The Board decided to add to its work plan a project to:

a. align the liability definition and requirements for identifying liabilities in IAS 37 with the Conceptual Framework for Financial Reporting;

b. clarify which costs to include in the measure of a provision; and

c. specify whether the rate at which an entity discounts a provision should reflect the entity’s own credit risk.

Next step

The staff will develop a project plan for the Board to consider.
5. IBOR Reform and its Effects on Financial Reporting: Phase 2

The Board met to discuss the following issues that could result from the reform of interest rate benchmarks (IBOR reform):

a) **End of application: Phase 1 exceptions**

The Board tentatively decided to:

a. amend IAS 39, only for the purpose of assessing retrospective effectiveness, to require entities to reset to zero the cumulative fair value changes of the hedging instrument and the hedged item at the date the exception to the retrospective assessment in paragraph 102G of IAS 39 ceases to apply; and

b. make no amendments to the end of application requirements for the Phase 1 exceptions to the highly probable requirement for cash flow hedges and prospective assessments in IFRS 9 and IAS 39.

b) **Other IFRS Standards**

The Board tentatively decided to amend:

a. IFRS 16 *Leases* to require a lessee to apply paragraphs 42(b) and 43 of IFRS 16 to account for lease modifications to the interest rate benchmark on which lease payments are based that are required as a direct consequence of IBOR reform and done on an economically equivalent basis (modifications directly required by IBOR reform).

b. IFRS 4 *Insurance Contracts* to require insurers that apply the temporary exemption from IFRS 9 to apply the amendments resulting from the Board’s tentative decisions in Phase 2 of the project in accounting for modifications directly required by IBOR reform.

The Board also tentatively decided that no amendments are made in the context of IBOR reform to:

a. IFRS 13 *Fair Value Measurement* because it provides sufficient guidance to determine if and when a financial asset or financial liability should be transferred to a different level within the fair value hierarchy. These transfers reflect the economic effects of IBOR reform, therefore providing useful information to users of financial statements.

b. IFRS 17 *Insurance Contracts* because it provides an adequate basis for an entity to account for insurance contract modifications in the context of the IBOR reform. Such accounting results in useful information to users of financial statements.
c. the current requirements in IFRS Standards with respect to discount rates as they already provide adequate guidance to determine the appropriate accounting treatment for the potential effects of changes to the discount rates resulting from the replacement of interest rate benchmarks.

c) Disclosures

The Board tentatively decided to amend IFRS 7 Financial Instruments: Disclosures to require an entity to provide disclosures that enable users of financial statements to understand:

a. the nature and extent of risks arising from IBOR reform to which the entity is exposed, and how it manages those risks; and

b. the entity’s progress in completing the transition from interest rate benchmarks to alternative benchmark rates, and how the entity is managing the transition.

To achieve this objective, an entity would disclose information about:

a. how it is managing the transition from interest rate benchmarks to alternative benchmark rates and the progress made at the reporting date, and the risks arising from this transition;

b. the carrying amount of financial assets and financial liabilities, including the nominal amount of the derivatives, that continue to reference interest rate benchmarks subject to the reform, disaggregated by significant interest rate benchmark;

c. for each significant alternative benchmark rate to which the entity is exposed, an explanation of how the entity determined the base rate and relevant adjustments to the rate to assess whether the modifications to contractual cash flows were required as a direct consequence of IBOR reform and have been done on an economically equivalent basis; and

d. to the extent that IBOR reform has resulted in changes to an entity’s risk management strategy, a description of these changes and how is the entity managing those risks.

Next steps

At future Board meetings, the Board will discuss:

a. the end of application of the amendments proposed in Phase 2 of the project;
b. voluntary or mandatory application of the proposed amendments;
c. the transition and effective date of the proposed amendments; and
d. due process steps.
6. Amendments to IFRS 17 Insurance Contracts

The Board met to discuss the feedback on its Exposure Draft Amendments to IFRS 17 relating to:

a) **Scope exclusion from IFRS 17 for some credit card contracts**

The Board tentatively decided to confirm the proposed scope exclusion from IFRS 17, with some changes, resulting in the following requirement.

An entity is required to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if and only if the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. If the entity provides the insurance coverage to the customer as part of the contractual terms of such a credit card contract, the entity is required to:

i. separate that insurance coverage component and apply IFRS 17 to it; and

ii. apply other applicable IFRS Standards, such as IFRS 9 Financial Instruments, to the other components of the credit card contract.

The Board also tentatively decided to extend this amendment to other contracts that provide credit or payment arrangements that are similar to such credit card contracts if these contracts meet the definition of an insurance contract and the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

b) **Transition: the prohibition from applying the risk mitigation option retrospectively**

The Board tentatively decided to retain unchanged the prohibition in IFRS 17 from applying the risk mitigation option retrospectively.

c) **Business combinations: contracts acquired in their settlement period**

The Board tentatively decided to retain unchanged the requirements in IFRS 17 for insurance contracts acquired in their settlement period in a transfer of insurance contracts that do not form a business or in a business combination within the scope of IFRS 3 Business Combinations.

d) **Interim financial statements**

The Board tentatively decided to amend paragraph B137 of IFRS 17 to require an entity to:

i. make an accounting policy choice as to whether to change the treatment of accounting estimates made in previous interim financial statements when
applying IFRS 17 in subsequent interim financial statements or in the annual reporting period; and

ii. apply its choice of accounting policy to all insurance contracts issued and reinsurance contracts held (ie an accounting policy choice at entity level).

e) Asset for insurance acquisition cash flows—transition and business combinations

(a) Transition to IFRS 17

The Board tentatively decided to amend IFRS 17 to require an entity to identify, recognise and measure at the transition date an asset for insurance acquisition cash flows for a group of insurance contracts. If and only if it is impracticable for the entity to apply IFRS 17 retrospectively, the entity is required to measure an asset for insurance acquisition cash flows at the transition date applying either the modified retrospective approach or the fair value approach.

(b) Modified retrospective approach

In the modified retrospective approach, in line with the requirement in paragraph C8 of IFRS 17, the Board tentatively decided to amend IFRS 17 to permit an entity to use the modification described below only if it does not have reasonable and supportable information to apply a retrospective approach.

The modification available in such cases is that an entity is required to:

a. measure an asset for insurance acquisition cash flows using information available at the transition date by identifying the amount of insurance acquisition cash flows paid before the transition date excluding the amount relating to the contracts that ceased to exist before the transition date;

b. allocate the identified amount using the systematic and rational allocation method that the entity will apply going forward to:

i. groups of insurance contracts that are recognised at the transition date; and

ii. groups of insurance contracts that are expected to be recognised after the transition date;

c. adjust the measurement of the contractual service margin of the insurance contracts that are recognised at the transition date by deducting the amount of insurance acquisition cash flows determined by applying subparagraph b(i); and

d. recognise an asset for insurance acquisition cash flows for the insurance contracts expected to be recognised after the transition date at the amount determined applying subparagraph b(ii).
The Board also tentatively decided to amend IFRS 17 to allow an entity that does not have reasonable and supportable information necessary to apply this modification to apply the modified retrospective approach by determining at the transition date:

a. an adjustment to the contractual service margin of the groups of insurance contracts that are recognised at the transition date as nil; and

b. an asset for insurance acquisition cash flows for the groups of insurance contracts that are expected to be recognised after the transition date as nil.

(c) *Fair value approach*

In the fair value approach, the Board tentatively decided to amend IFRS 17 to require an entity to recognise an asset for insurance acquisition cash flows measured as the amount of insurance acquisition cash flows that the entity would incur at the transition date to obtain the rights to:

a. recover insurance acquisition cash flows from premiums of insurance contracts originated before the transition date but not yet recognised at the transition date;

b. obtain future contracts after the transition date without paying again insurance acquisition cash flows the entity has already paid; and

c. obtain future renewals of:
   i. contracts recognised at the transition date; and
   ii. contracts described in subparagraphs (a) and (b).

(d) *Transfer of insurance contracts and business combinations*

The Board tentatively decided to amend IFRS 3 and IFRS 17 to require an entity that acquires insurance contracts in a transfer of insurance contracts that do not form a business and in a business combination within the scope of IFRS 3 to recognise a separate asset measured at fair value at the acquisition date for the rights to:

a. obtain future contracts after the acquisition date without paying again insurance acquisition cash flows the entity has already paid; and

b. obtain future renewals of:
   i. contracts recognised at the acquisition date; and
   ii. contracts described in subparagraph (a).
(e) **Impairment test**

The Board tentatively decided to clarify that on transition to IFRS 17 for the assets for insurance acquisition cash flows recognised at the transition date, an entity is not required to apply the recoverability assessment requirement in paragraph 28D of the Exposure Draft retrospectively for the period before the transition date.

**Next steps**

At its future meetings, the Board will redeliberate the remaining topics for discussion in response to the feedback on the Exposure Draft *Amendments to IFRS 17*.

*For further information: [http://www.ifrs.org](http://www.ifrs.org)*

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