Financial Reporting Council

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

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

1. Amendments to IFRS 17 Insurance Contracts
2. Management Commentary
3. Maintenance and consistent application of IFRS Standards
4. Disclosure Initiative—Accounting Policies
5. Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases
1. Amendments to IFRS 17 Insurance Contracts

The Board met to discuss the sweep issues identified during the balloting process of the amendments to IFRS 17 Insurance Contracts.

The Board tentatively decided to:

a. require an entity to include in the initial measurement of the contractual service margin of a group of insurance contracts the effect of the derecognition of any asset or liability for cash flows related to that group that was recognised before the group is recognised;
b. require an entity, when another IFRS Standard requires it to recognise a liability for future insurance acquisition cash flows before it recognises the related group of insurance contracts, to also recognise an asset for those cash flows;
c. require an entity to use a systematic and rational method of allocation to apply the requirements in IFRS 17 relating to the recovery of losses from reinsurance contracts held when the entity groups together underlying onerous insurance contracts that are covered by a reinsurance contract held and other onerous insurance contracts the entity issues;
d. require an entity to recognise insurance revenue when the entity recognises in profit or loss amounts related to income tax that are specifically chargeable to the policyholder under the terms of an insurance contract;
e. include in the definitions of the liability for remaining coverage and the liability for incurred claims all obligations arising from insurance contracts issued by an entity; and
f. amend paragraph B96(c) of IFRS 17 to clarify the treatment of insurance finance income or expenses relating to investment components that are paid in a period when they were not expected to be paid, or not paid in a period when they were expected to be paid.

The Board also tentatively decided to amend the other comprehensive income option and the risk mitigation option in IFRS 17 to:

a. specify that paragraphs 88 and 89 of IFRS 17 do not apply to the insurance finance income or expenses that arise from the application of the risk mitigation option; and
b. add new requirements to the risk mitigation option that specify how to present insurance finance income or expenses that arise from the application of the risk mitigation option.

Next step

The Board expects to issue Amendments to IFRS 17 around the end of June 2020.
2. Management Commentary

The Board met to discuss the disclosure objectives and supporting guidance to be included in the revised IFRS Practice Statement 1 Management Commentary (Practice Statement). The Board considered risks and the entity’s external environment.

The Board tentatively decided to specify in the disclosure objectives that:

a) management commentary should provide information and analysis to help investors and creditors understand:

   a. the risks that could disrupt the entity’s:
      i. business model;
      ii. management’s strategy for sustaining and developing that model; or
      iii. resources and relationships; and

   b. how the environment in which an entity operates affects its:
      i. business model;
      ii. management’s strategy for sustaining and developing that model;
      iii. resources and relationships; or
      iv. risks.

b) investors and creditors use the information and analysis in management commentary to assess:

   a. in relation to risks:
      i. the magnitude and likelihood of future disruption to the entity’s ability to create value and generate cash flows; and
      ii. how effectively the entity’s management identifies and manages risks; and

   b. in relation to the entity’s external environment:
      i. how factors and trends in the external environment affect the entity; and
      ii. how effectively management monitors and responds to such factors and trends.

c) the information and analysis included in management commentary should focus on:

   a. the key risks, and cover:
      i. a description of the risks and of the entity’s exposure to those risks; and
      ii. how the entity’s management monitors and manages the risks, and
      iii. would mitigate disruption if it were to occur; and

   b. the key factors and trends in the external environment, and cover:
      i. a description of the factors and trends;
ii. how those factors and trends affect the entity; and
iii. how its management responds to those factors and trends.

The Board also tentatively decided to specify that:

a. the key risks are risks that could disrupt the entity’s ability to create value and generate cash flows.

b. the key factors and trends in the external environment are factors and trends that affect the entity’s ability to create value and generate cash flows.

The Board wishes to highlight in the revised Practice Statement that key risks and key factors and trends in the external environment are risks, trends and factors that the entity’s management monitors and manages.

**Next step**

The Board’s next discussions are expected to cover what information management commentary should provide on an entity’s performance, position and progress, aggregation of information in management commentary and the status of the Practice Statement.

3. **Maintenance and consistent application of IFRS Standards**

The Board met to discuss the following topics concerning the maintenance and consistent application of IFRS Standards.

**a) Lease Liability in a Sale and Leaseback**

The Board discussed requirements for the transition to and early application of the proposed amendment to IFRS 16 *Leases*. The Board also discussed due process, including permission to begin the balloting process.

The proposed amendment to IFRS 16 will specify how a seller-lessee would apply the subsequent measurement requirements in IFRS 16 to the lease liability that arises in a sale and leaseback transaction.

**b) Transition**

The Board tentatively decided to require a seller-lessee to apply the proposed amendment to IFRS 16 retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except when such application to lease modifications and changes in the lease term is possible only with the use of hindsight.

The Board tentatively decided to require a seller-lessee in such circumstances to determine the expected payments for the lease at the date on which it first applies the proposed amendment.
c) Early application

The Board tentatively decided to permit a seller-lessee to apply the proposed amendment earlier than the effective date.

d) Due process

The Board tentatively decided to allow a comment period of no less than 120 days for the exposure draft of its proposed amendment to IFRS 16.

Next step

The Board plans to publish the exposure draft in the third quarter of 2020.

4. Disclosure Initiative—Accounting Policies

The Board met to discuss the feedback on its Exposure Draft Disclosure of Accounting Policies, which proposed amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements.

a) Examples of circumstances in which an entity is likely to consider information about an accounting policy material

The Board tentatively decided:

a. not to add those circumstances described in paragraphs 28–31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to proposed paragraph 117B of IAS 1.

b. to combine the guidance about entity-specific accounting policy information in proposed paragraph 117B(e) with proposed paragraph 117C of IAS 1.

c. to amend proposed paragraph 117B of IAS 1 to include a reference to information being material by size, nature, or a combination of both.

b) Examples for IFRS Practice Statement 2 Making Materiality Judgements

a. The Board tentatively decided not to amend proposed Example S to detail all entity-specific accounting policy information that could be judged as material to an entity’s financial statements and which should be disclosed. Instead, the Board tentatively decided to amend Example S by:

i. aligning the content of proposed Example S to those changes recommended above;

ii. clarifying in the example that the timing of revenue recognition is considered to be a significant judgement; and
iii. concluding that information about how the transaction price has been allocated to performance obligations could also be material accounting policy information.

b. The Board tentatively decided to clarify proposed Example T. In particular, the Board tentatively decided to better support the example’s conclusion by linking explicitly the proposed Example T to:

i. the proposed amendments to IAS 1; and
ii. guidance in the Conceptual Framework of Financial Reporting, the definition of material (paragraph 7 of IAS 1), and guidance in IFRS Practice Statement 2 about an entity’s primary users and how to identify their common information needs.

Next step

The Board will continue to redeliberate the proposals set out in its Exposure Draft at a future meeting.

5. Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases

The Board has issued an amendment to IFRS 16 Leases to make it easier for lessees to account for covid-19-related rent concessions such as rent holidays and temporary rent reductions.

The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to covid-19-related rent concessions that reduce lease payments due on or before 30 June 2021.

IFRS 16 specifies how lessees should account for changes in lease payments, including concessions. However, applying those requirements to a potentially large volume of covid-19-related rent concessions could be practically difficult, especially in the light of the many challenges stakeholders face during the pandemic. This optional exemption gives timely relief to lessees and enables them to continue providing information about their leases that is useful to investors. The amendment does not affect lessors.

For further information: http://www.ifrs.org

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