Financial Reporting Council

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

The topics discussed at the IASB's October 2020 meetings were on the following:

1. Equity Method

The Board met to discuss the objective and approach of the Equity Method research project.

The Board decided that the objective of the project is to assess whether application problems with the equity method, as set out in IAS 28 *Investments in Associates and Joint Ventures*, can be addressed in consolidated and individual financial statements by identifying and explaining the principles of IAS 28.

The Board decided that to achieve this objective, the project should be focused on:

(a) identifying application problems and deciding which of these problems to address.

(b) addressing these application problems by identifying and explaining the principles that underlie IAS 28. Identifying and explaining these principles may also help the Board develop new requirements, new application guidance or other amendments to the Standard.

Next step

The Board will identify the application problems on which the project should be focused.

2. Maintenance and consistent application - Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The Board met to discuss feedback on its Exposure Draft *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*.

a) Feedback analysis—Proposed approach

The Board tentatively decided to:

a. confirm its proposal to narrow the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 *Income Taxes* so that it would not apply to transactions that give rise to equal amounts of taxable and deductible temporary differences;

b. remove the capping proposal—in other words, include no requirement to limit the recognition of a deferred tax liability to the amount recognised for a deferred tax asset;

c. provide no application guidance or examples illustrating how an entity determines whether tax deductions relate to the lease asset or lease liability; and

d. provide an illustrative example explaining the deferred tax accounting for advance lease payments and initial direct costs.

b) Feedback analysis—Other matters

The Board tentatively decided to:

a. require entities to apply the amendments to transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

b. require entities already applying IFRS Standards to apply the amendments for the first time by:

   i. recognising deferred tax for all temporary differences related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with the cumulative effect recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date; and

   ii. applying the amendments prospectively to transactions other than leases and decommissioning obligations (in other words, only to such transactions that occur on or after the beginning of the earliest comparative period presented).

c. require first-time adopters to recognise deferred tax for all temporary differences related to leases and decommissioning obligations at the date of transition to IFRS Standards. The Board would provide no other requirements for first-time adopters.

Next step

The Board will discuss the proposed amendment's effective date, as well as the Board's compliance with applicable due process steps, at a future meeting.

3. Disclosure Initiative—Subsidiaries that are SMEs

The Board met to discuss four matters. The Board tentatively decided that, should it propose a reduced disclosure IFRS Standard for subsidiaries, the proposed Standard would:

- require a subsidiary to disclose that it had applied the reduced disclosure IFRS Standard, and require this disclosure to be located with the statement required by paragraph 16 of IAS 1 *Presentation of Financial Statements*.
- require a subsidiary to apply all of the disclosure requirements of IAS 8 *Accounting Polices, Changes in Accounting Estimates and Errors*.
- require a subsidiary to apply the disclosure requirements about transition provisions that are included in other IFRS Standards, subject to any modification to those disclosure requirements the Board considers appropriate for subsidiaries.
- not include disclosure requirements for combined financial statements.

Next step

The Board will continue discussing matters arising in November 2020.

4. Management Commentary

The Board met to discuss:

a) ***Overview of guidance on matters affecting long-term prospects, on intangible resources and relationships, and on ESG matters***

The Board discussed the overview of its proposals intended to promote provision of information in management commentary on interrelated matters of particular interest to investors and creditors, namely:

a. matters that could affect an entity's long-term prospects;
b. the entity's intangible resources and relationships; and
c. ESG matters.

b) ***Overview of the likely effects of the proposals***

The Board discussed an initial assessment of the likely effects of implementing the Board's proposals for revising the Practice Statement.

c) ***Due process steps and permission for balloting***

The Board tentatively decided that:

a. entities stating compliance with the Practice Statement will be required to apply the revised Practice Statement for annual reporting periods beginning on or after the date of its publication; and
b. earlier application of the revised Practice Statement will be permitted.

Next steps

The staff will prepare the exposure draft for balloting. The Board expects to publish this exposure draft in April 2021 instead of February 2021.

At a future meeting, the Board plans to discuss a comment letter period for the exposure draft.

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

Financial Reporting Council
November 2020