

Financial Reporting Council

MONTHLY UPDATES (May 2021) – What’s new from the International Accounting Standards Board (IASB)

At its May 2021 meetings, the IASB discussed about research and standard-setting which included the following:

1. [Financial Instruments with Characteristics of Equity](#)
2. [Primary Financial Statements](#)
3. [Second Comprehensive Review of the IFRS for SMEs Standard](#)
4. [Disclosure Initiative—Subsidiaries that are SMEs](#)

1. Financial Instruments with Characteristics of Equity

The Board met to discuss the following:

a) Disclosure of the nature and priority of claims against an entity

The Board tentatively decided to require:

- a. an entity to disclose and categorise in the notes its claims that are financial instruments in a way that reflects differences in their nature and priority, and at a minimum, to distinguish between:
 - i. secured and unsecured financial instruments;
 - ii. contractually subordinated and unsubordinated financial instruments; and
 - iii. those issued or owed by the parent and those issued or owed by subsidiaries; and
- b. the disclosures to be made for all financial liabilities and equity instruments that are within the scope of IAS 32 *Financial Instruments: Presentation*.

b) Disclosure of terms and conditions about priority on liquidation for particular financial instruments

The Board tentatively decided to require:

- a. an entity to disclose in the notes:
 - i. terms and conditions that indicate priority on liquidation;
 - ii. terms and conditions that could lead to changes in priority on liquidation;
 - iii. that a particular type of financial instrument has more than one level of contractual subordination, if applicable (for example, if some subordinated liabilities are contractually subordinated to other subordinated liabilities);
 - iv. narrative information when an entity is aware of significant uncertainty about the application of relevant laws or regulations that could affect how priority will be determined on liquidation; and
 - v. details of intra-group arrangements such as guarantees that may affect their priority on liquidation (for example, which entities are providing and receiving guarantees); and
- b. the disclosures to be made for all financial instruments with characteristics of both debt and equity, including compound instruments, but excluding stand-alone derivative instruments.

An entity would be required to make the disclosures described in (a) as part of the disclosures about terms and conditions on which the Board tentatively agreed at its April 2021 meeting.

Next step

The Board will continue its discussions on other topics included in the project plan discussed at its October 2019 meeting.

2. Primary Financial Statements.

The Board met to redeliberate some of the proposals in the Exposure Draft *General Presentation and Disclosures* which related to the following:

a) *Subtotals and categories—financing category*

The Board tentatively decided:

- a. not to proceed with the proposed addition to the definition of ‘financing activities’ in IAS 7 *Statement of Cash Flows*. Twelve of 13 Board members agreed with this decision.
- b. to explore further an approach that would require an entity to classify in the financing category of the statement of profit or loss:
 - i. all income and expenses from liabilities that arise from transactions that involve only raising finance; and
 - ii. interest income and expenses from other liabilities.

b) *Subtotals and categories—profit before financing and income tax*

The Board tentatively decided to:

- a. retain the proposal to introduce separate investing and financing categories in the statement of profit or loss.
- b. retain the proposal to define the ‘profit before financing and income tax’ subtotal and require it to be presented in the statement of profit or loss.
- c. require an entity to classify income and expenses from cash and cash equivalents in the investing category rather than the financing category.

Next step

The Board will continue to redeliberate the project proposals at future meetings.

3. Second Comprehensive Review of the IFRS for SMEs Standard

The Board met to receive a summary of interviews with SME preparers and discusses about the following amendments relating to IFRS for SMEs Standard:

a) *Towards an exposure draft—2018 Conceptual Framework*

The Board tentatively decided to propose retaining Section 2 *Concepts and Pervasive Principles* as part of the *IFRS for SMEs* Standard.

The Board tentatively decided to propose:

- a. aligning Section 2 with the 2018 *Conceptual Framework* and to emphasise that the requirements in the other sections of the *IFRS for SMEs* Standard take precedence over what Section 2 would otherwise require;

- b. undertaking a review for potential inconsistencies between a revised Section 2 and other sections of the *IFRS for SMEs* Standard when the Board has completed its deliberations on proposed amendments to the *IFRS for SMEs* Standard; and
- c. retaining the concept of ‘undue cost or effort’.

b) Towards an exposure draft—IFRS 9 Financial Instruments (classification and measurement of financial assets)

The Board tentatively decided to propose an amendment to the *IFRS for SMEs* Standard, subject to the wording of the amendment, to supplement the examples in Section 11 *Basic Financial Instruments* with a principle for classifying financial assets based on their contractual cash flow characteristics.

Next step

The Board will continue to deliberate the project proposals at a future meeting.

4. Disclosure Initiative—Subsidiaries that are SMEs

The Board met to discuss sweep issues identified in drafting the Exposure Draft *Subsidiaries without Public Accountability: Disclosures*.

The Board tentatively decided to:

- a) propose an entity disclose its material accounting policy information rather than its significant accounting policies. This proposal is consistent with amendments to IAS 1 *Presentation of Financial Statements* issued in February 2021, which include related amendments to paragraph 21 of IFRS 7 *Financial Instruments: Disclosures*.
- b) propose an entity disclose changes to its risk management strategy that result from its transition to alternative benchmark rates, consistent with paragraph 24J(c) of IFRS 7.
- c) include in the Exposure Draft an appendix listing all disclosure requirements in IFRS Standards from which an entity applying the reduced-disclosure Standard is exempt.

Next step

The Board expects to publish the Exposure Draft in the third quarter of 2021.

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

**Financial Reporting Council
June 2021**