

# IFRS topical issues, ongoing debates and future challenges

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## Topics

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- **Big 4 projects**
  - revenue
  - leasing
  - financial instruments
  - insurance
- **New projects based on agenda consultation**
  - conceptual framework
  - bearer plants
  - regulatory deferral accounts
- **Implementation guidance**

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## Response from agenda consultation

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## Response we have received

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- complete the Big 4 projects
- Conceptual Framework as the priority
- period of calm, and tackle narrow scope, country specific issues
- focus on maintenance over development of IFRSs in the near future
- utilise research from national-standard setters and academics

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## Big 4 projects

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## Revenue

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- **Objective**
  - to develop a single, principle-based revenue standard for IFRSs and US GAAP
- **Timing**
  - completed substantive redeliberations of revised Exposure Draft (published November 2011) during February 2013
  - expected publication of IFRS in June/July 2013
  - effective date 1 January 2017 with early application permitted

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## Revenue

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- **Ongoing debates**
  - License: to what extent, should related revenue be recognised continuously?
  - Telecommunication: is it necessary to unbundle service from handset, and if so, how to unbundle?
- **Future challenges**
  - Does the Standard provide enough guidance? If not, on what aspect, further guidance is required?
  - Who should provide such guidance?

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## Leases

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- **Objective**
  - make leases on the statement of financial position (i.e. the right-of-use model)
  - reduce complexity for financial reporting purposes and minimise structuring opportunities
- **Latest development**
  - The FASB and IASB have developed a common model.
  - Revised ED was issued on May 16, 2013.

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## Leases

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- **Lessee accounting**

- All leases with lease term of more than 12 months would be recognised on the statement of financial position.
- Include a practical expedient:
  - Most land and buildings leases: recognise as a single lease expense in P&L on a straight-line basis
  - Most leases other than land and buildings leases (e.g. equipment leases): recognise amortisation and interest expense in P&L separately

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## Leases

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- **Lessor accounting**

- Most land and building leases: as current operating lease, the property being leased would continue to be recognised in the statement of financial position, and recognise rental income, and depreciation of leased property in P&L.
- Most leases other than land and buildings leases: recognise lease receivable and residual asset in the statement of financial position, and recognise revenue and interest income in P&L, similar to current finance leases.

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## Leases

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- **Ongoing debates**

- Will the proposed standards as a whole be better than the current standards?
- Will the new proposals meet the major objectives of the projects: reflect economics, keep logical consistency, and reduce complexity and structuring opportunity?

- **Future challenges**

- Would lessees and lessors make rational and consistent judgments between two-type leases?
- Would lessees and lessors make rational and consistent judgments on significant economic incentives when recognising and measuring variable lease payments and options to renew and purchase?



## FI: Classification and measurement

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- **Objective**

- limited amendments to IFRS 9 regarding classification and measurement of financial assets
- converge with FASB proposal
- more in line with insurance contract proposal

- **Proposals**

- clarification of 'hold to collect' business model
- introduction of FVOCI category for certain debt investments
- clarification of how to apply principal and interest criteria (the cash flow characteristic criterion)
- 'own credit' changes can be early applied in isolation



## FI: Classification and measurement

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- **Timing**
  - exposure draft published November 2012
  - comment period ended
  - joint re-deliberations commence mid 2013
- **Ongoing debates**
  - Should more instruments be measured at cost or not?
  - To what extent, should IASB take into consideration of business model in setting its standards?
- **Future challenges**
  - Would OCI category become a means to manipulate financial statements and result in inconsistent practice?

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## FI: Impairment

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- **Objective: improve**
  - timeliness of recognition of expected credit losses
  - information about credit quality
- **New ED (published in March 2013) proposals**
  - single impairment model
  - expected credit losses always recognised
  - full lifetime expected credit losses recognised when credit quality deteriorates significantly
- **Timing**
  - Comment period will end on 5 July 2013.
  - FASB and IASB will consider opportunities to further align based on feedback.

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## FI: Impairment

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- **Ongoing debates**
  - Should life time credit loss be recognised on day one?
  - To what extent, should accounting standards setters coordinate with prudential regulators on impairment of FI?
- **Future challenges**
  - Would entities make rational and consistent assessment on expected credit loss?
  - How to ensure such rational and consistent assessment?

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## Hedges

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- **General model**
  - more closely aligned to risk management
  - Review Draft published September 2012
  - final discussion of comments from Review Draft April 2013
  - final IFRS mid 2013
- **Macro hedges**
  - risk management practices for open portfolios not covered by 2010 ED
  - DP planned for 2013
  - In April 2013 meeting, IASB tentatively decided to give entities choice between the two hedge accounting models in IAS 39 and IFRS 9.

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## Insurance contracts

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- **Current situation**
  - IFRSs today has no comprehensive standard for insurance contracts – creates diversity of accounting practices.
- **Objective**
  - to increase comparability and transparency
- **Cooperation with FASB**
  - FASB joined the project at late stage
  - proposals aligned on the core approach, but different conclusions on some important details
  - IASB and FASB due process steps not aligned (IASB has issued an Exposure Draft, FASB has not)

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## Insurance contracts

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- **Timing**
  - IASB completed deliberations in February 2013
  - IASB will issue revised ED with targeted issue date - June/July 2013
- **Targeted exposure**
  - IASB's new ED will seek views on key revised proposals:
    - un-lock residual margin or service margin
    - measure insurance contract based on carrying value of underlying items if the contract specifies a link to the return on the underlying items
    - present in OCI the effects of discount rate changes
    - present revenue and expense information in P&L, excluding deposit component

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## Insurance contracts

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- **Targeted exposure: *continue***
  - These proposals reflect IASB's response to the concern on volatility in P&L based the original ED.
  - IASB will clearly inform constituents that these proposals would significantly increase complexity of the standard.
- **Ongoing debates**
  - Has IASB made right balance between transparency and volatility in P&L?
  - To what extent, should the proposed insurance standard be in line with proposed FI and revenue standards?
  - To what extent, should the two boards' proposals be converged?

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International Financial Reporting Standards

New projects based on  
agenda consultation

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## Conceptual Framework

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- **Original project**
  - was a joint project with FASB
  - finalized revised chapters on objectives and qualitative characteristics
  - published ED on reporting entity
  - had early discussion on elements and measurement
  - suspended because of the needs to focus on big 4 projects and issues emerged from recent financial crisis

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## Conceptual Framework

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- **New project**
  - restarted in Sept. 2012 based on agenda consultation
  - will be the IASB only project
  - continues on work previously done before 2010
  - will address: reporting entity, elements, recognition and de-recognition, measurement, presentation and disclosure
  - will not progress by phases
- **Timing**
  - DP in July 2013
  - ED in Aug. 2014
  - Revised CF in Sept. 2015

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## Conceptual Framework

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- **Ongoing debates**

- Should accounting be more balance sheet or income statement based?
- How should financial performance be better presented or be presented in a more informative way?
- How to balance between transparency and volatility?
- How to improve definition, recognition, measurement and presentation principles of liability and equity at conceptual level?
- Is there any difference between faithful representation and reliability? Should we keep 'reliability' concept both at conceptual and standard level?

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## Bearer Plants

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- **Objective**

- limited-scope amendment of IAS 41 *Agriculture* and IAS 16 *Property, Plant and Equipment*

- **Proposal**

- apply fixed asset accounting to bearer biological assets
- limited to bearer plants (not livestock)
- both before and after premature period
- maintain revaluation option
- produce on bearer plants still FVTPL

- **Ongoing debates**

- Is fair value measurement more useful and cost-effective?
- Should fair value information be disclosed?



## Rate regulated activities

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- **Current practice**
  - IFRSs today has no comprehensive standard for rate regulated activities.
  - Nearly all of IFRS adopters do not recognise assets and liabilities based on rate regulations.
- **Request for special treatments**
  - A few jurisdictions asked IASB to allow such recognition practice based on their local GAAP, and cited this as a major obstacle for full adoption.
  - IASB issued an ED in 2009, but suspended the project because of conflicting views from different regions, and of the need to focus on major convergence projects.

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## Rate regulated activities

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- IASB restarted the project based on agenda consultation
- **Interim standard**
  - permit grandfathering of current accounting practices for recognition, measurement and impairment based on local GAAP
  - enhanced presentation and disclosure
  - issued ED in April 2013
- **Major project**
  - will consider whether rate regulation creates assets and liabilities and measurement of such assets and liabilities
  - Request for Information (issued end of March 2013)
  - Discussion Paper Q4 2013

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# Implementation

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## Call for more implementation guidance

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- In the first 10 years, IASB's interpretation activities were rather constrained to prevent rule-based standards.
- During the agenda consultation process, there are obvious call for more active interpretation efforts (more useful) to meet the special requests from worldwide constituents.

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## More active IC Work plan

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Next major project milestone				
Narrow-scope amendments	2013 Q1	2013 Q2	2013 Q3	2013 Q4
<b>Acquisition of an Interest in a Joint Operation</b> (proposed amendments to IFRS 11) [comment period ends 23 April 2013]				Target IFRS
<b>Actuarial Assumptions: Discount Rate</b> (proposed amendments to IAS 19)			Target ED	
<b>Annual Improvements 2010-2012</b>			Target IFRS	
<b>Annual Improvements 2011-2013</b>			Target IFRS	
<b>Annual Improvements 2012-2014</b>			Target ED	
<b>Clarification of Acceptable Methods of Depreciation and Amortisation</b> (proposed amendments to IAS 16 and IAS 38) [comment period ends 2 April 2013]			Target IFRS	
<b>Defined Benefit Plans: Employee Contributions</b> (proposed amendments to IAS 19) [comment period ends 25 July 2013]				Target IFRS

## More active IC Work plan (*continue*)

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Next major project milestone				
Narrow-scope amendments	2013 Q1	2013 Q2	2013 Q3	2013 Q4
<b>Disclosure Requirements about Assessment of Going Concern</b> (proposed amendments to IAS 1)		Target ED		
<b>Equity Method: Share of Other Net Asset Changes</b> (proposed amendments to IAS 28)				Target IFRS
<b>Fair Value Measurement: Unit of Account</b> (proposed amendments to IFRS 13)		Target ED		
<b>Novation of Derivatives and Continuation of Hedge Accounting</b> (proposed amendments to IAS 39 and IFRS 9)		Target IFRS		
<b>Put Options Written on Non-controlling Interests</b> (proposed amendments to IAS 32)			Target ED	
<b>Recognition of Deferred Tax Assets for Unrealised Losses</b> (proposed amendments to IAS 12)				Target ED
<b>Recoverable Amount Disclosures for Non-Financial Assets</b> (proposed amendments to IAS 36)		Target IFRS		
<b>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</b> (proposed amendments to IFRS 10 and IAS 28) [comment period ends 23 April 2013]				Target IFRS
<b>Separate Financial Statements (Equity Method)</b> (proposed amendments to IAS 27)		Target ED		

## More active IC Work plan (*continue*)

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Next major project milestone				
Interpretations	2013 Q1	2013 Q2	2013 Q3	2013 Q4
Levies Charged by Public Authorities on Entities that Operate in a Specific Market		Target Interpretation		

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## Ongoing debates

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- To what extent, should IASB's interpretation efforts be active enough to make right balance between principles and rules based?
- Should IASB solve issues related to limited jurisdictions?
  - deferred tax issue from Hong Kong
- Should IASB's conclusion be partially based on forthcoming CF and standards?
  - IFRIC 15

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## Ongoing debates

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- How should IASB deal with the issues, which people may give different answers based on different standards?
  - Equity method: share of other net asset changes
- How should IASB provide answers to the issues based on current CF and standards, which someone may feel inappropriate or count-intuitive?
  - Levies charged by public authorities on entities that operate in a specific market
  - NCI puts

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International Financial Reporting Standards

# Concluding remarks

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## Concluding remarks

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- When IASB was formed in 2001, nearly no jurisdiction used IASs as mandatory requirements for financial reporting.
- Today, more than 100 jurisdictions are using IFRSs, including 2/3 G20 countries.
- IFRSs is now the only choice when jurisdictions are considering moving towards international accounting standards.
- With more wide use of IFRSs, IASB are facing ongoing debates and challenges, some at standard level, others at conceptual level.

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## Concluding remarks

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- From the most recent economic crisis, IASB has been feeling another obvious challenge: some constituents become more sensitive to economic consequence in a general term, or volatility in a more specific term.
- With the support from global stakeholders, particularly the recently established Accounting Standard Setters Forum (ASAF), IASB is determined to further improve IFRSs to better serve the global financial market.

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Thank you

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