EFRAG TEG-CFSS Meeting
4 December 2019
Agenda paper 08-01

OUTREACH ACTIVITIES

EFRAG TEG-CFSS meeting

EFRAG
European Financial Reporting Advisory Group

Objective of the session

- The objective of this session is to discuss with EFRAG CFSS members possible outreach activities on a number of IASB publication expected to be issued in end 2019 or in 2020
- EFRAG generally performs outreach during the consultation period of relevant projects with a purpose to stimulate the debate in Europe and obtain input from European Constituents; in particular from those that may not intend to submit a comment letter to the IASB or EFRAG
- The involvement of National Standard Setters is a vital component of EFRAG's consultation process to ensure that any changes to IFRS Standards are fit for use in Europe

Question to EFRAG CFSS members

Have EFRAG CFSS members already considered specific activities in relation to the IASB 2020 projects ?

Are EFRAG CFSS members interested in co-hosting outreach event(s) in their jurisdiction in relation to these topics?

WHAT WILL HAPPEN IN 2020?

IASB 2020 major consultations

- **Primary Financial statements (see slides 6-13):** Proposing a new standard on presentation of financial statements with improvements to their content and structure of primary financial statements, with focus on the statement of financial performance and discipline around management performance measures
- **Rate-regulated activities (See slides 14-18):** Discussion Paper developing a new accounting model to give users better information about a company's incremental rights and obligations arising from its rate-regulated activities
- **Goodwill and impairment (see slides 19-25):** Discussion Paper investigating possible improvements to IFRS 3 and IAS 36 after feedback from the Post-implementation Review of IFRS 3
- **Business Combinations under Common Control (see slides 26-27)**

WHAT WILL HAPPEN IN 2020?

IASB 2020 major consultations (continued)

- **Management Commentary Practice Statement:** See EFRAG TEG Agenda Paper 01.01
- **IFRS 10, 11 and 12: Post-Implementation Review -** See EFRAG TEG-CFSS Agenda Paper 12.01
- **IASB's 2020 Agenda Consultation – RFI :** See EFRAG TEG-CFSS Agenda paper 09-01

Other consultations:

- **Dynamic Risk Management** : IASB's outreach on core model exploring
- **IBOR Reform and its Effects on Financial Reporting—Phase 2:** IBOR replacement issues to be addressed
- **Principle of Disclosure** – Targeted Standard-Level Review (Sept 2020): Testing new approach to draft disclosure requirements

WHAT WILL HAPPEN IN 2020?

IASB 2020 major consultations: expected timelines

2019	2020

- Primary Financial Statements (ED)
- Dynamic Risk Management
- Interest Rate Benchmark Reform – Phase 2
- Goodwill and Impairment (DP)
- Rate-regulated activities (ED)
- BCUCC (DP)
- PIR of IFRS 10, 11 and 12
- IASB Agenda Consultation (RFI)
- Management Commentary (ED)
- PoD – Targeted S-L Reviews

PRIORITY PLANNING IDENTIFIED BY THE EFRAG SECRETARIAT

Dynamic Risk Management

- The IASB Staff plans to test the ‘core model’ in Q1 2020. Participating banks will be identified in December 2019
- The test will consist in one-to-one interactions with the IASB Staff
- EFRAG is willing to assist with reference to EU banks applying Carve-out
- Target banks would have complex dynamic macro-hedge of interest rate risks. Risks managers and accountants both have to be involved
- EFRAG CFSS members are invited to help EFRAG enter in contact with banks in their respective jurisdictions by **15 December 2019**.

PFS and Goodwill

- EFRAG plans to have a series of events between **March and May 2020**
- We will consult on the content of the IASB ED for PFS and on the content of the IASB tentative decisions on the Goodwill DP
- EFRAG CFSS members are invited to confirm their interest to participate **by the end of January 2020**.

WHAT WILL HAPPEN IN 2020?

Projects overview

- As a support for the discussion, the following slides provide an overview of the IASB’s projects and expected consultation periods
- The objective is not to discuss the technical aspects of these projects but to try and identify possible areas for outreach activities

PRIMARY FINANCIAL STATEMENTS

OVERALL APPROACH OF THE IASB PROJECT

OBJECTIVE: Improvements to the structure and content of the primary financial statements, with a focus on the statement(s) of financial performance

PROJECT TIMELINE

- 2015 Agenda Consultation identified PFS as a priority
- IASB discussions from 2016 to 2019
- Exposure Draft by December 2019
- Comment period until 30 June 2020
- IASB discussions from H2 2020 for a new IFRS

EXPOSURE DRAFT STRUCTURE (EXPECTED)

- New IFRS Standard replaces IAS 1
- New guidance on the structure and content of PFS
- Retained guidance from IAS 1 subject to drafting improvements
- Some guidance in IAS 1 moved to other IFRS Standards
- Amendments to IAS 7, IAS 33, IAS 34 and IFRS 12

SCOPE OF THE PROJECT

Statement of Financial Performance
New subtotals and categories to improve comparability between entities
New disclosures on Management Performance Measures to improve transparency and discipline on their use
Improving communication of OCI

Statement of cash flows
New starting point for the indirect method: operating profit
Elimination of classification options (interest and dividends)
Prescribing classification of cash flows related to associates and joint ventures

Other improvements to the structure and content of financial statements
Introducing principles of disaggregation in financial statements
Requiring disaggregation by nature or by function in the statement of financial performance
Requiring disclosure of unusual items
Requiring minimum line items in the primary financial statements
Developing illustrative examples of primary financial statements for a small number of industries

SCOPE OF THE PROJECT

NEW SUBTOTALS AND CATEGORIES

Revenue	x
Changes in inventories of finished goods and work in progress	x
Raw materials and consumables used	x
Employee benefits expense	x
Depreciation and amortisation expenses	x
Impairment losses on PPE	x
Operating profit	**X**
Share of results of integral associates and joint ventures	x
Operating profit and share of profit or loss of integral associates and joint ventures	**X**
Fair value changes in the fair value of financial assets	x
Dividends income	x
Share of results of non-integral associates and joint ventures	x
Profit before financing and income tax	**X**
Interest income from cash and cash equivalents	x
Expenses from financing activities	x
Unwinding of discount on pension liabilties and provisions	x
Profit before tax	**X**
Income tax expense	x
Profit for the year from continuing operations	**X**
Loss from discontinued operations	x
Profit for the year	**X**

Operating section and presentation of integral associates and joint-ventures

Investing section, including non-integral associates and joint-ventures

Financing section that enable comparison of entities with different capital structures

SCOPE OF THE PROJECT

OTHER IASB'S PROPOSALS ON FINANCIAL PERFORMANCE

- **Financing activities:** receipt or use of a resource from a provider of finance who expects reimbursement and a compensation (finance charge)
- **Investing activities:** income/expenses from assets that generate a return individually and largely independently of other resources held by the entity
- **'Integral' and 'non-integral' associates and joint ventures:** present them separately in the statement of financial performance
- Presentation of analysis of **expenses by nature or by function (no mix)** in the statement of financial performance
- **Definition of and disclosures on unusual items**, attributed to line items in the statement of financial performance
- **Aggregation and disaggregation:** improved principles, definitions and new guidance

SCOPE OF THE PROJECT

MANAGEMENT PERFORMANCE MEASURES

- Subtotals used in public communications outside financial statements
- Complements totals or subtotals included in IFRS Standards
- Management’s view when communicating an entity’s financial performance
- Reconciliation with most comparable total or subtotal specified by IFRS Standards, including the effect of tax and non-controlling interest (NCI)
- Requirements on its description and consistent presentation in single a note

Reconciliation from MPM to IFRS Measures		Tax effect	NCI effect
Adjusted operating profit (MPM)	**4 400**		
Restructuring expenses	(1 000)	200	(50)
Impairment of asset B	(400)	80	
Operating Profit (IFRS-Specified)	**3 000**		

SCOPE OF THE PROJECT

STATEMENT OF CASH FLOWS

Cash flow Item	IAS 7	Corporates	Financial Institutions
Interest paid	Operating or financing	Financing	Operating or financing *
Dividends paid	Operating or financing	Financing	Financing
Interest received	Operating or investing	Investing	Operating, investing or financing *
Dividends received	Operating or investing	Investing	Operating or investing* (always investing for equity accounted investments)

*** Depends on classification of related income/expenses in P&L**

FINANCIAL INSTITUTIONS

BANK WITH INVESTING AND FINANCING CUSTOMER ACTIVITIES

Interest income	x
Interest expense	x
Net interest income	**x**
Fee and commission income	x
Fee and commission expense	x
Net fee and commission income	**x**
Net trading income	x
Net investment income	x
Credit impairment losses	x
Employee benefits expense	x
Depreciation and amortisation expenses	x
Operating profit	**X**
Share of results of integral associates and joint ventures	x
Operating profit and share of profit or loss of integral associates and joint ventures	**X**
Share of results of non-integral associates and joint ventures	x
Unwinding of discount on pension liabilties and provisions	x
Profit before tax	**X**
Income tax expense	x
Profit for the year	**X**

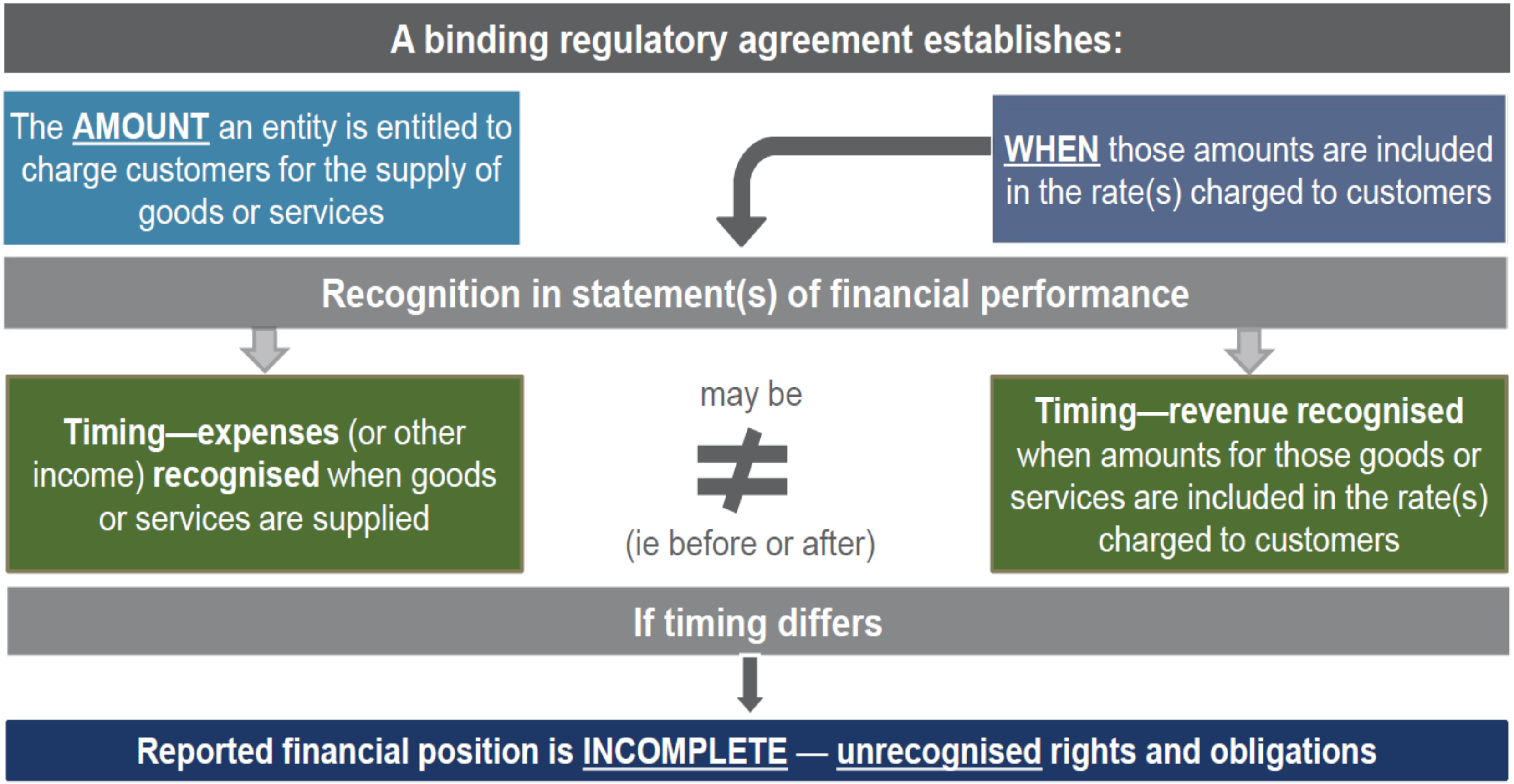
Entities that '**provide financing to customers**' may include in operating profit all expenses from financing activities **or** only those related to the provision of financing to customers

Income and expenses from **investments made in the 'course of the entity's main business activity'** are included in operating profit

Entity does not present 'profit before financing and income tax' subtotal

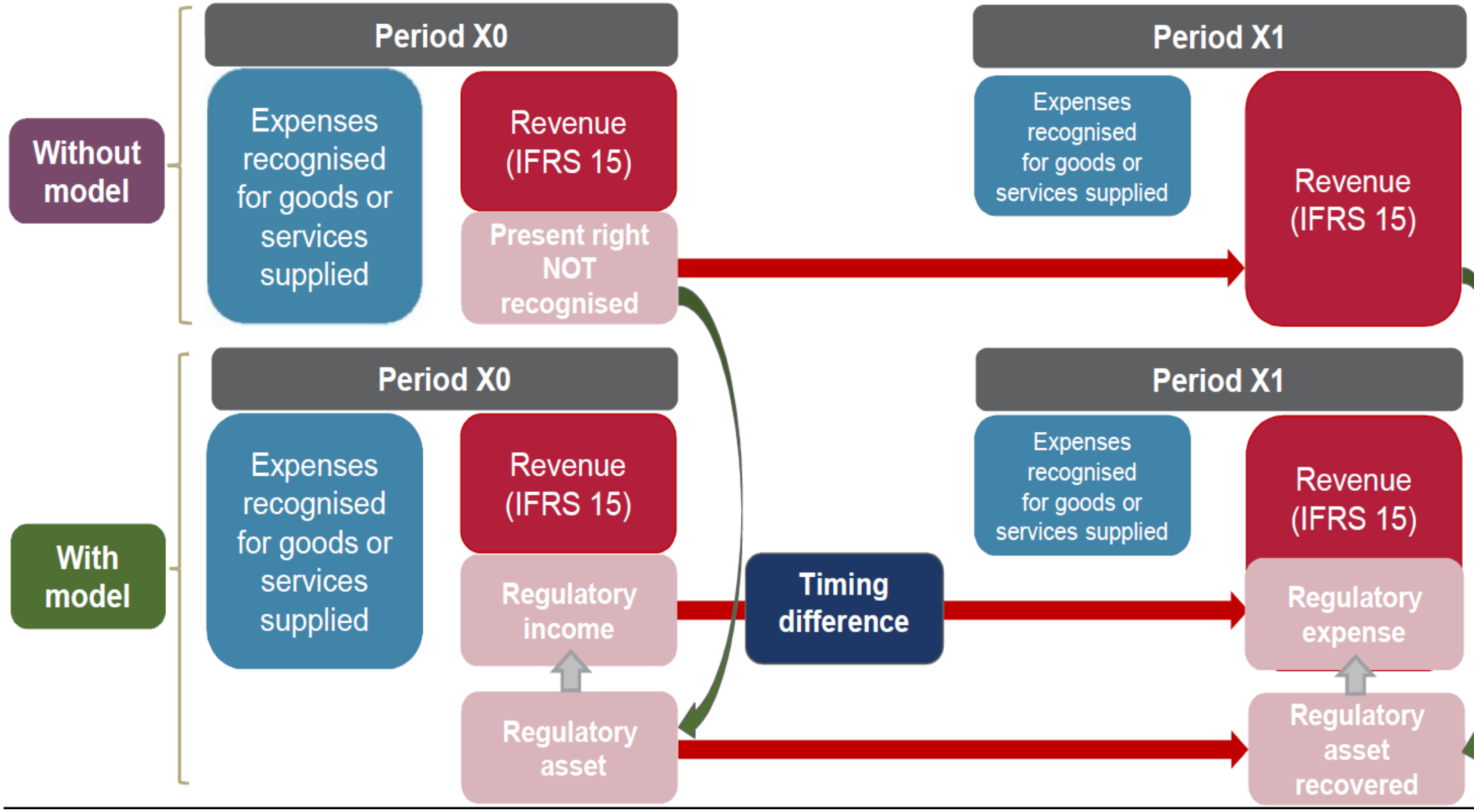
RATE-REGULATED ACTIVITIES

WHAT IS THE RRA PROBLEM?



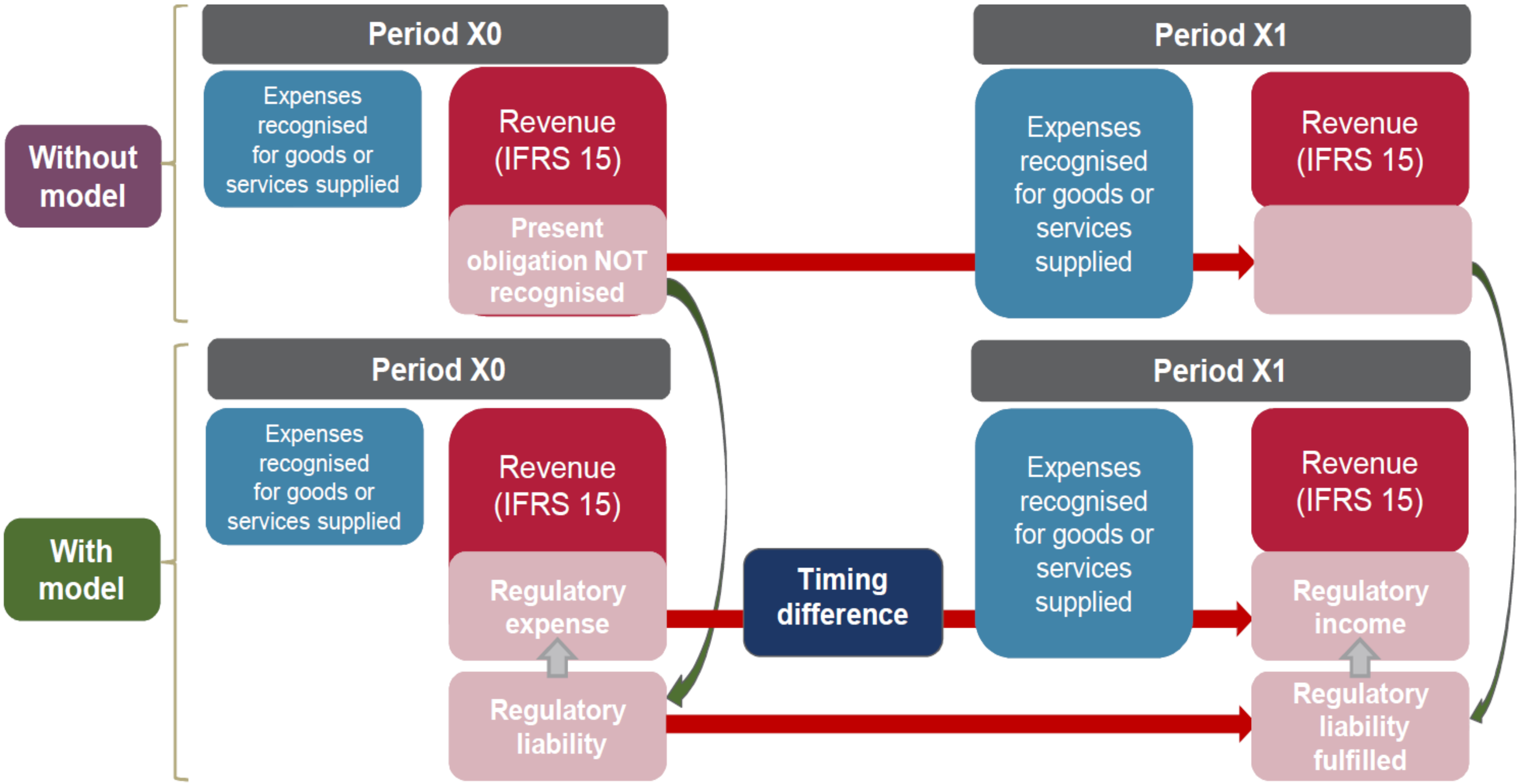
Source: IASB presentation

PURPOSE OF THE MODEL – REGULATORY ASSET



Source: IASB presentation

PURPOSE OF THE MODEL – REGULATORY OBLIGATION



Source: IASB presentation

OVERVIEW OF THE PROJECT

- Scope, definition of regulatory assets and liabilities
- Recognition and derecognition (including the boundary of the regulatory agreement
- Measurement principles
- Interaction of the RRA model with IFRS Standards
- Presentation and Disclosure
- Transition

GOODWILL AND IMPAIRMENT

WHAT PROBLEMS IS THE IASB CONSIDERING?

What the IASB has heard?
Information on subsequent performance of an acquisition inadequate
Goodwill impairment losses ‘too late’
Impairment test costly and complex
Reintroduction of amortisation
Challenges identifying and measuring some intangible assets

What is the objective of the project?
Explore whether companies can provide more useful information about business combinations, enabling users to hold management accountable for their acquisition decisions at a reasonable cost

OVERVIEW OF THE IASB CONSIDERATIONS

- Better disclosures about business combinations
- Amortisation of goodwill vs impairment-only model
- Relief from mandatory annual quantitative impairment test - Revert to an indicator-only approach
- Value in use calculation

BETTER DISCLOSURES FOR BUSINESS COMBINATIONS

Feedback	IASB preliminary views
Users want to understand: • Key drivers of the acquisition price • Subsequent performance of the acquisition	Improve disclosure objectives: • Evaluate strategic rationale for business combination • Understand key drivers of acquisition price • Evaluate subsequent performance of acquisition
Preparers – IFRS 3 disclosures excessive	Add subsequent performance disclosure requirements
	Targeted disclosure improvements

REASONS FOR RECONSIDERING AMORTISATION OF GOODWILL

Reintroduce amortisation of goodwill?

- Not feasible to design impairment test to target acquired goodwill
- Provide a simple mechanism for reducing acquired goodwill
- Take some pressure off the impairment test
- Hold management accountable by including an amortisation charge in profit and loss

RELIEF FROM MANDATORY ANNUAL IMPAIRMENT TEST

- **Existing requirements** – mandatory quantitative annual impairment test for goodwill and some intangible assets
- **Feedback received**
  - Quantitative annual impairment test is too costly and complex
  - Recognition of impairment losses is not timely and provides limited information
- **Revert to an indicator-only approach** - only perform the test if there are indicators of possible impairment

VALUE IN USE (VIU) CALCULATION

- **Future restructurings and future enhancements**– include cash flows from future restructurings and future enhancements in VIU calculation (existing requirements exclude)
- **Post-tax vs pre-tax –** allow to use post-tax inputs in order to allow entities to use internally consistent assumptions for cash flows (existing requirements require to use pre-tax)

Business Combinations under Common Control

OVERVIEW OF THE IASB CONSIDERATIONS

ISSUE:

No IFRS guidance on business combinations under common control.

ISSUES TO BE CONSIDERED INCLUDE:

- When should a predecessor approach or an acquisition method (or something else e.g. full fair value approach) be used?
- How should a predecessor approach be applied?
  - Which carrying amounts should be used (e.g. carrying amounts included in the financial statements of the transferred entity)?
  - (How) should comparative information be provided?
- (How) should an acquisition method be modified compared with the approach included in IFRS 3 *Business Combinations*?

DISCUSSION PAPER:

- Expected to be issued in H1 2020.

Dynamic Risk Management

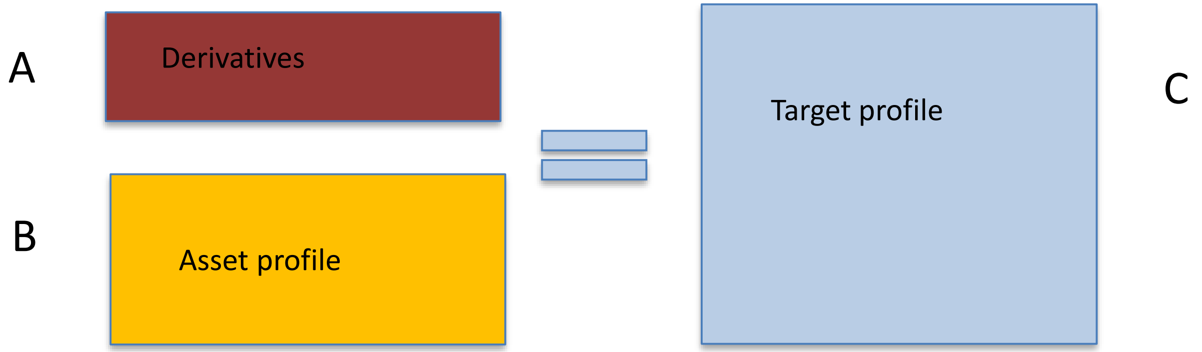
OVERVIEW OF THE IASB CONSIDERATIONS

ISSUE:

No accounting solution available for dynamically hedging open portfolios.

ADDITIONAL INFORMATION

DRM model in short: When derivative instruments (A) are perfectly successful in aligning the asset profile (B) with the target profile (C), changes in fair value of such derivatives are deferred in OCI.



OUTREACH BY IASB

Q4 – 2019: prepare outreach material and identify participating banks
Jan-May 2020: conduct outreach and gather feedback
Jun-Jul 2020: present feedback received to Board

Interest Rate Benchmark Report – Phase 2

IBOR REFORM PHASE 2 – REPLACEMENT ISSUES

Classification and measurement (October 2019)

- Determining what a modification is
- When does a modification result in derecognition
- When not derecognised, how to account for change in benchmark rate
- Business model and SPPI impacts for new financial instruments

Hedge accounting

- Consequences following modification
- Changes in hedge documentation
- Is it possible to have flexible hedge designations
- Implications for macro hedges
- What happens when Phase 1 relief ends
- Valuation adjustments

Other topics

- Potential IBOR impacts on other IFRS Standards, (Leases, Insurance, …)?
- Any new issues identified?

Disclosure

- Additional (or amendments to) disclosure requirements

Exposure Draft

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