

Welcome to the June *IASB Update*

The International Accounting Standards Board (the Board) met in public on 20 June and 22 June 2016 at the IFRS[®] Foundation's offices in London, UK.

The topics for discussion were:

- **Goodwill and Impairment**
- **Financial Instruments with Characteristics of Equity (Oral Update)**
- **Insurance Contracts**
- ***Conceptual Framework—Definitions of income and expenses and information about financial performance***
- ***Annual Improvements—IAS 12 Income Taxes—Presentation of income tax consequences arising from dividends***

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Future IASB meetings

The Board meets at least once a month for up to five days.

The next IASB meetings are:

18 to 22 July 2016
19 to 23 September 2016
17 to 21 October 2016

To see upcoming and past IASB meetings, [click here](#).

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Newsletter

For past issues of *IASB Update* [click here](#).

Podcast summaries

To listen to a short Board meeting audio summary (Podcast) of previous Board meetings, [click here](#).

Goodwill and Impairment (Agenda Paper 18)

(Joint session with FASB)

On 20 June 2016 the Board held a joint education session with the US Financial Accounting Standards Board (FASB). The aim of the session was for the two boards to update each other on their respective projects since the last joint meeting in September 2015.

The FASB has active projects on its agenda for identifiable intangible assets in a business combination, accounting for goodwill and accounting for goodwill impairment. The Board is considering these three topics in its Goodwill and Impairment project.

The two boards discussed the project summaries and progress reports. No decisions were made.

Next steps

The two boards will continue to monitor each other's work.

Financial Instruments with Characteristics of Equity (Oral Update)

The Board received an oral update on the status of the Financial Instruments with Characteristics of Equity research project, including a summary of the discussion at the recent joint meeting of the CMAC and GPF on 16 June 2016. No decisions were made.

Insurance Contracts (Agenda Paper 2)

The Board met on 22 June 2016 to consider narrow scope issues that have arisen in the drafting process

of the forthcoming insurance contracts Standard.

Agenda Paper 2A: Level of aggregation for the measurement of the contractual service margin

The Board tentatively decided:

- a. the objective for the adjustment and allocation of the contractual service margin should be that the contractual service margin at the end of a reporting period represents the profit for the future services to be provided for a group of contracts.
- b. an entity should measure the contractual service margin using the group used for deciding when contracts are onerous. Consequently, an entity should measure the contractual service margin by grouping insurance contracts that at inception have:
 - i. expected cash flows the entity expects will respond similarly in terms of amount and timing to changes in key assumptions.
 - ii. similar expected profitability, ie the contractual service margin as a percentage of the total expected revenue. An entity can use as a practical expedient the expected return on premiums, ie the contractual service margin as a percentage of expected premiums.
- c. an entity should reflect the expected duration and size of the contracts remaining in the group at the end of the period when allocating the contractual service margin of the group of contracts to the profit or loss statement.

Eleven Board members agreed with these decisions and three Board members disagreed.

Agenda Paper 2B: Changes in the carrying amount of the contractual service margin for insurance contracts without direct participation features

The Board tentatively decided to revise the guidance in the forthcoming insurance contracts Standard on changes in the fulfilment cash flows that relate to:

- a. future service, and hence adjust the contractual service margin; and
- b. current and past service, and hence do not adjust the contractual service margin.

The revised draft text is available in the Appendix of [Agenda Paper 2B](#).

Eleven Board members agreed with this decision and three board members disagreed.

Agenda Paper 2C: Presentation and disclosure of insurance finance income or expenses

The Board tentatively decided that:

- a. an entity need not disaggregate the change in the risk adjustment into a finance component and an underwriting component.
- b. if the entity does not disaggregate the risk adjustment, it should present the entire change in the risk adjustment as part of the underwriting result.
- c. the entity should disclose whether the change in the risk adjustment is disaggregated into a

- financial component and an underwriting component or presented as part of the underwriting result.
- d. the objective of disaggregating insurance finance income or expenses between profit or loss and OCI should not be to present insurance finance income or expenses in profit or loss on a cost measurement basis. Instead, the objective should be to present in profit or loss a systematic allocation of the total expected insurance finance income or expenses over the life of the contract.
 - e. the forthcoming insurance contracts Standard should provide guidance that, in this context, a systematic allocation:
 - i. is based on characteristics of the contract without reference to factors that do not affect the cash flows of the contract. For example, the allocation of the total expected finance income or expenses should not be based on expected recognised returns from assets if those expected recognised returns do not affect those cash flows.
 - ii. results in the amounts recognised in OCI over the life of the contract totalling zero.
 - f. the forthcoming insurance contracts Standard should provide further guidance that:
 - i. for insurance contracts for which changes in financial assumptions do not have a substantial effect on the amounts paid to the policyholder, the systematic allocation is determined using the discount rate(s) applicable at the inception of the contract; and
 - ii. for insurance contracts for which changes in financial assumptions have a substantial effect on the amounts paid to the policyholder, a systematic allocation can be determined in one of the following ways:
 - 1. using a rate that allocates the remaining revised expected finance expenses over the remaining life of the contract at a constant rate; or
 - 2. if the contracts use a crediting rate to determine amounts due to the policyholder, using an allocation based on the amounts credited to the policyholder in the period and expected to be credited in future periods.

All 14 Board members agreed with these decisions.

The Board tentatively decided:

- a. it would not require an entity to disclose an analysis of the total insurance finance income or expenses recognised in the statement(s) of financial performance disaggregated at a minimum into:
 - i. the interest accretion calculated using current discount rates;
 - ii. the effect of changes in discount rates in the period on the measurement of insurance contracts; and
 - iii. the difference between the present value of changes in expected cash flows that adjust the contractual service margin in a reporting period, measured using discount rates that applied on initial recognition of those insurance contracts, and measured at current rates; and
- b. it would include an objective in the forthcoming Standard that an entity should explain the total amount of insurance finance income or expenses in a reporting period, and to fulfil that objective an entity should:
 - i. explain the relationship between insurance finance income or expenses and the investment return on the related assets the entity holds to provide investors with sufficient information to understand the sources of net finance income or expenses recognised in profit or loss and other comprehensive income; and

- ii. disclose an explanation of the methods the entity uses to calculate the insurance finance income or expenses presented in profit or loss.

Twelve Board members agreed with these decisions and two Board members disagreed.

Agenda Paper 2D: Reinsurance contracts and the scope of the variable fee approach

The Board tentatively decided an entity should not apply the variable fee approach to reinsurance contracts issued or reinsurance contracts held.

All 14 Board members agreed with this decision.

Next steps

The staff will reflect the tentative decisions in a revised working draft and use that draft as a basis for seeking input from selected external parties on some aspects of the revised draft. The Board expects to discuss further any sweep issues that arise from testing and from the continued drafting process in the 3rd quarter of 2016. At that time, the Board aims to set a mandatory effective date for the Standard.

Conceptual Framework—Definitions of income and expenses and information about financial performance (Agenda Paper 10)

On 22 June 2016 the Board discussed the definitions of income and expenses and information about financial performance.

Agenda Paper 10B: Definitions of income and expenses

The Board tentatively decided:

- a. to confirm that the definitions of income and expenses should be those proposed in the Exposure Draft *Conceptual Framework for Financial Reporting* (the ED) (all 14 Board members agreed with this decision); and
- b. not to include in the revised *Conceptual Framework* a discussion of the typical types of transactions and other events that may give rise to income and expenses (eight Board members agreed with this decision and six Board members disagreed).

The Board directed the staff to consider if the guidance supporting the definitions of income and expenses should cross-refer to the discussion of income and expenses elsewhere in the revised *Conceptual Framework*. Ten Board members agreed with this decision and four Board members disagreed.

Agenda Paper 10C: Information about financial performance

The Board tentatively decided that the revised *Conceptual Framework* would:

- a. describe the statement of profit or loss as the primary source of information about an entity's financial performance for the period but would not set out the purpose of that statement. Thirteen Board members agreed with this decision and one Board member disagreed.
- b. set out a principle that income and expenses should be included in the statement of profit or loss unless the relevance or faithful representation of the information provided in the statement of profit or loss for the period would be enhanced by including a change in the current value of an asset or a liability in other comprehensive income (OCI). This principle would replace the rebuttable presumption about the use of the statement of profit or loss proposed in the ED. The revised *Conceptual Framework* would state that this is only expected to occur in exceptional circumstances. All 14 Board members agreed with this decision.
- c. state that a decision about including income and expenses in OCI can be made only by the Board in setting Standards. In making such a decision the Board would need to explain why excluding a change in the current value of an asset or a liability from the statement of profit or loss for the period would enhance the relevance or faithful representation of the information provided in that statement. Twelve Board members agreed with this decision and two Board members disagreed.
- d. state that in principle, income and expenses included in OCI should be recycled when doing so would enhance the relevance or faithful representation of the information in the statement of profit or loss for that period. This principle would replace the rebuttable presumption about recycling proposed in the ED. Eleven Board members agreed with this decision and three Board members disagreed.
- e. state that income and expenses included in OCI may not be recycled if, for example, there is no clear basis for identifying the period in which recycling should occur or the amount that should be recycled to enhance the relevance or faithful representation of information provided in the statement of profit or loss for that period. Ten Board members agreed with this decision and four Board members disagreed.
- f. state that a decision about whether and when income and expenses included in OCI should be recycled can be made only by the Board in setting Standards. In making such a decision the Board would need to explain why recycling would enhance the relevance or faithful representation of the information provided in the statement of profit or loss for that period. Thirteen Board members agreed with this decision and one Board member disagreed.

The Board also tentatively decided to remove the statement in the ED that an inability to identify a clear basis for recycling may indicate that such income or expenses should not be included in OCI. Twelve Board members agreed with this decision and two Board members disagreed.

Next steps

At the July Board meeting, the Board will discuss the definition of an asset and supporting guidance, recognition, and factors to consider when selecting a measurement basis.

Annual Improvements—IAS 12 Income Taxes—Presentation of income

tax consequences arising from dividends (Agenda Paper 12A)

The Board discussed a recommendation from the Interpretations Committee to amend IAS 12 *Income Taxes* to clarify the circumstances to which the presentation requirements in paragraph 52B of IAS 12 apply. Specifically, the Board considered whether such requirements apply beyond the circumstances described in paragraph 52A of IAS 12.

The Board agreed with the Interpretations Committee's conclusion that an entity should apply the presentation requirements in paragraph 52B beyond the circumstances described in paragraph 52A of IAS 12, ie an entity should apply those presentation requirements to all income tax consequences of dividends.

The Board also tentatively decided to include the proposed amendment in the next cycle of annual improvements (2015–2017). Additionally, the Board tentatively decided that an entity should apply the proposed amendment retrospectively and early application should be permitted.

All 14 Board members agreed with these decisions.

Next steps

The Board will consider the due process steps taken on the Exposure Draft *Annual Improvements to IFRS 2015–2017 Cycle* at a future Board meeting.

Work plan—projected targets as at 23 June 2016

The work plan reflecting decisions made at this meeting was updated on the IASB website on 23 June 2016. [View it here](#).

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