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## IASB and joint IASB–FASB Update July 2021

This IASB *Update* highlights preliminary decisions of the International Accounting Standards Board (Board). Projects affected by these decisions can be found on the [work plan](#). The Board's final decisions on IFRS® Standards, Amendments and IFRIC® Interpretations are formally balloted as set out in the IFRS Foundation's *Due Process Handbook*.

The Board met remotely on [20–21 July 2021](#).

In addition, the IASB held a remote joint meeting with the Financial Accounting Standards Board (FASB) on [23 July 2021](#). Read the joint *Update* below.

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## Research and standard-setting

### Post-implementation Review of IFRS 9—Classification and Measurement (Agenda Paper 3)

The Board met on 20 July 2021 to:

- discuss feedback from outreach in the first phase of the post-implementation review of the classification and measurement requirements in IFRS 9 *Financial Instruments*.
- decide on matters to examine further in the second phase. The Board will consult publicly on these matters through a request for information.

The Board decided to examine further:

- a. the business model assessment for financial assets, specifically:
  - i. the use of judgement in applying the assessment; and
  - ii. the reclassification of financial assets resulting from a change in business model;
- b. the contractual cash flow characteristics assessment for financial assets, specifically:
  - i. applying the assessment in the light of market developments (including new product features such as financial assets with sustainability-linked features (discussed in Agenda Paper 3B)); and
  - ii. the requirements for investments in contractually linked instruments;

- c. the option for equity instruments to present fair value changes in other comprehensive income, specifically:
  - i. how widely the presentation option is used and the types of instruments for which it is used; and
  - ii. the effect of the option on entities' investment decisions and on the usefulness of information to users of financial statements;
- d. the presentation in other comprehensive income of changes in fair value resulting from changes in own credit risk for financial liabilities designated at fair value through profit or loss;
- e. modifications to contractual cash flows, specifically:
  - i. the differences in drafting between the requirements for modifications for financial assets and financial liabilities; and
  - ii. determining when a modification results in derecognition; and
- f. the transition to IFRS 9, specifically:
  - i. the effects of the transition reliefs provided; and
  - ii. the balance between reducing costs for preparers of financial statements and providing useful information to users of financial statements.

All 12 Board members agreed with this decision.

### ***Next step***

The Board expects to approve the publication of, and set a comment period for, the request for information at a future meeting. The Board expects that the request for information will be published around the end of September 2021.

### **Post-implementation Review of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities (Agenda Paper 7)**

The Board met on 21 July 2021 to discuss feedback on the Request for Information *Post-implementation Review of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities*. The Request for Information was published in December 2020 and the comment period ended on 10 May 2021.

The Board discussed:

- a. feedback from comment letters;
- b. feedback from outreach it undertook between January and May 2021; and
- c. an update to the academic literature review.

The Board was not asked to make any decisions.

## ***Next step***

The Board will decide at a future meeting whether to take any action as a result of the post-implementation review. The Board would consider any such actions as part of the Third Agenda Consultation.

## **Disclosure Initiative—Targeted Standards-level Review of Disclosures (Agenda Paper 11)**

The Board met on 21 July 2021 and decided to extend the comment period for the Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach* from 210 days to 293 days, so that it ends on 12 January 2022. The Board noted that this unusually long comment period is justified only because of the unique nature of, and significant new thinking in, the proposals. In particular, the comment period will allow more time for preparers to conduct fieldwork and provide feedback on the practical application of the proposals.

All 12 Board members agreed with this decision.

## **Goodwill and Impairment (Agenda Paper 18)**

The Board met on 20 July 2021 to redeliberate its preliminary views on the subsequent accounting for goodwill, and in particular whether to reintroduce amortisation of goodwill.

As part of its redeliberation on whether to reintroduce amortisation of goodwill, the Board discussed disclosures about business combinations and improving the effectiveness of the impairment test in IAS 36 *Impairment of Assets*.

The Board was not asked to make any decisions.

## ***Next step***

The Board will continue redeliberating its preliminary views at a future meeting.

## **Primary Financial Statements (Agenda Paper 21)**

The Board met on 21 July 2021 to redeliberate some of the proposals in the Exposure Draft *General Presentation and Disclosures* relating to classification in categories in the statement of profit or loss.

## ***Classification of income and expenses in the financing category of the statement of profit or loss (Agenda Paper 21A)***

## **Classification in the statement of profit and loss**

The Board tentatively decided to require an entity to classify in the financing category of the statement of profit or loss:

- a. all income and expenses from liabilities that arise from transactions that involve only the raising of finance; and
- b. specified income and expenses from other liabilities (see 'Liabilities arising from transactions that do not involve only the raising of finance').

All 12 Board members agreed with this decision.

## **Transactions that involve only the raising of finance**

The Board tentatively decided to require an entity to describe a transaction that involves only the raising of finance as a transaction that involves:

- a. the receipt by the entity of cash, an entity's own equity instruments or a reduction in a financial liability; and
- b. the return by the entity of cash or an entity's own equity instruments.

Eleven of 12 Board members agreed with this decision.

## **Hybrid contracts with host liabilities and embedded derivatives**

In relation to hybrid contracts with host liabilities and embedded derivatives, the Board tentatively decided:

- a. to require an entity to classify income and expenses related to separated host liabilities in the same way as income and expenses related to other liabilities;
- b. to require an entity to classify income and expenses related to separated embedded derivatives in the same way as income and expenses related to stand-alone derivatives; and
- c. to require an entity to classify income and expenses related to contracts that are not separated, in the same way as income and expenses related to other liabilities.

In addition, the Board tentatively decided to develop disclosure requirements for the situation in which an entity designates an entire hybrid contract as at fair value through profit or loss and as a result does not separate from the host financial liability an embedded derivative that is otherwise required to be separated by IFRS 9 *Financial Instruments*. The objective of these disclosure requirements would be to give users of financial statements information about when the use of the fair value option changes the classification of income and expenses.

All 12 Board members agreed with these decisions.

## **Liabilities arising from transactions that do not involve only the raising of finance**

For liabilities that arise from transactions that do not involve only the raising of finance, except some such liabilities specified by the Board, the Board tentatively decided to require an entity to classify in the financing category of the statement of profit or loss interest expense and the effect of changes in interest rates, when such amounts are identified applying the requirements of IFRS Standards.

The Board specified that this tentative decision does not apply to liabilities that arise from transactions that do not involve only the raising of finance and that:

- a. are hybrid contracts in the scope of IFRS 9 measured at amortised cost; and
- b. include an embedded derivative the economic characteristics and risks of which are closely related to the economic characteristics and risks of the host contract.

In relation to these specified liabilities, the Board decided to explore an approach that would classify all income and expenses in the financing category of the statement of profit or loss.

All 12 Board members agreed with these decisions.

## ***Classification of fair value gains or losses on derivatives and hedging instruments (Agenda Paper 21B)***

The Board tentatively decided to require an entity to:

- a. classify fair value gains or losses on financial instruments designated as hedging instruments applying IFRS 9 or IAS 39 *Financial Instruments: Recognition and Measurement* in the category of the statement of profit or loss affected by the risk the entity manages, except when doing so would involve the grossing up of fair value gains or losses. In such a case, an entity classifies all fair value gains or losses on the hedging instrument in the operating category. Eleven of 12 Board members agreed with this decision.
- b. classify fair value gains or losses applying the requirements in (a) to derivatives used for risk management if those derivatives are not designated as hedging instruments applying IFRS 9 or IAS 39, except when doing so would involve undue cost or effort. In cases that involve undue cost or effort, an entity classifies all fair value gains or losses on the derivative in the operating category. Eleven of 12 Board members agreed with this decision.
- c. classify fair value gains or losses on derivatives not used for risk management in the operating category of the statement of profit or loss, unless a derivative relates to financing activities and is not used in the course of the entity's main business activities. When the derivative relates to financing activities and is not used in the course of the entity's main business activities, an entity classifies all fair value gains or losses on the derivative in the financing category. Ten of 12 Board members agreed with this decision.

## **Classification of foreign exchange differences (Agenda Paper 21C)**

The Board tentatively decided to require an entity to classify foreign exchange differences included in the statement of profit or loss applying paragraphs 28 and 30 of IAS 21 *The Effects of Changes in Foreign Exchange Rates* in the same category of the statement of profit or loss as the income and expenses from the items that gave rise to the foreign exchange differences, except when doing so would involve undue cost or effort. In cases that involve undue cost or effort, an entity classifies the foreign exchange differences on the item in the operating category.

Eleven of 12 Board members agreed with this decision.

### **Next step**

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

## **Maintenance and consistent application**

### **Maintenance and consistent application (Agenda Paper 12)**

The Board met on 20 July 2021 to consider the classification of debt as current or non-current, supplier finance arrangements and matters discussed at the June 2021 IFRS Interpretations Committee (Committee) meeting.

### **Classification of Debt with Covenants as Current or Non-current (IAS 1): Transition, Early Application and Due Process (Agenda Paper 12A)**

The Board discussed requirements for the transition to, and early application of, the proposed amendments to IAS 1 *Presentation of Financial Statements*. The Board also discussed due process, including permission to begin the balloting process.

The proposed amendments to IAS 1 would:

- a. modify the requirements introduced by *Classification of Liabilities as Current or Non-current* (2020 amendments) on how an entity classifies debt and other financial liabilities as current or non-current in particular circumstances; and
- b. defer the effective date of the 2020 amendments to no earlier than 1 January 2024.

### **Transition**

The Board tentatively decided to:

- a. require entities to apply the proposed amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and

- b. provide no exemption for first-time adopters.

All 12 Board members agreed with these decisions.

### ***Early application***

The Board tentatively decided to permit an entity to apply the proposed amendments earlier than the effective date.

All 12 Board members agreed with this decision.

### ***Due process***

The Board tentatively decided to allow a comment period of no fewer than 120 days for the exposure draft of its proposed amendments to IAS 1. All 12 Board members agreed with this decision.

All 12 Board members confirmed they were satisfied the Board has complied with the applicable due process requirements and has undertaken sufficient consultation and analysis to begin the process for balloting the exposure draft.

Two Board members indicated an intention to dissent from the proposals in the exposure draft.

### ***Next step***

The Board plans to publish the exposure draft in the fourth quarter of 2021.

## ***Supplier Finance Arrangements: Transition, Early Application and Due Process (Agenda Paper 12B)***

The Board discussed requirements for the transition to, and early application of, the proposed amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*. The Board also discussed due process, including permission to begin the balloting process.

### ***Transition***

The Board tentatively decided to:

- a. require entities to apply the proposed amendments retrospectively in accordance with IAS 8; and
- b. provide no exemption for first-time adopters.

All 12 Board members agreed with these decisions.

### ***Early application***



The Board tentatively decided to permit an entity to apply the proposed amendments earlier than the effective date.

All 12 Board members agreed with this decision.

### ***Due process***

The Board tentatively decided to allow a comment period of no fewer than 120 days for the exposure draft of its proposed amendments to IAS 7 and IFRS 7. All 12 Board members agreed with this decision.

All 12 Board members confirmed they were satisfied the Board has complied with the applicable due process requirements and has undertaken sufficient consultation and analysis to begin the process for balloting the exposure draft.

No Board member indicated an intention to dissent from the proposals in the exposure draft.

### ***Next step***

The Board plans to publish the exposure draft in the fourth quarter of 2021.

### ***IFRIC Update (Agenda Paper 12C)***

The Board received an update on the Committee's June 2021 meeting. Details of this meeting were published in **IFRIC Update June 2021**.

The Board was not asked to make any decisions.

## **Taxonomy**

### **IFRS Taxonomy (Agenda Paper 25)**

The Board met on 21 July 2021 to receive an update on:

- a. feedback on the Proposed IFRS Taxonomy Update for:
  - i. *Disclosure of Accounting Policies*, which amends IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*; and
  - ii. *Definition of Accounting Estimates*, which amends IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
- b. the next steps for finalising the IFRS Taxonomy Update for *Disclosure of Accounting Policies* and *Definition of Accounting Estimates*.

The Board was not asked to make any decisions.

## ***Next step***

The Board will begin the balloting process and expects to issue IFRS Taxonomy 2021—Update 1 *Disclosure of Accounting Policies* and *Definition of Accounting Estimates* in the fourth quarter of 2021.

## **Projects discussed at joint IASB—FASB meeting**

### **Discussion points**

The Board and the Financial Accounting Standards Board (the boards) met on 23 July 2021 for an educational session to discuss:

- a. the IASB project on Goodwill and Impairment (the FASB project on Identifiable Intangible Assets and Subsequent Accounting for Goodwill)—Agenda Paper 18;
- b. the IASB’s Third Agenda Consultation (the FASB’s Agenda Consultation)—Agenda Paper 24; and
- c. the IASB project on Supplier Finance Arrangements (the FASB project on Disclosure of supplier finance programs involving trade payables)—Agenda Paper 27.

The boards were not asked to make any decisions.

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