



**IFRS Update of  
standards and  
interpretations in issue  
at 30 June 2016**

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# Introduction

Companies reporting under International Financial Reporting Standards (IFRS) continue to face a steady flow of new standards and interpretations. The resulting changes range from significant amendments of fundamental principles to some minor changes from the annual improvements process (AIP). They will affect different areas of accounting, such as recognition, measurement, presentation and disclosure.

Some of the changes have implications that go beyond matters of accounting, potentially also impacting the information systems of many entities. Furthermore, the changes may impact business decisions, such as the creation of joint arrangements or the structuring of particular transactions.

The challenge for preparers is to gain an understanding of what lies ahead.

## Purpose of this publication

This publication provides an overview of the upcoming changes in standards and interpretations (pronouncements). It also provides an update on selected active projects. It does not attempt to provide an in-depth analysis or discussion of the topics. Rather, the objective is to highlight key aspects of these changes. Reference should be made to the text of the pronouncements before taking any decisions or actions.

This publication consists of three sections:

**Section 1** provides a high-level overview of the key requirements of each pronouncement issued by the International Accounting Standards Board (IASB or the Board) and the IFRS Interpretations Committee (IFRS IC) as at 30 June 2016 that will be effective for the first-time for reporting periods ended at that date or thereafter. This overview provides a summary of the transitional requirements and a brief discussion of the potential impact that the changes may have on an entity's financial statements.

A table comparing mandatory application for different year ends is presented at the beginning of Section 1. In the table, the pronouncements are presented in order of their effective dates. Note that many pronouncements contain provisions that would allow entities to adopt in earlier periods.

Following the table, the discussion of the pronouncements follows the order in which the related standards are presented in the IFRS bound volume (Red Book), except for the AIP which are discussed at the end of Section 1.

When a standard or interpretation has been issued, but has yet to be applied by an entity, *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* requires the entity to disclose any known (or reasonably estimable) information relevant to understanding the possible impact that the new pronouncement will have on the financial statements, or indicate the reason for not doing so. The table at the beginning of Section 1 is helpful in identifying the pronouncements that fall within the scope of this disclosure requirement.

**Section 2** provides a summary of the agenda decisions (rejection notices) published in the *IFRIC Update*<sup>1</sup> since 22 March 2016. For rejection notices published before 22 March 2016, please refer to previous editions of *IFRS Update*. In some rejection notices, the IFRS IC refers to the existing pronouncements that provide adequate guidance. These rejection notices provide a view on the application of the pronouncements and fall within 'other accounting literature and accepted industry practices' in paragraph 12 of IAS 8.

**Section 3** summarises the key features of selected active projects of the IASB. The 'Key projects' addressed are those initiated with the objective of issuing new standards and those involving overarching considerations across a number of standards. 'Other projects' include proposed amendments with narrower applicability. Generally, only those projects that have reached the exposure draft stage are included, but, in selected cases, significant projects that have not yet reached the exposure draft stage are also highlighted.

<sup>1</sup> The *IFRIC Update* is available on the IASB's website at <http://www.ifrs.org/Updates/IFRIC+Updates/IFRIC+Updates.htm>.

## IFRS Core Tools

EY's *IFRS Core Tools*<sup>2</sup> provide the starting point for assessing the impact of changes to IFRS. Our *IFRS Core Tools* include a number of practical building blocks that can help the user to navigate the changing landscape of IFRS. In addition to *IFRS Update*, EY's *IFRS Core Tools* include the publications described below.

### International GAAP® Disclosure Checklist

Our 2016 edition of *International GAAP® Disclosure Checklist* captures disclosure requirements applicable to periods ended 30 June 2016 or thereafter, and disclosures that are permitted to be adopted early. These disclosure requirements are for all pronouncements issued as at 29 February 2016. This tool assists preparers to comply with the presentation and disclosure requirements of IFRS in their interim and year-end IFRS financial statements. Previous editions of this tool for earlier period-ends are available on EY's *IFRS Core Tools* webpage.

### Good Group (International) Limited

*Good Group (International) Limited* is a set of illustrative financial statements, incorporating presentation and disclosure requirements that are in issue as at 31 August 2015 and effective for the year ended 31 December 2015. *Good Group (International) Limited - Illustrative interim condensed financial statements* for the period ended 30 June 2016, based on IFRS in issue at 29 February 2016, supplements *Good Group (International) Limited - Illustrative financial statements*. Among other things, these illustrative financial statements can assist in understanding the impact accounting changes may have on the financial statements.

*Good Group (International) Limited* is supplemented by illustrative financial statements that are aimed at specific sectors, industries and circumstances. These include:

- ▶ Good Group (International) Limited - Alternative Format
- ▶ Good First-time Adopter (International) Limited
- ▶ Good Investment Fund Limited (Equity)
- ▶ Good Investment Fund Limited (Liability)
- ▶ Good Real Estate Group (International) Limited
- ▶ Good Mining (International) Limited
- ▶ Good Petroleum (International) Limited

### Also available from EY:

#### Other EY publications

References to other EY publications that contain further details and discussion on these topics are included throughout the *IFRS Update*, all of which can be downloaded from our website.<sup>3</sup>

#### International GAAP® 2016<sup>4</sup>

Our *International GAAP® 2016* is a comprehensive guide to interpreting and implementing IFRS.<sup>5</sup> It includes pronouncements mentioned in this publication that were issued prior to September 2015, and it provides examples that illustrate how the requirements of those pronouncements are applied.

<sup>2</sup> EY's Core Tools are available on [http://www.ey.com/GL/en/Issues/IFRS/Issues\\_GL\\_IFRS\\_NAV\\_Core-tools-library](http://www.ey.com/GL/en/Issues/IFRS/Issues_GL_IFRS_NAV_Core-tools-library).

<sup>3</sup> These publications are available on <http://www.ey.com/ifrs>.

<sup>4</sup> International GAAP® is a registered trademark of Ernst & Young LLP (UK).

<sup>5</sup> <http://www.igaap.info>.

# Section 1: New pronouncements issued as at 30 June 2016

## Table of mandatory application

New pronouncement	Page	Effective Date*	First time applied in annual periods ending on the last day of these months**											
			Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
IFRS 10, IFRS 12 and IAS 28 <i>Investment Entities: Applying the Consolidation Exception - Amendments to IFRS 10, IFRS 12 and IAS 28</i>	6	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
IFRS 10 and IAS 28 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28</i>	7	Note 1												
IFRS 11 <i>Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11</i>	7	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
IFRS 14 <i>Regulatory Deferral Accounts</i>	8	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
IAS 1 <i>Disclosure Initiative - Amendments to IAS 1</i>	10	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
IAS 16 and IAS 38 - <i>Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38</i>	12	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
IAS 16 and IAS 41 <i>Agriculture - Bearer Plants - Amendments to IAS 16 and IAS 41</i>	12	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
IAS 27 - <i>Equity Method in Separate Financial Statements - Amendments to IAS 27</i>	13	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
AIP IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal</i>	16	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
AIP IFRS 7 <i>Financial Instruments: Disclosures - Servicing contracts</i>	16	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
AIP IFRS 7 <i>Financial Instruments: Disclosures - Applicability of the offsetting disclosures to condensed interim financial statements</i>	16	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
AIP IAS 19 <i>Employee Benefits - Discount rate: regional market issue</i>	16	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
AIP IAS 34 <i>Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report'</i>	16	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
IAS 7 <i>Disclosure Initiative - Amendments to IAS 7</i>	11	1 Jan 2017	2018	2018	2018	2018	2018	2018	2018	2018	2018	2018	2018	2017
IAS 12 <i>Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12</i>	11	1 Jan 2017	2018	2018	2018	2018	2018	2018	2018	2018	2018	2018	2018	2017
IFRS 15 <i>Revenue from Contracts with Customers***</i>	8	1 Jan 2018	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2018
IFRS 9 <i>Financial Instruments</i>	5	1 Jan 2018	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2018
IFRS 2 <i>Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2</i>	14	1 Jan 2018	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2018
IFRS 16 <i>Leases</i>	9	1 Jan 2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2019

AIP: Annual IFRS Improvements Process.

\*Effective for annual periods beginning on or after this date.

\*\* Assuming that an entity has not early adopted the pronouncement according to specific provisions in the standard.

\*\*\* In April 2016, the IASB issued amendments to IFRS 15 *Clarifications to IFRS 15 Revenue from Contracts with Customers*. The amendments have the same effective date as IFRS 15, which is 1 January 2018.

Note 1: In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.





## IFRS 9 *Financial Instruments*

Effective for annual periods beginning on or after 1 January 2018.

### Key requirements

#### *Classification and measurement of financial assets*

Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Debt instruments are subsequently measured at FVTPL, amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held.

There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch.

Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.

#### *Classification and measurement of financial liabilities*

For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.

All other IAS 39 *Financial Instruments: Recognition and Measurement* classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

#### *Impairment*

The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model. The ECL model applies to debt instruments accounted for at amortised cost or at FVOCI, most loan commitments, financial guarantee contracts, contract assets under IFRS 15 *Revenue from Contracts with Customers* and lease receivables under IAS 17 *Leases*.

Entities are generally required to recognise 12-month ECL on initial recognition (or when the commitment or guarantee was entered into) and thereafter as long as there is no significant deterioration in credit risk. However, if there has been a significant increase in credit risk on an individual or collective basis, then entities are required to recognise lifetime ECL. For trade receivables, a simplified approach may be applied whereby the lifetime ECL are always recognised.

#### *Hedge accounting*

Hedge effectiveness testing is prospective, without the 80% to 125% bright line test in IAS 39, and, depending on the hedge complexity, will often be qualitative.

A risk component of a financial or non-financial instrument may be designated as the hedged item if the risk component is separately identifiable and reliably measurable.

The time value of an option, any forward element of a forward contract and any foreign currency basis spread can be excluded from the hedging instrument designation and can be accounted for as costs of hedging.

More designations of groups of items as the hedged item are possible, including layer designations and some net positions.

#### *Transition*

Early application is permitted for reporting periods beginning after the issue of IFRS 9 on 24 July 2014 by applying all of the requirements in this standard at the same time. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard.

#### *Impact*

The application of IFRS 9 may change the measurement and presentation of many financial instruments, depending on their contractual cash flows and the business model under which they are held. The impairment requirements will generally result in earlier recognition of credit losses. The new hedging model may lead to more economic hedging strategies meeting the requirements for hedge accounting. It will be important for entities to monitor the discussions of the IFRS Transition Resource Group for Impairment of Financial Instruments (ITG).



### **Other EY publications**

*Applying IFRS: IFRS 9 for non-financial entities* (March 2016) EYG no. AU3724

*The Basel Committee Guidance on credit risk and accounting for expected credit losses* (January 2016) EYG no. AU3670

*Applying IFRS: ITG discusses IFRS 9 impairment issues at December 2015 ITG meeting* (December 2015) EYG no. AU3662

*Applying IFRS: Classification of financial instruments under IFRS 9* (May 2015) EYG no. AU3134

*Applying IFRS: Impairment of financial instruments under IFRS 9* (December 2014) EYG no. AU2827

*Applying IFRS: Hedge accounting under IFRS 9* (February 2014) EYG no. AU2185

*IFRS Developments Issue 112: ITG discusses IFRS 9 impairment issues* (September 2015)

*IFRS Developments Issue 109: Next steps for the accounting for dynamic risk management project* (May 2015) EYG no. AU3187

*IFRS Developments Issue 105: The ITG discusses IFRS 9 impairment implementation issues* (April 2015) EYG no. AU3106

*IFRS Developments Issue 100: Basel Committee proposes guidance on accounting for expected credit losses* (February 2015) EYG no. AU2891

*IFRS Developments Issue 87: IASB issues IFRS 9 Financial Instruments - expected credit losses* (July 2014) EYG no. AU2537

*IFRS Developments Issue 86: IASB issues IFRS 9 Financial Instruments - classification and measurement* (July 2014) EYG no. AU2536

### **IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception - Amendments to IFRS 10, IFRS 12 and IAS 28***

Effective for annual periods beginning on or after 1 January 2016.

#### **Key requirements**

The amendments address three issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*.

The amendments to IFRS 10 clarify that the exemption in paragraph 4 of IFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value.

The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

#### **Transition**

The amendments must be applied retrospectively. Early application is permitted and must be disclosed.

#### **Impact**

The amendments to IFRS 10 and IAS 28 provide helpful clarifications that will assist preparers in applying the standards more consistently. However, it may still be difficult to identify investment entities in practice when they are part of a multi-layered group structure.

#### **Other EY publications**

*IFRS Developments Issue 97: IASB issues amendments to the investment entities consolidation exception* (December 2014) EYG no. AU2833

## **IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28**

In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. Early application of the amendments is still permitted.

### **Key requirements**

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3 *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

### **Transition**

The amendments must be applied prospectively. Early application is permitted and must be disclosed.

### **Impact**

The amendments are intended to eliminate diversity in practice and give preparers a consistent set of principles to apply for such transactions. However, the application of the definition of a business is judgemental and entities need to consider the definition carefully in such transactions.

## **IFRS 11 Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11**

Effective for annual periods beginning on or after 1 January 2016.

### **Key requirements**

The amendments require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3 and other IFRSs that do not conflict with the requirements of IFRS 11 *Joint Arrangements*. Furthermore, entities are required to disclose the information required by IFRS 3 and other IFRSs for business combinations.

The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by one of the parties to the joint operation on its formation.

Furthermore, the amendments clarify that, for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be remeasured if the joint operator retains joint control.

### **Transition**

The amendments must be applied prospectively. Early application is permitted and must be disclosed.

### **Impact**

The amendments to IFRS 11 increase the scope of transactions that would need to be assessed to determine whether they represent the acquisition of a business or of an asset, which would require judgement. Entities need to consider the definition of a business carefully and select the appropriate accounting method based on the specific facts and circumstances of the transaction.

### **Other EY publications**

*Applying IFRS in the Oil & Gas Sector: Potential implications of the amendments to IFRS 11 Joint Arrangements* (November 2014) EYG no. AU2749

*Applying IFRS: Challenges in adopting and applying IFRS 11* (June 2014) EYG no. AU2512



## **IFRS 14 Regulatory Deferral Accounts**

Effective for annual periods beginning on or after 1 January 2016.

### **Key requirements**

IFRS 14 allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. The standard does not apply to existing IFRS preparers. Also, an entity whose current GAAP does not allow the recognition of rate-regulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognise them on first-time application of IFRS.

Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income.

The standard requires disclosure of the nature of, and risks associated with, the entity's rate regulation and the effects of that rate regulation on its financial statements.

### **Transition**

Early application is permitted and must be disclosed.

### **Impact**

IFRS 14 provides first-time adopters of IFRS with relief from derecognising rate-regulated assets and liabilities until a comprehensive project on accounting for such assets and liabilities is completed by the IASB. The comprehensive rate-regulated activities project is on the IASB's active agenda.

### **Other EY publications**

*Applying IFRS for IFRS 14 Regulatory Deferral Accounts* (November 2014) EYG no. AU2640

*IFRS Developments Issue 72: The IASB issues IFRS 14 - interim standard on regulatory deferral accounts* (February 2014) EYG no. AU2146

## **IFRS 15 Revenue from Contracts with Customers**

Effective for annual periods beginning on or after 1 January 2018.

### **Key requirements**

IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC 31 *Revenue - Barter Transactions Involving Advertising Services*) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17. Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible assets.

The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 will be applied using a five-step model:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Application guidance is provided in IFRS 15 to assist entities in applying its requirements to certain common arrangements, including licences of intellectual property, warranties, rights of return, principal-versus-agent considerations, options for additional goods or services and breakage.



### **Clarifications to IFRS 15**

In April 2016, the IASB issued amendments to IFRS 15 to address several implementation issues discussed by the Joint TRG. The amendments:

- ▶ Clarify when a promised good or service is distinct within the context of the contract
- ▶ Clarify how to apply the principal versus agent application guidance, including the unit of account for the assessment, how to apply the control principle in service transactions and reframe the indicators
- ▶ Clarify when an entity's activities significantly affect the intellectual property (IP) to which the customer has rights, which is a factor in determining whether the entity recognises revenue for licences over time or at a point in time
- ▶ Clarify the scope of the exception for sales-based and usage-based royalties related to licences of IP (the royalty constraint) when there are other promised goods or services in the contract
- ▶ Add two practical expedients to the transition requirements of IFRS 15 for: (a) completed contracts under the full retrospective transition approach; and (b) contract modifications at transition

The amendments have an effective date of 1 January 2018, which is the effective date of IFRS 15. Entities are required to apply these amendments retrospectively. The amendments are intended to clarify the requirements in IFRS 15, not to change the standard.

### **Transition**

Entities can choose to apply the standard using either a full retrospective approach or a modified retrospective approach, with some limited relief provided under either approach. Early application is permitted and must be disclosed.

### **Impact**

IFRS 15 is more prescriptive than the current IFRS requirements for revenue recognition and provides more application guidance. The disclosure requirements are also more extensive. The standard will affect entities across all industries. Adoption will be a significant undertaking for most entities with potential changes to their current accounting, systems and processes. Therefore, a successful implementation will require an assessment of and a plan for managing the change. In addition, it is important that entities monitor the discussions of the IASB, the US Financial Accounting Standards Board (FASB) and the Transition Resource Group for Revenue Recognition (TRG), including discussions at joint and the FASB TRG meetings.<sup>6</sup>

### **Other EY publications**

*Applying IFRS: Joint Transition Resource Group for Revenue Recognition items of general agreement* (Updated June 2016) EYG No. 01326-163GbI

*Applying IFRS: A closer look at the new revenue recognition standard* (Updated October 2015) EYG no. AU3568

*Applying IFRS: The new revenue standard affects more than just revenue* (February 2015) EYG no. AU2881

*IFRS Developments Issue 119: IASB issues clarifications to IFRS 15 (April 2016)* EYG No. 00479-163GbI

*IFRS Developments Issue 120: IASB debriefs the April 2016 FASB TRG meeting on revenue (May 2016)* EYG No. 01147-163GbI

Sector publications are also available on [ey.com/ifrs](http://ey.com/ifrs) covering the following:

- ▶ Asset management
- ▶ Automotive
- ▶ Engineering and construction
- ▶ Insurance
- ▶ Life sciences
- ▶ Mining and metals
- ▶ Oil and gas
- ▶ Power and utilities
- ▶ Real estate
- ▶ Retail and consumer products
- ▶ Technology
- ▶ Software and cloud services
- ▶ Telecommunications

<sup>6</sup> In January 2016, the IASB indicated it did not plan to schedule further meetings of the IFRS constituents of the TRG. The FASB TRG is scheduled to meet on 7 November 2016.



## IFRS 16 Leases

Effective for annual periods beginning on or after 1 January 2019.

### Key requirements

The scope of IFRS 16 includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

### Transition

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. Early application is permitted, but not before an entity applies IFRS 15.

### Impact

The lease expense recognition pattern for lessees will generally be accelerated as compared to today.

Key balance sheet metrics such as leverage and finance ratios, debt covenants and income statement metrics, such as earnings before interest, taxes, depreciation and amortisation (EBITDA), could be impacted. Also, the cash flow statement for lessees could be affected as payments for the principal portion of the lease liability will be presented within financing activities. Lessor accounting will result in little change compared to today's lessor accounting.

The standard requires lessees and lessors to make more extensive disclosures than under IAS 17.

Given the significant accounting implications, lessees will have to carefully consider the contracts they enter into to identify any that are, or contain, leases. This evaluation will also be important for lessors to determine which contracts (or portions of contracts) are subject to the new revenue recognition standard.

### Other EY publications

*IFRS Developments Issue 117: IASB issues new leases standard* (January 2016) EYG no. AU3676

*IFRS Practical Matters: Leases make their way onto the balance sheet - Navigating the journey for a smooth landing* (February 2016) EYG No. AU3725

*Real estate leases - How will IFRS 16 impact real estate entities?* (May 2016) EYG No. 01028-163Gb1

Sector publications are also available on [ey.com/ifrs](http://ey.com/ifrs) covering the following:

- ▶ Consumer products and retail
- ▶ Telecommunications
- ▶ Financial services

## **IAS 1 Disclosure Initiative - Amendments to IAS 1**

Effective for annual periods beginning on or after 1 January 2016.

### **Key requirements**

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, the existing IAS 1 requirements.

The amendments clarify:

- ▶ The materiality requirements in IAS 1
- ▶ That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- ▶ That entities have flexibility as to the order in which they present the notes to financial statements
- ▶ That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

### **Transition**

Early application is permitted. Entities do not need to disclose that fact because the Board considers these amendments to be clarifications only that do not affect an entity's accounting policies or accounting estimates.

### **Impact**

These amendments are intended to assist entities in applying judgement when meeting the presentation and disclosure requirements in IFRS, and do not affect recognition and measurement. Although these amendments clarify existing requirements of IAS 1, the clarifications may facilitate enhanced disclosure effectiveness.

### **Other EY publications**

*IFRS Developments Issue 98: IASB makes progress on the Disclosure Initiative* (December 2014) EYG no. AU2836

## **IAS 7 Disclosure Initiative - Amendments to IAS 7**

Effective for annual periods beginning on or after 1 January 2017.

### **Key requirements**

The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

### **Transition**

On initial application of the amendment, entities are not required to provide comparative information for preceding periods. Early application is permitted.

### **Impact**

The amendments are intended to provide information to help investors better understand changes in a company's debt.

## **IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12**

Effective for annual periods beginning on or after 1 January 2017.

### **Key requirements**

The IASB issued the amendments to IAS 12 *Income Taxes* to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

### **Transition**

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

Early application is permitted. If an entity applies the amendments for an earlier period, it must disclose that fact.

### **Impact**

The amendments are intended to remove existing divergence in practice in recognising deferred tax assets for unrealised losses.

## **IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38**

Effective for annual periods beginning on or after 1 January 2016.

### **Key requirements**

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

### **Transition**

The amendments are effective prospectively. Early application is permitted and must be disclosed.

### **Impact**

Entities currently using revenue-based amortisation methods for property, plant and equipment will need to change their approach to an acceptable method, such as the diminishing balance method, which would recognise increased amortisation in the early part of the asset's useful life.

### **Other EY publications**

*IFRS Developments Issue 78: IASB prohibits revenue-based depreciation* (May 2014) EYG no. AU2353





## **IAS 16 and IAS 41 Agriculture: Bearer Plants - Amendments to IAS 16 and IAS 41**

Effective for annual periods beginning on or after 1 January 2016.

### **Key requirements**

The amendments to IAS 16 and IAS 41 *Agriculture* change the scope of IAS 16 to include biological assets that meet the definition of bearer plants (e.g., fruit trees). As a result of the amendments, bearer plants will be subject to all the recognition and measurement requirements in IAS 16, including the choice between the cost model and revaluation model for subsequent measurement. Agricultural produce growing on bearer plants (e.g., fruit growing on a tree) will remain within the scope of IAS 41.

In addition, government grants relating to bearer plants will be accounted for in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, instead of IAS 41.

### **Transition**

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may choose to measure a bearer plant at its fair value at the beginning of the earliest period presented. Early application is permitted and must be disclosed.

### **Impact**

The requirements will not entirely eliminate the volatility in profit or loss as produce growing on bearer plants will still be measured at fair value. Furthermore, entities will need to determine appropriate methodologies to measure the fair value of these assets separately from the bearer plants on which they are growing, which may increase the complexity and subjectivity of the measurement.

### **Other EY publications**

*IFRS Developments Issue 84: Bearer plants - the new requirements* (July 2014) EYG no. AU2518

## **IAS 27 Equity Method in Separate Financial Statements - Amendments to IAS 27**

Effective for annual periods beginning on or after 1 January 2016.

### **Key requirements**

The amendments to IAS 27 *Separate Financial Statements* allow an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. Therefore, an entity must account for these investments either:

- ▶ At cost
  - ▶ In accordance with IFRS 9 (or IAS 39)
- Or
- ▶ Using the equity method

The entity must apply the same accounting for each category of investment.

A consequential amendment was also made to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment to IFRS 1 allows a first-time adopter accounting for investments in the separate financial statements using the equity method, to apply the IFRS 1 exemption for past business combinations to the acquisition of the investment.

### **Transition**

The amendments must be applied retrospectively. Early application is permitted and must be disclosed.

### **Impact**

The amendments eliminate a GAAP difference for countries where regulations require entities to present separate financial statements using the equity method to account for investments in subsidiaries, associates and joint ventures.



## ***IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2***

Effective for annual periods beginning on or after 1 January 2018.

### **Key requirements**

The IASB issued amendments to IFRS 2 *Share-based Payment* in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas:

- ▶ The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction
- ▶ The classification of a share-based payment transaction with net settlement features for withholding tax obligations
- ▶ The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

### **Transition**

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted.

### **Impact**

The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement.

### **Other EY publications**

*IFRS Developments Issue 121: IASB issues amendments to IFRS 2* (June 2016) EYG no. 01519-163Gbl

## Improvements to International Financial Reporting Standards

### Key requirements

The IASB's annual improvements process deals with non-urgent, but necessary, clarifications and amendments to IFRS.

### 2012-2014 cycle (issued in September 2014)

Following is a summary of the amendments (other than those affecting only the standards' Basis for Conclusions) from the 2012-2014 annual improvements cycle. The changes summarised below are effective for annual reporting periods beginning on or after 1 January 2016. Earlier application is permitted and must be disclosed.

IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	<p><b>Changes in methods of disposal</b></p> <ul style="list-style-type: none"> <li>▶ Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.</li> <li>▶ The amendment must be applied prospectively.</li> </ul>
IFRS 7 <i>Financial Instruments: Disclosures</i>	<p><b>Servicing contracts</b></p> <ul style="list-style-type: none"> <li>▶ The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required.</li> <li>▶ The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendment.</li> </ul> <p><b>Applicability of the offsetting disclosures to condensed interim financial statements</b></p> <ul style="list-style-type: none"> <li>▶ The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.</li> <li>▶ The amendments must be applied retrospectively.</li> </ul>
IAS 19 <i>Employee Benefits</i>	<p><b>Discount rate: regional market issue</b></p> <ul style="list-style-type: none"> <li>▶ The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.</li> <li>▶ The amendment must be applied prospectively.</li> </ul>
IAS 34 <i>Interim Financial Reporting</i>	<p><b>Disclosure of information 'elsewhere in the interim financial report'</b></p> <ul style="list-style-type: none"> <li>▶ The amendment clarifies that the required interim disclosures must be either in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report).</li> <li>▶ The other information within the interim financial report must be available to users on the same terms and at the same time as the interim financial statements.</li> <li>▶ The amendment must be applied retrospectively.</li> </ul>

### Other EY publications

*IFRS Developments Issue 71: The IASB issues two cycles of annual improvements to IFRS* (December 2013) EYG no. AU2068

*IFRS Developments Issue 91: IASB concludes the 2012-2014 Annual Improvements Cycle* (September 2014) EYG no. AU2645

## Section 2: Items not taken onto the IFRS Interpretations Committee's agenda in Q2 2016

Certain items deliberated by the IFRS IC are published within the 'Interpretations Committee agenda decisions' section of the IASB's *IFRIC Update*. Agenda decisions (also referred to as rejection notices) are issues that the IFRS IC decides not to add to its agenda and include the reasons for not doing so. For some of these items, the IFRS IC includes further information about how the standards should be applied. This guidance does not constitute an interpretation, but rather, provides additional information on the issues raised and the IFRS IC's views on how the standards and current interpretations are to be applied.

The table below summarises topics that the IFRS IC decided not to take onto its agenda for the period from 22 March 2016 (since our previous edition of *IFRS Update*) to 30 June 2016 and contains highlights from the agenda decisions. For agenda decisions published before 22 March 2016, please refer to previous editions of *IFRS Update*. All items considered by the IFRS IC during its meetings, as well as the full text of its conclusions, can be found in the *IFRIC Update* on the IASB's website.<sup>7</sup>

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
March 2016	IFRS 9 <i>Financial Instruments</i> – Determining hedge effectiveness for net investment hedges	<p>The IFRS IC received a request to clarify how an entity should determine hedge effectiveness when accounting for net investment hedges in accordance with IFRS 9 <i>Financial Instruments</i>. Specifically, the submitter asked whether, when accounting for net investment hedges, an entity should apply the 'lower of' test required for cash flow hedges in determining the effective portion of the gains or losses arising from the hedging instrument.</p> <p>The IFRS IC observed that:</p> <ul style="list-style-type: none"> <li>▶ Paragraph 6.5.13 of IFRS 9 states that 'hedges of a net investment in a foreign operation ... shall be accounted for similarly to cash flow hedges ...'. Paragraph 6.5.13 (a), which focuses on net investment hedges, also references paragraph 6.5.11, which deals with the accounting for cash flow hedges; this includes the 'lower of' test. This indicates that, when accounting for net investment hedges, an entity should apply the 'lower of' test in determining the effective portion of the gains or losses arising from the hedging instrument.</li> <li>▶ In determining the effective portion of the gains or losses arising from the hedging instrument when accounting for net investment hedges, the application of the 'lower of' test avoids the recycling of exchange differences arising from the hedged item that have been recognised in other comprehensive income before the disposal of the foreign operation. The IFRS IC noted that such an outcome would be consistent with the requirements of IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i>.</li> </ul> <p>In addition, the IFRS IC noted that:</p> <ul style="list-style-type: none"> <li>▶ It did not receive evidence of significant diversity among entities applying IAS 39 <i>Financial Instruments: Recognition and Measurement</i> in determining the effective portion of the gains or losses arising from the hedging instrument by applying the 'lower of' test when accounting for net investment hedges</li> <li>▶ Few entities have yet adopted the hedging requirements in IFRS 9. Consequently, it is too early to assess whether the issue is widespread. However, the IFRS IC expects no significant diversity to arise when IFRS 9 is adopted more widely.</li> </ul>

<sup>7</sup> The *IFRIC Update* is available at <http://www.ifrs.org/Updates/IFRIC+Updates/IFRIC+Updates.htm>.

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
March 2016	IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible Assets</i> – Variable payments for asset purchases	<p>The IFRS IC received a request to address the accounting for variable payments to be made for the purchase of an item of property, plant and equipment or an intangible asset that is not part of a business combination.</p> <p>The IFRS IC observed significant diversity in practice in accounting for these variable payments. It discussed the accounting, both at the date of purchasing the asset and thereafter, for variable payments that depend on the purchaser's future activity as well as those that do not depend on such future activity.</p> <p>The IFRS IC was unable to reach a consensus on whether an entity (the purchaser) recognises a liability at the date of purchasing the asset for variable payments that depend on its future activity or, instead, recognises such a liability only when the related activity occurs. The IFRS IC was also unable to reach consensus on how the purchaser measures a liability for such variable payments.</p>
March 2016	IAS 32 <i>Financial Instruments: Presentation</i> – Classification of liability for a prepaid card in the issuer's financial statements	<p>The IFRS IC received a request to clarify how an entity classifies the liability that arises when it issues a prepaid card in exchange for cash and how the entity accounts for any unspent balance on such a card. Specifically, the IFRS IC discussed a prepaid card with the following features:</p> <ul style="list-style-type: none"> <li>▶ No expiry date and no back-end fees, which means that any balance on the prepaid card does not reduce unless it is spent by the cardholder</li> <li>▶ Non-refundable, non-redeemable and non-exchangeable for cash</li> <li>▶ Redeemable only for goods or services to a specified monetary amount</li> <li>▶ Redeemable only at specified third-party merchants that, depending upon the card programme, range from a single merchant to all merchants that accept a specific card network. Upon redemption by the cardholder at a merchant(s) for goods or services, the entity delivers cash to the merchant(s)</li> </ul> <p>The IFRS IC was asked to consider whether the liability for the prepaid card is a non-financial liability on the basis that the entity does not have an obligation to deliver cash to the cardholder.</p> <p>The IFRS IC observed that the entity's liability for the prepaid card meets the definition of a financial liability. This is because the entity:</p> <ul style="list-style-type: none"> <li>▶ Has a contractual obligation to deliver cash to the merchants on behalf of the cardholder, which is conditional upon the cardholder using the prepaid card to purchase goods or services</li> <li>▶ Does not have an unconditional right to avoid delivering cash to settle this contractual obligation</li> </ul> <p>Consequently, an entity that issues such a card applies the requirements in IFRS 9 (IAS 39) to account for the financial liability for the prepaid card.</p> <p>The IFRS IC noted that customer loyalty programmes were outside the scope of its discussion on this issue.</p>



Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
March 2016	IAS 32 <i>Financial Instruments: Presentation</i> – Offsetting and cash-pooling arrangements	<p>The IFRS IC received a request to clarify whether a particular cash-pooling arrangement would meet the requirements for offsetting in accordance with IAS 32 – specifically, whether the regular physical transfers of balances (but not at the reporting date) into a netting account would be sufficient to demonstrate an intention to settle the entire period-end account balances on a net basis in accordance with paragraph 42(b) of IAS 32.</p> <p>For the purposes of the analysis, the IFRS IC considered the specific example included in the request, which describes a cash-pooling arrangement involving subsidiaries within a group, each of which have legally separate bank accounts. At the reporting date, the group has the legally enforceable right to set off balances in these bank accounts in accordance with paragraph 42(a) of IAS 32. Interest is calculated on a notional basis using the net balance of all the separate bank accounts. In addition, the group instigates regular physical transfers of balances into a single netting account. However, such transfers are not required under the terms of the cash-pooling arrangement and are not performed at the reporting date. Furthermore, at the reporting date, the group expects that its subsidiaries will use their bank accounts before the next net settlement date, by placing further cash on deposit or by withdrawing cash to settle other obligations.</p> <p>In considering whether the group could demonstrate an intention to settle on a net basis in accordance with paragraph 42(b) of IAS 32, the IFRS IC observed that:</p> <ul style="list-style-type: none"> <li>▶ Paragraph 46 of IAS 32 states that net presentation more appropriately reflects the amounts and timings of the expected future cash flows only when there is an intention to exercise a legally enforceable right to set off</li> <li>▶ In accordance with paragraph 47 of IAS 32, when assessing whether there is an intention to settle net, an entity considers normal business practices, the requirements of the financial markets and other circumstances that may limit the ability to settle net</li> </ul> <p>Consequently, within the context of the particular cash-pooling arrangement described by the submitter, the IFRS IC noted that the group should consider the principles above in order to assess whether, at the reporting date, there is an intention to settle its subsidiaries' bank account balances on a net basis or whether the intention is for its subsidiaries to use those individual bank account balances for other purposes before the next net settlement date. In this regard, the IFRS IC observed that the group expects cash movements to take place on individual bank accounts before the next net settlement date because the group expects its subsidiaries to use those bank accounts in their normal course of business. Consequently, the IFRS IC noted that, to the extent to which the group did not expect to settle its subsidiaries' period-end account balances on a net basis, it would not be appropriate for the group to assert that it had the intention to settle the entire period-end balances on a net basis at the reporting date. This is because presenting these balances net would not appropriately reflect the amounts and timings of the expected future cash flows, taking into account both the group's and its subsidiaries' normal business practices. However, the IFRS IC also observed that in other cash-pooling arrangements, a group's expectations regarding how subsidiaries will use their bank accounts before the next net settlement date may be different. Therefore, it was noted</p>

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
		<p>that, in those circumstances, the group would be required to apply judgement in determining whether there was an intention to settle on a net basis at the reporting date.</p> <p>The IFRS IC also observed that the results of the outreach did not suggest that the particular type of cash-pooling arrangement described by the submitter was widespread. Furthermore, it was noted that many different types of cash-pooling arrangements exist in practice. As such, the determination of what constitutes an intention to settle on a net basis would depend on the individual facts and circumstances of each case. The IFRS IC further noted that an entity should also consider the disclosure requirements related to the offsetting of financial assets and financial liabilities in the applicable IFRS.</p>
May 2016	<p>IFRS 9 <i>Financial Instruments</i> and IAS 39 <i>Financial Instruments: Recognition and Measurement</i> – Derecognition of modified financial assets</p>	<p>The IFRS IC discussed whether to undertake a potential narrow-scope project to clarify the requirements in IFRS 9 and IAS 39 for when a modification or exchange of financial assets results in derecognition of the original asset.</p> <p>Many IFRS IC members observed that, in their experience, the circumstances in which an entity should derecognise financial assets that have been modified or exchanged is an issue that arises in practice. However, because of the broad nature of the issue, the IFRS IC noted that it could not resolve the issue in an efficient manner.</p>
May 2016	<p>IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i> – Accounting for repayable cash receipts</p>	<p>The IFRS IC received a request to clarify the accounting for cash received from a government to help an entity to finance a research and development project. More specifically, clarification was requested as to whether the entity must recognise the cash received as a liability (on the basis that the entity has received a forgivable loan as defined in IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i>) or in profit or loss (on the basis that the entity has received a government grant as defined in IAS 20). The cash received from the government is repayable in cash only if the entity decides to exploit and commercialise the results of the research phase of the project. The terms of that repayment can result in the government receiving as much as twice the amount of the original cash proceeds if the project is successful. If the entity decides not to exploit and commercialise the results of the research phase, the cash received is not repayable in cash, but instead, the entity must transfer to the government the rights to the research.</p> <p>The IFRS IC noted that, in this arrangement, the entity has obtained financing for its research and development project. The IFRS IC observed that the cash receipt described in the submission gives rise to a financial liability (applying paragraph 20(a) of IAS 32) because the entity can avoid a transfer of cash only by settling a non-financial obligation (i.e., by transferring the rights to the research to the government). The entity accounts for that financial liability applying IFRS 9 (IAS 39).</p> <p>The IFRS IC noted that, in the arrangement described in the submission, the cash received from the government does not meet the definition of a forgivable loan in IAS 20. This is because, in this arrangement, the government does not undertake to waive repayment of the loan, but rather to require settlement in cash or by transfer of the rights to the research.</p> <p>The IFRS IC noted that, applying paragraph B5.1.1 of IFRS 9 (paragraph AG64 of IAS 39), the entity assesses at initial recognition, whether part of the cash</p>

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
May 2016	IAS 36 <i>Impairment of Assets</i> – Recoverable amount and carrying amount of a cash-generating unit	<p>received from the government is for something other than the financial instrument. For example, in the fact pattern described in the submission, part of the cash received (the difference between the cash received and the fair value of the financial liability) may represent a government grant. If this is the case, the entity accounts for the government grant applying IAS 20.</p> <p>The IFRS IC noted that the requirements in IFRS provide an adequate basis to enable an entity to account for the cash received from the government.</p> <p>The IFRS IC received a request to clarify the application of paragraph 78 of IAS 36 <i>Impairment of Assets</i>. This paragraph sets out the requirements for considering recognised liabilities in determining the recoverable amount of a cash-generating unit (CGU) within the context of an impairment test for a CGU. The IFRS IC observed that when an entity needs to consider a recognised liability to determine the recoverable amount of a CGU (which may occur if the disposal of a CGU would require the buyer to assume the liability), paragraph 78 of IAS 36 requires the entity to deduct the carrying amount of the recognised liability in determining both the CGU's carrying amount and its value in use (VIU). This approach of determining both the CGU's carrying amount and its VIU by deducting the same carrying amount of the recognised liability makes the comparison between the CGU's carrying amount and the CGU's recoverable amount meaningful.</p> <p>The IFRS IC observed that the approach in paragraph 78 of IAS 36 for considering recognised liabilities provides a straightforward and cost-effective method to perform a meaningful comparison of the measures involved in an impairment test for a CGU.</p>

## Section 3: Active IASB projects

The ability to stay current on the IASB's standard-setting activities is critical in a sea of change. The following pages summarise key features of selected active projects of the IASB, along with potential implications of the proposed standards. The 'Key projects' are those initiated with the objective of issuing new standards or that involve overarching considerations across a number of standards. 'Other projects' include proposed amendments with narrower applicability. Generally, only those projects that have reached the exposure draft stage are included, but in selected cases, projects that have not yet reached the exposure draft stage are also commented on.<sup>8</sup>

### Key projects

#### Insurance Contracts

##### Key developments to date

###### Background

The IASB completed redeliberating its second ED *Insurance contracts*, issued in June 2013, on a comprehensive method of accounting for insurance contracts. The IASB staff is currently working on the balloting process, which is expected to take up the remainder of 2016.

###### Scope

The standard would apply to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entity that issued them, as well as certain guarantee and financial instrument contracts with discretionary participation features. A few scope exceptions would apply.

###### Key features

The proposed approach for the measurement of the insurance contract liability is based on the following building blocks approach (also called the general measurement model):

- ▶ Expected present value of future cash flows
- ▶ A risk adjustment related to the expected present value of cash flows
- ▶ A contractual service margin (CSM) that would eliminate any gain at inception of the contract; the CSM would be adjusted subsequently for certain changes in estimates of future cash flows and the risk adjustment
- ▶ A discount rate that would be updated at the end of each reporting period. This rate would be based on the principle that the rate must reflect the characteristics of the liability.

The objective of the insurance contracts standard would be to provide principles for accounting for individual contracts, but contracts could be aggregated as long as this objective is met.

An accounting policy choice would be permitted at a portfolio level to recognise the effect of changes in discount rates in either OCI or profit or loss.

Certain contracts with participating features would be required to follow a modification of the proposed general measurement model (i.e., the building block model that applies to all other insurance contracts), which is referred to as the variable fee approach. Changes in the estimate of the variable fee, which includes the entity's share in the investment performance of specified items, are adjusted to the CSM.

Revenue would be reported in the statement of profit or loss through earned premiums representing the insurer's performance under the contracts in the period for all types of insurance contracts.

The CSM is recognised in profit or loss on the basis of the passage of time.

A simplified approach based on a premium allocation could be applied to the liability for remaining coverage if contracts meet certain eligibility criteria.

###### Transition and effective date

The IASB has not yet concluded on the effective date, but it is expected to be approximately three years from the issuance of the standard. During redeliberations, the Board decided on a retrospective approach to transition, subject to certain practical reliefs, if applicable.

###### Impact

The Board's tentative decision to make the use of OCI optional is a compromise necessary to complete the insurance contracts project. This will allow entities to reflect the differences that exist in how they run their businesses to fulfil their obligations under their insurance contracts.

<sup>8</sup> The latest IASB work plan and further information on the projects is available at <http://www.ifrs.org/Current-Projects/IASB-Projects/Pages/IASB-Work-Plan.aspx>.

Even though the IASB made OCI optional and introduced a variable fee model, the proposed model is expected to have a significant impact on key performance indicators and may still result in increased volatility in equity and profit or loss compared to today's accounting model.

### **Interaction with IFRS 9**

IFRS 9 will be effective from annual periods beginning on or after 1 January 2018. To mitigate the effects of certain accounting mismatches that may arise when an insurance entity applies IFRS 9 before the new insurance contracts standard becomes effective, the IASB decided, in March 2016, to proceed with amending the existing IFRS 4 *Insurance Contracts* to allow either a temporary exemption from applying IFRS 9 (provided an entity's predominant activity is issuing insurance contracts) or to reclassify from profit or loss to OCI some of the income or expenses arising for qualifying financial assets. The amendment to IFRS 4 is expected to be issued in September 2016.

### **FASB Insurance project**

The FASB also published its proposals in June 2013. Subsequently, however, the FASB decided not to issue a new insurance contracts standard, but to make enhancements to its current accounting for insurance companies instead.

### **Other EY publications**

Our *Insurance Accounting Alerts* provide timely updates on the IASB's discussion of the project.<sup>9</sup>

## **Conceptual Framework**

### **Key developments to date**

#### **Background**

The objective of the Conceptual Framework project is to improve financial reporting by providing a more complete, clear and updated set of concepts.

To achieve this, the IASB is building on the existing Conceptual Framework, while updating it, improving it and filling in the gaps, instead of fundamentally reconsidering all aspects of the Conceptual Framework.

#### **Scope and key features**

The May 2015 ED includes proposals to:

- ▶ Revise the definitions of elements in the financial statements
- ▶ Include new guidance on the recognition criteria and derecognition principles
- ▶ Describe the various measurement bases and factors to consider when selecting an appropriate measurement basis
- ▶ Include the principles for when items of income and expense are reported in OCI or profit or loss
- ▶ Describe high-level concepts for presentation and disclosure of information

The comment period for the ED ended on 25 November 2015.

#### **Impact**

The proposed changes to the Conceptual Framework may impact the application of IFRS in situations in which no standard applies to a particular transaction or event, or when a standard allows a choice of accounting policy.

#### **Other EY publications**

Applying IFRS: *IASB issues the Conceptual Framework exposure draft* (June 2015) EYG no. AU3242

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<sup>9</sup> The *Insurance Accounting Alerts* can be accessed at <http://www.ey.com/GL/en/Issues/IFRS>.



## Disclosure Initiative

### Key developments to date

#### Background

The IASB is undertaking a broad-based initiative to explore how disclosures in IFRS financial reporting can be improved. The Disclosure Initiative is made up of a number of implementation and research projects. In December 2014 and January 2016, amendments to IAS 1 and IAS 7 were issued respectively. The amendments are summarised in Section 1 of this publication. The other projects forming part of the Disclosure Initiative are described below.

#### Materiality

The objective of this project is to consider ways to improve the application of the materiality concept. The IASB plans to:

- ▶ Change the current definition of materiality within IFRS to align it across different standards and the *Conceptual Framework for Financial Reporting*, and to add a paragraph to IAS 1 clarifying the key characteristics of materiality
- ▶ Provide guidance on the application of materiality, which will take the form of a non-mandatory Practice Statement
- ▶ Wait until further work has been performed on the general disclosure review of other standards before considering possible changes to address the use of inconsistent or excessively prescriptive language in standards

The ED of a proposed Practice Statement was issued in October 2015. The ED proposes guidance in three main areas:

- ▶ Characteristics of materiality
- ▶ How to apply the concept of materiality when presenting and disclosing information in the financial statements
- ▶ How to assess whether omissions and misstatements of information are material to the financial statements

The comment period on the ED ended on 26 February 2016.

#### Principles of disclosure

The objective of this project is to identify and develop a possible set of principles for disclosure in IFRS that could form the basis of a standard-level project. The research phase will focus on a review of the general requirements in IAS 1, IAS 7 and IAS 8, and consider how they might be replaced with a single standard, in essence, creating a disclosure framework. The main focus will be on recommendations for improvements expressed by constituents in the Financial Reporting Disclosure Discussion Forum. In addition, the Board plans to consider feedback received in the Conceptual Framework project. The Discussion Paper is expected to be published by the end of 2016.

The IASB plans to research the following:

- ▶ Principles of disclosure for the notes, including disclosure of alternative performance measures and non-IFRS information
- ▶ Information in a complete set of IFRS financial statements, including:
  - ▶ Differential disclosures and proportionality
  - ▶ Cash flow reporting
  - ▶ Disclosure of interim financial information

#### Distinction between a change in accounting policy and a change in accounting estimate

The objective of this project is to clarify the existing distinction between a change in accounting policy and a change in accounting estimate.

#### General disclosure review

The IASB is planning to carry out a review of existing standards to identify and eliminate redundancies, conflicts, and duplications.

#### Impact

At this stage of the Disclosure Initiative, the impact of the different projects is unknown. However, the objective is to improve disclosure effectiveness by providing guidance on how to enhance the structure of financial statements, make disclosures entity-specific, and apply the materiality concept.

The amendments to IAS 1 issued in December 2014 generally only clarify existing requirements. However, these clarifications can be effective in steering practice away from making disclosures that contribute to the observed disclosure ineffectiveness. Similarly, the other projects have the potential to contribute to more tailored and effective disclosures.

#### Other EY publications

*Applying IFRS: Improving disclosure effectiveness* (July 2014) EYG no. AU2513

*IFRS Developments Issue 115: Disclosure Initiative - proposed guidance on materiality* (October 2015) EYG no. AU3581

## Other projects

The IASB has a number of projects on its work plan to amend existing standards and interpretations for specific matters. Following is a brief summary of selected projects. Refer to the IASB's website for its work plan, which includes the current status of all projects.

Other projects	Status/next steps
<p><i>Financial Instruments - Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging</i></p> <ul style="list-style-type: none"> <li>▶ The objective of this project is to address the specific accounting for risk management strategies relating to open portfolios rather than individual contracts. The hedge accounting requirements in IAS 39 and IFRS 9 do not provide specific solutions to the issues associated with macro hedging</li> <li>▶ The IASB is focusing initially on the information constituents believe should be required to better reflect entities' dynamic risk management activities</li> <li>▶ The IASB is expected to consider how constituents' information needs could be addressed through disclosures before considering the areas that need to be addressed through recognition and measurement. The objective is not to be a disclosure only project.</li> </ul>	<ul style="list-style-type: none"> <li>▶ DP issued in April 2014; redeliberations completed in Q4 2015</li> <li>▶ In May 2016, IASB tentatively decided:               <ul style="list-style-type: none"> <li>▶ That it should first consider how the information needs of constituents concerning dynamic risk management activities could be addressed through disclosures before considering those areas that need to be addressed through recognition and measurement</li> <li>▶ To prioritise the consideration of interest rate risk and consider other risks at a later stage in the project</li> <li>▶ To establish an Expert Advisory Panel at a later stage in the project</li> </ul> </li> <li>▶ The IASB will continue its discussions on the project at future meetings</li> </ul>
<p><i>Classification of Liabilities (Proposed amendments to IAS 1)</i></p> <ul style="list-style-type: none"> <li>▶ The proposed amendments to IAS 1 aim to improve presentation in financial statements by clarifying the criteria for the classification of a liability as either current or non-current. The ED proposes to:               <ul style="list-style-type: none"> <li>▶ Clarify that the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period</li> <li>▶ Clarify the link between the settlement of the liability and the outflow of resources from the entity</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▶ ED issued in Q1 2015; amendments expected in 2017</li> </ul>
<p><i>Remeasurement at a plan amendment, curtailment or settlement/Availability of a refund of a surplus from a defined benefit plan (Proposed amendments to IAS 19 and IFRIC 14)</i></p> <ul style="list-style-type: none"> <li>▶ The proposed amendments to IAS 19 specify that, in the event of a plan amendment, curtailment or settlement during a reporting period, an entity is required to use updated information to determine current service cost and net interest for the period following such an event</li> </ul>	<ul style="list-style-type: none"> <li>▶ ED issued in Q2 2015; decision on project direction expected in Q3 2016</li> </ul>

## Other projects

## Status/next steps

- ▶ The proposed amendments to IFRIC 14 *IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* address whether the powers of other parties affect an entity's right to a refund of a surplus from the plan

### *Definition of a Business and Accounting for Previously Held Interests (Proposed amendments to IFRS 3 and IFRS 11)*

- ▶ The proposed amendments aim to address issues related to the application of the definition of a business, and also to eliminate diversity in practice in the accounting for previously held interests in the assets and liabilities of a joint operation in transactions in which an entity obtains control or joint control of a joint operation that meets the definition of a business. In summary, the ED proposes the following clarifications to the definition of a business:
  - ▶ To clarify that to be considered a business, an acquired set of activities and assets (a set) must include, at a minimum, an input and a substantive process that together have the ability to contribute to the creation of outputs
  - ▶ To remove the statement that a set of activities and assets is a business if market participants can replace the missing elements and continue to produce outputs
  - ▶ To revise the definition of outputs to focus on goods and services provided to customers and to remove the reference to the ability to reduce costs
  - ▶ To consider a set of activities and assets not to be a business if, at the transaction date, substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets
  - ▶ To add guidance to help determine whether a substantive process has been acquired
- ▶ The ED also proposes to clarify that, when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation to fair value. However, if an entity obtains joint control of a business that is a joint operation, or if it increases its interest in a joint operation over which it already has joint control, then previously held interests in the assets and liabilities of the joint operation are not remeasured

- ▶ ED issued in Q2 2016; comments are due by 31 October 2016

The table below sets out the estimated timeline for the remaining projects on the IASB's active agenda as at 23 June 2016.

IASB projects	Q3 2016	Q4 2016	After Q4 2016
Rate-regulated activities			Discussion paper
Annual improvements 2014-2016 <sup>10</sup>	Decide project direction		
Annual improvements 2015-2017	Decide project direction		
Clarifications to IFRS 8 arising from the post-implementation review		Exposure draft	
Amendments to IFRS 4: Applying IFRS 9 with IFRS 4 <sup>11</sup>		Issue IFRS	
Transfers of investment property		Issue IFRS	
Draft IFRIC Interpretation - Uncertainty over Income Tax treatments <sup>12</sup>	Decide project direction		
Draft IFRIC Interpretation - Foreign Currency Transactions and Advance Consideration <sup>12</sup>		Issue Interpretation	

<sup>10</sup> Comment period ended 17 February 2016.

<sup>11</sup> Comment period ended 8 February 2016.

<sup>12</sup> Comment period ended 19 January 2016.

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