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# In depth – New IFRSs for 2015

March 2015

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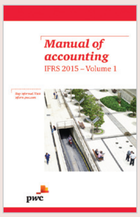
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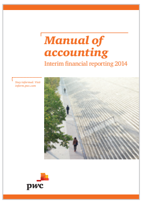
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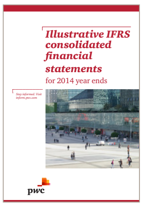
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### Illustrative IFRS consolidated financial statements for 2014 year ends

Illustrative consolidated financial statements for an existing preparer of IFRS. Includes illustrative disclosures of standards available for early adoption. Included with 'Manual of accounting – IFRS 2015'; also available separately.

IFRS disclosure checklist
2014
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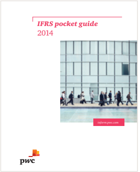
Outlines the disclosures required for 31 December 2014 year ends.


IFRS pocket guide
2014
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### IFRS pocket guide 2014

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### IFRS and US GAAP: similarities and differences

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# Introduction

IFRS 9, 'Financial instruments', was re-issued in July 2014 which replaces the guidance in IAS 39. This final version includes requirements on the classification and measurement of financial assets and liabilities and includes an expected credit losses model that replaces the current incurred loss impairment model. This version of IFRS 9 also includes the hedging amendment that was issued in 2013. The new standard is effective 1 January 2018, subject to endorsement for EU entities with early application permitted.

IFRS 14, 'Regulatory deferral accounts' is effective 1 January 2016, subject to endorsement for EU entities.

IFRS 14 permits first–time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt.

IFRS 15, 'Revenue from contracts with customers', was issued in May 2014 and is effective 1 January 2017 subject to endorsement for EU entities.

A few narrow scope amendments to existing standards effective for 1 July 2014 have since been EU endorsed as effective for on or after 1 January 2015:

- An amendment to IAS 19, 'Employee benefits', concerning defined benefit plans that require employees or third parties to contribute towards the costs of benefits (effective 1 July 2014) but has been endorsed for EU entities for periods on or after 1 February 2015.
- The 2012 improvements project containing seven amendments and the 2013 improvements project containing four amendments both effective 1 July 2014 have been EU endorsed for periods on or after 1 February 2015 and 1 January 2015 respectively.

During 2014 the IASB has issued various other amendments with an effective date of 1 January 2016, subject to endorsement for EU entities:

- The 2014 improvement project which includes amendments to four standards.
- Amendment to IFRS 11, 'Joint arrangements' on accounting for acquisitions of interests in joint operations.
- Amendments to IAS 16, 'Property plant and equipment' and IAS 41, 'Agriculture' on bearer plants.
- Amendments to IAS 16, 'Property plant and equipment' and IAS 38, 'Intangible assets' on classification of acceptable methods of depreciation and amortisation.
- Amendments to IAS 27, 'Separate financial statements' on equity method in separate financial statements.
- Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates' on Investment entities applying the consolidation exemption.
- Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates' on sale or contribution of assets between an investor and its associate or joint venture.
- Amendments to IAS 1, 'Presentation of financial statements' on the disclosure initiative.

| Standard/amendment/ interpretation | Effective date | EU status | Adoption status | Page |
|---|---|---|---|---|
| **1 July 2014** | | | | |
| Amendments to IAS 19, 'Employee benefits' on defined benefit plans | Annual periods beginning on or after 1 July 2014 | Endorsed for 1 Feb 2015 | Early adoption is permitted | 6 |
| ***Annual improvements 2010-2012*** | | | | |
| IFRS 2, 'Share based payment' on definition of a vesting condition | For share-based payment transactions for which the grant date is on or after 1 July 2014 | Endorsed for 1 Feb 2015 | Early adoption is permitted | 22 |
| IFRS 3, 'Business combinations' to clarify obligations to pay contingent consideration | For business combinations where the acquisition date is on or after 1 July 2014 | Endorsed for 1 Feb 2015 | Early adoption is permitted | 22 |
| IAS16, 'Property plant and equipment' and IAS 38,'Intangible assets' on gross carrying amount and depreciation are treated with revaluation model | Annual periods beginning on or after 1 July 2014 | Endorsed for 1 Feb 2015 | Early adoption is permitted | 23 |
| IFRS 8, 'Operating segments' on disclosure of judgements | Annual periods beginning on or after 1 July 2014 | Endorsed for 1 Feb 2015 | Early adoption is permitted | 22 |
| IAS 24, 'Related party disclosures' regarding disclosures of the reporting entity | Annual periods beginning on or after 1 July 2014 | Endorsed for 1 Feb 2015 | Early adoption is permitted | 23 |
| ***Annual improvements 2011-2013*** | | | | |
| IFRS 3, 'Business combinations' on clarification regarding joint arrangements | Annual periods beginning on or after 1 July 2014 | Endorsed for 1 Jan 2015 | Early adoption is permitted | 24 |
| IFRS 13, 'Fair value measurement' on clarification of the portfolio exemption in IFRS 13 | Annual periods beginning on or after 1 July 2014. An entity shall apply the amendment prospectively from the beginning of the first annual period in which IFRS 13 is applied. | Endorsed for 1 Jan 2015 | Early adoption is permitted | 24 |
| IAS 40, 'Investment property' clarification that IAS 40 and IFRS 3 not mutually exclusive | Annual periods beginning on or after 1 July 2014.<br>May be applied to individual acquisitions of investment property before 1 July 2014 if, and only if, the information necessary to apply the amendment is available. | Endorsed for 1 Jan 2015 | Early adoption is permitted | 24 |

| Standard/amendment/ interpretation | Effective date | EU status | Adoption status | Page |
|---|---|---|---|---|
| **1 January 2016** | | | | |
| IFRS 14, 'Regulatory deferral accounts' | Annual periods beginning on or after 1 January 2016 | Not yet endorsed | Early adoption is permitted | 18 |
| Amendment to IFRS 11 'Joint arrangements' on Accounting for acquisitions of interests in joint operations | Annual periods beginning on or after 1 January 2016 | Not yet endorsed | Early adoption is permitted | 8 |
| Amendments to IAS 16, 'Property plant and equipment' and IAS 41, 'Agriculture' on Agriculture: Bearer plants – | Annual periods beginning on or after 1 January 2016 | Not yet endorsed | Early adoption is permitted | 9 |
| Amendments to IAS 16, 'Property plant and equipment' and IAS 38, 'Intangible assets' on clarification of acceptable methods of depreciation and amortisation. | Annual periods beginning on or after 1 January 2016 | Not yet endorsed | Early adoption is permitted | 10 |
| Amendments to IAS 27, 'Separate financial statements' on equity method in separate financial statements. | Annual periods beginning on or after 1 January 2016 | Not yet endorsed | Early adoption is permitted | 11 |
| Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates', on Investment entities: Applying the consolidation exception | Annual periods beginning on or after 1 January 2016 | Not yet endorsed | Early adoption is permitted | 12 |
| Amendments to IFRS 10,'Consolidated financial statements' and IAS 28, 'Investments in associates' On the sale or contribution of assets between an investor and its associate or joint venture. | Annual periods beginning on or after 1 January 2016 | Not yet endorsed | Early adoption is permitted | 13 |
| Amendments to IAS 1, 'Presentation of financial statements' Disclosure initiative. | Annual periods beginning on or after 1 January 2016 | Not yet endorsed | Early adoption is permitted | 14 |
| ***Annual improvements 2012-2014*** | | | | |
| IFRS 5,'Non-current assets held for sale and discontinued operations', regarding methods of disposal | Annual periods beginning on or after 1 January 2016 | Not yet endorsed | Early adoption is permitted | 25 |
| IFRS 7,'Financial instruments: Disclosures', on servicing contracts and interim financial statements | Annual periods beginning on or after 1 January 2016 | Not yet endorsed | Early adoption is permitted | 26 |
| IAS 19,'Employee benefits' on determining the discount rates for post-employment benefit obligations | Annual periods beginning on or after 1 January 2016 | Not yet endorsed | Early adoption is permitted | 26 |
| IAS 34,'Interim financial reporting', regarding information disclosed elsewhere in the interim financial report. | Annual periods beginning on or after 1 January 2016 | Not yet endorsed | Early adoption is permitted | 27 |

| Standard/amendment/ interpretation | Effective date | EU status | Adoption status | Page |
|---|---|---|---|---|
| **1 January 2017** | | | | |
| IFRS 15, 'Revenue from contracts with customers' | Annual periods beginning on or after 1 January 2017 | Not yet endorsed | Early adoption is permitted | 20 |
| **1 January 2018** | | | | |
| IFRS 9, 'Financial instruments' | Annual periods beginning on or after 1 January 2018 | Not yet endorsed | Early adoption is permitted | 16 |

## Defined benefit plans

# Amendments to IAS 19, ‘Employee contributions’

**Effective date**

Annual periods beginning on or after 1 July 2014.

**EU adoption status**

EU endorsed for 1 February 2015.

### What is the issue?

This amendment clarifies the application of IAS 19, ‘Employee benefits’ (2011) – referred to as ‘IAS 19R’, to plans that require employees or third parties to contribute towards the cost of benefits. The amendment does not affect the accounting for voluntary contributions.

Some pension plans require employees or third parties to contribute to the plan. These contributions reduce the cost to the employer of providing the benefits. Common practice under the previous version of IAS 19 was to deduct the contributions from the cost of the benefits earned in the year in which the contributions were paid.

IAS 19R, which is applicable to periods commencing on or after 1 January 2013, was intended to clarify the treatment of contributions from employees or third parties. However, the revised guidance is open to a range of potentially complex interpretations, and could require most entities to change the way in which they account for these contributions.

The 2011 revisions to IAS 19 distinguished between employee contributions related to service and those not linked to service. The current amendment further distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. In our view, a contribution that is payable out of current salary is linked to service.

The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided.

The amendment will allow (but not require) many entities to continue accounting for employee contributions using their existing accounting policy, rather than spreading them over the employees’ working lives.

Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits; that means either in accordance with the formula in the pension plan, or, where the plan provides a materially higher level of benefit for service in later years, on a straight line basis.

**Example 1**

A plan that requires employees to contribute 4% of salary if they are below age 40, and 7% of salary if they are 40 or above, is an example of a plan in which employee contributions are not linked to the length of service.

The contributions are linked to age and salary, but are not dependent on the length of service. So the contributions would be recognised as a reduction of pension expense in the year in which the related service is delivered.

The benefit of employee contributions linked to the length of service is recognised in profit or loss over the employee's working life. It is not clear how this should be done, and a variety of approaches are likely to develop.

Contributions that are not linked to service are reflected in the measurement of the benefit obligation.

### *Example 2*

A plan that provides a lump sum benefit on retirement of 10% of final salary for the first ten years of service, plus 20% of final salary for each subsequent year of service, and requires employee contributions equal to 5% of salary for the first ten years of service and 8% thereafter, is a plan in which contributions are linked to the length of service.

The contributions vary with the length of service, as well as salary, and so they have to be recognised over the working life. The benefit earned and the employee contributions would be recognised on a straight line basis over the employee's working life in this example.

### *Example 3*

A post-employment medical insurance plan, where the employee is required to meet the first CU20 per month of the insurance premium, is an arrangement in which the contributions are not linked to service. The expected future contributions from the employee, which would be payable after retirement, would be included in the measurement of the benefit obligation.

## *Insight*

The amendment to IAS 19R will affect any post-employment benefit plans where employees or third parties are required to meet some of the cost of the plan.

The amendment clarifies the accounting by entities with plans that require contributions linked only to service in each period.

Entities with plans that require contributions that vary with service will be required to recognise the benefit of those contributions over employees' working lives. Management should consider how it will apply that model.

# *Accounting for acquisitions of interests in joint operations*

## Amendments to IFRS 11, 'Joint arrangements'

***Effective date***

Annual periods beginning on or after 1 January 2016. Early adoption is permitted.

***EU adoption status***

Not adopted at time of going to print.

### *Issue*

The IASB has amended IFRS 11, 'Joint arrangements', to provide specific guidance on accounting for the acquisition of an interest in a joint operation ('JO') that is a business.

The amendments address diversity in practice related to the accounting for these transactions.

### *Impact*

#### *Application of IFRS 3 principles*

The amendments require an investor to apply the principles of business combination accounting when it acquires an interest in a JO that constitutes a 'business' (as defined in IFRS 3, Business combinations).

Specifically, an investor will need to:

- measure identifiable assets and liabilities at fair value.
- expense acquisition-related costs;
- recognise deferred tax; and
- recognise the residual as goodwill.

All other principles of business combination accounting applies unless they conflict with IFRS 11.

The amendments are applicable to both the acquisition of the initial interest in a JO and the acquisition of additional interest in the same JO. However, a previously held interest is not remeasured when the acquisition of an additional interest in the same JO results in retaining joint control.

#### *Scope*

The amendments will apply to the acquisition of an interest in an existing JO that is a business, or when a JO is formed and an existing business is contributed. However the amendments do not apply when the formation of the JO coincides with the formation of a business. Transactions between an investor and a JO under common control are also excluded.

#### *Disclosures*

The amendments require the disclosure of information specified in IFRS 3 and other IFRSs for business combinations.

#### *Transition*

The amendments to IFRS 11 will be applied prospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted. Transactions before the adoption date are grandfathered.

The scope of the business combination exemption in IFRS 1 has been expanded to include the acquisition of an interest in JOs that are businesses.

### *Insight*

Entities in oil and gas, mining and power sectors will be most affected by the amendments although joint operations are seen across a broad range of industries. Joint arrangements are frequently used as the most effective method for multi-nationals to access emerging markets, and those reporting entities may be similarly affected.

The change required by the amendments is likely to increase the pressure on the definition of 'what is a business' and classification of joint arrangements under IFRS 11.

# *Agriculture: Bearer plants*

## Amendments to IAS 16, 'Property plant and equipment' and IAS 41, 'Agriculture'

***Effective date***

Annual periods beginning on or after 1 January 2016. Early adoption is permitted.

***EU adoption status***

Not adopted at time of going to print.

### *Issue*

The IASB has amended IAS 16, 'Property, plant and equipment', and IAS 41, 'Agriculture', in relation to bearer plants. Prior to the 2014 amendments, all biological assets were in the scope of IAS 41 and measured at fair value less costs to sell. Bearer plants will now be accounted for differently to all other biological assets.

The amendments distinguish bearer plants from other biological assets as bearer plants are solely used to grow produce over their productive lives. Bearer plants are seen as similar to an item of machinery in a manufacturing process and therefore will be classified as PP&E and accounted for under IAS 16.

### *Impact*

#### *Accounting for bearer plants*

Biological assets that meet the definition of 'bearer plants' are measured either at cost or revalued amounts, less accumulated depreciation and impairment losses. Bearer plants are measured at accumulated costs until maturity, similar to the accounting for a self-constructed item of property, plant and equipment.

A bearer plant is a living plant that:

- is used in the production or supply of agricultural produce;
- is expected to bear produce for more than one period; and
- has a remote likelihood of being sold as agricultural Revenue from contracts with customers.

Bearer plants are measured at accumulated costs until maturity, similar to the accounting for a self-constructed item of property, plant and equipment.

#### *Accounting for produce growing on bearer plants*

Agricultural produce growing on bearer plants remain within the scope of IAS 41 and are measured at fair value less costs to sell with changes recognised in profit or loss as the produce grows.

#### *Effective date and transitional provision*

The amendments are to be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016. Early application is permitted. Existing IFRS preparers who measure bearer plants at fair value less costs to sell are permitted to use fair value as deemed cost for these assets upon adoption of the amendments.

### *Insight*

Management should assess if their biological assets meet the definition of bearer plants in the amendments. The classification as bearer plants or other biological assets is critical as it drives the subsequent measurement model. For those assets which meet the definition of bearer plants, management will need to ensure that their systems are able to capture the costs incurred and consider their policy for determining when these assets are mature.

# *Clarification of acceptable methods of depreciation and amortisation*

## Amendments to IAS 16, 'Property plant and equipment' and IAS 38, 'Intangible assets'

### *Effective date*

Annual periods beginning on or after 1 January 2016. Early adoption is permitted.

### *EU adoption status*

Not adopted at time of going to print.

## *Issue*

The IASB has amended IAS 16, Property, plant and equipment and IAS 38, Intangible assets to clarify when a method of depreciation or amortisation based on revenue may be appropriate.

The amendment to IAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate.

The amendment to IAS 38 establishes a rebuttable presumption that amortisation of an intangible asset based on revenue generated by using the asset is inappropriate. The presumption may only be rebutted in certain limited circumstances. These are:

- Where the intangible asset is expressed as a measure of revenue; or
- Where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

## *Impact*

### *Property, plant and equipment*

It is unlikely that the amendment to IAS 16 will have a significant impact as few entities use a revenue-based approach to depreciation.

### *Intangible assets*

Entities which have intangible assets under IFRIC 12, *Service concessions* may see a significant impact from the amendment if they have previously used a method based on revenues to amortise the intangible asset.

The entertainment and media industry may also see a significant impact from the amendment. Intangible assets arising from programme rights are frequently amortised using a declining balance method as the majority of revenues arise from the first showings.

## *Insight*

There are many methods of depreciation and amortisation which are permitted by IAS 16 and IAS 38. Some of these may result in an amortisation profile not unlike one based on revenues; for example, the reducing balance method and the units of production method. Preparers for whom the amendment is significant may find it useful to explore these options.

# *Equity method in separate financial statements*

## Amendments to IAS 27, 'Separate financial statements'

***Effective date***

Annual periods beginning on or after 1 January 2016. Early adoption is permitted.

***EU adoption status***

Not adopted at time of going to print.

### *Issue*

The IASB has amended IAS 27, 'Separate financial statements', to restore the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

### *Key amendments*

An entity can now account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

- at cost; or
- in accordance with IFRS 9; or
- using the equity method as described in IAS 28.

The IASB has also clarified the definition of separate financial statements as those produced in addition to:

- consolidated financial statements by an entity with subsidiaries; or
- financial statements prepared by an entity which has no subsidiaries but has investments in associates or joint ventures required to be equity accounted under IAS 28.

IFRS 1 has been amended to permit use of the business combinations exemption for investments in subsidiaries accounted for using equity method in the separate financial statements of the first-time adopter.

### *Effective date and transitional provision*

An entity electing to change to the equity method shall apply the amendments for annual periods beginning on or after 1 January 2016 in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. Earlier application is permitted.

### *Impact*

The amendments are expected to reduce compliance costs for entities that are required to prepare separate financial statements in which they account for investments in subsidiaries, joint ventures and associates using the equity method.

Prior to the amendment these entities had to prepare two sets of separate financial statements, one for IFRS reporting and one for local statutory reporting.

### *Insight*

Retrospective application may be challenging for those entities who do not already prepare separate financial statements using the equity method as the figures from the previous consolidated financial statements may require adjustment.

# *Investment entities: Applying the consolidation exception*

## Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates'

***Effective date***

Annual periods beginning on or after 1 January 2016. Early adoption is permitted.

***EU adoption status***

Not adopted at time of going to print.

### *Issue*

The IASB published amendments to IFRS 10 Consolidation Financial Statements and IAS 28 (2011) Investments in associates and joint ventures on 18 December 2014. The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

### *Impact*

#### *Exception from preparing consolidated financial statements*

The amendments to IFRS 10 clarify that the exception from preparing consolidated financial statements is available to intermediate parent entities which are subsidiaries of investment entities. The exception is available when the investment entity parent measures its subsidiaries at fair value.

The intermediate parent would also need to meet the other criteria for exception listed in IFRS 10.

#### *Subsidiaries which act as an extension of an investment entity*

The amendments to IFRS 10 clarify that an investment entity should consolidate a subsidiary which is not an investment entity and whose main purpose and activity is to provide services in support of the investment entity's investment activities.

However, the amendments confirm that if the subsidiary is itself an investment entity, the investment entity parent should measure its investment in the subsidiary at fair value through profit or loss. This approach is required regardless of whether the subsidiary provides investment-related services to the parent or to third parties.

#### *Equity accounting for investments in associates and joint ventures*

The amendments to IAS 28 allow an entity which is not an investment entity, but has an interest in an associate or joint venture which is an investment entity, a policy choice when applying the equity method of accounting. The entity may choose to retain the fair value measurement applied by the investment entity associate or joint venture, or to unwind the fair value measurement and instead perform a consolidation at the level of the investment entity associate or joint venture.

#### *Transition*

The amendments to IFRS 10 and IAS 28 (2011) are effective from 1 January 2016. Earlier application is permitted.

### *Insight*

The amendments clarify the relief from consolidation which is available to entities in group structures involving investment entities and are likely to reduce the number of entities which produce consolidated financial statements.

The amendments also provide relief to non-investment entity investors in associates and joint ventures, who would otherwise incur practical difficulties or additional costs in unwinding fair value measurements and performing additional consolidations.

# *Sale or contribution of assets between an investor and its associate or joint venture*

## Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates'

### *Effective date*

Annual periods beginning on or after 1 January 2016. Early adoption is permitted.

### *EU adoption status*

Not adopted at time of going to print.

### *Issue*

The IASB published amendments to IFRS 10, 'Consolidated financial statements' and IAS 28 (2011), 'Investments in associates and joint ventures', on 11 September 2014. The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures.

### *Impact*

#### *Is it a business or an asset?*

The amendments resolve a current inconsistency between IFRS 10 and IAS 28. The accounting treatment depends on whether the nonmonetary assets sold or contributed to an associate or joint venture constitute a 'business'.

Full gain or loss will be recognised by the investor where the nonmonetary assets constitute a 'business'. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor to the extent of the other investors' interests.

#### *Scope*

The amendments will only apply when an investor sells or contributes assets to its associate or joint venture. They are not intended to address accounting for the sale or contribution of assets by an investor in a joint operation.

#### *Transition*

The amendments to IFRS 10 and IAS 28 (2011) are prospective and are effective from 1 January 2016.

### *Insight*

The change required by the amendments is likely to increase the pressure on the definition of 'business' and potentially on the classification of joint arrangements under IFRS 11.

All entities that sell or contribute assets into their associates or joint ventures will be affected. You will need to assess whether the assets sold or contributed constitute a business in order to determine the appropriate accounting treatment.

# Disclosure initiative

## Amendments to IAS 1, 'Presentation of financial statements'

***Effective date***

Annual periods beginning on or after 1 January 2016. Early adoption is permitted.

***EU adoption status***

Not adopted at time of going to print.

## Issue

In December 2014 the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments form a part of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments are effective from 1 January 2016.

## Impact

The following is a summary of the key changes.

### Materiality

An entity should not aggregate or disaggregate information in a manner that obscures useful information, for example, by aggregating items that have different characteristics or disclosing a large amount of immaterial detail.

When management determines an item is material, the amendments require assessment of which specific disclosures set out in the relevant standard should be presented, and whether additional information is necessary to understand the impact on the financial position or performance.

### Disaggregation and subtotals

The amendments clarify that it may be necessary to disaggregate some of the line items specified in IAS 1 paragraphs 54 (statement of financial position) and 82 (profit or loss). That disaggregation is required where it is relevant to an understanding of the entity's financial position or performance.

The amendments address additional subtotals in the statement of financial position or the statement of profit or loss and other comprehensive income. The amendments give guidance on what additional subtotals are acceptable and how they are presented. The revised guidance captures common subtotals that are not specifically required by IFRS, such as operating profit or profit before interest and tax. Additional subtotals should:

- be made up of items recognised and measured in accordance with IFRS;
- be presented and labelled in a manner that makes the components of the subtotal understandable;
- be consistent from period to period; and
- not be displayed with more prominence than the subtotals and totals specified in IAS 1.

The amendments require that additional subtotals in the statement of profit or loss and other comprehensive income should be reconciled to the subtotals and totals required by IAS 1.

### Notes

Management should consider the understandability and comparability of the financial statements when it determines the order of the notes. An entity is not required to present the notes to the financial statements in a particular order. An entity might, for example, present more significant notes first, or present linked areas sequentially. Such flexibility, which is already permitted by IAS 1, allows management to tailor their presentation to their circumstances.

### *Disclosure of accounting policies*

The amendments clarify how to identify a significant accounting policy by removing unhelpful examples from IAS 1.

### *OCI arising from investments accounted for under the equity method*

The amendments require that the share of other comprehensive income arising from investments accounted for under the equity method is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

### *Effective date and transitional provision*

The amendments are effective for annual periods beginning on or after 1 January 2016. The transition provisions state that the disclosures in paragraphs 28-30 of IAS 8, that is, those regarding adoption of a new standard/policy are not required. Early application is permitted.

## *Insight*

The amendments will affect every entity preparing IFRS financial statements. The amendments do not require specific changes. However, they clarify a number of presentation issues and highlight that preparers are permitted to tailor the format and presentation of the financial statements to their circumstances and the needs of users.

Preparers should consider their financial statements in light of these clarifications and whether there is an opportunity to clarify or improve the disclosure.

The order of the notes needs to balance understandability and comparability and changes should generally result from a specific change in facts and circumstances.

# Financial instruments

## IFRS 9

### Effective date

Annual periods beginning on or after 1 January 2018. Early adoption is permitted (see detail below).

### EU adoption status

Not adopted at the time of going to print.

## Issue

In July 2014, the IASB has published the complete version of IFRS 9, 'Financial instruments', which replaces the guidance in IAS 39. This final version includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the incurred loss impairment model used currently. It also includes the final hedging part of IFRS 9 that was issued in November 2013.

## Key Provisions

### Classification and measurement

IFRS 9 has three classification categories for debt instruments: amortised cost, fair value through other comprehensive income ('FVOCI') and fair value through profit or loss ('FVPL'). Classification under IFRS 9 for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest ('SPPI'). An entity's business model is how an entity manages its financial assets in order to generate cash flows and create value for the entity. That is, an entity's business model determines whether the cash flows will result from collecting contractual cash flows, selling financial assets or both.

If a debt instrument is held to collect, it may be classified as amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

### Expected credit losses

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. The ECL model constitutes a change from the guidance in IAS 39 and seeks to address the criticisms of the incurred loss model which arose during the economic crisis. In practice, the new rules mean that entities will have to record a day 1 loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). IFRS 9 contains a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

### Disclosures

Extensive disclosures are required, including reconciliations from opening to closing amounts of the ECL provision, assumptions and inputs and a reconciliation on transition of the original classification categories under IAS 39 to the new classification categories in IFRS 9.

## Hedge accounting

### Hedge effectiveness tests and eligibility for hedge accounting

IFRS 9 relaxes the requirements for hedge effectiveness and, consequently to apply hedge accounting. Under IAS 39, a hedge must be highly effective, both going forward and in the past (that is, a prospective and retrospective test, with results in the range of 80%-125%). IFRS 9 replaces this bright line with a requirement for an economic relationship between the hedged item and hedging instrument, and for the 'hedged ratio' to be the same as the one that the entity actually uses for risk management purposes. Hedge ineffectiveness will continue to be reported in profit or loss (P&L). An entity is still required to prepare contemporaneous documentation; however, the information to be documented under IFRS 9 will differ.

### Hedged items

The new requirements change what qualifies as a hedged item, primarily removing restrictions that currently prevent some economically rational hedging strategies from qualifying for hedge accounting. For example:

- Risk components of non-financial items can be designated as hedged items, provided they are separately identifiable and reliably measurable. This is good news for entities that hedge for only a component of the overall price of non-financial items such as the oil price component of jet fuel price exposure), because it is likely that more hedges will now qualify for hedge accounting.
- Aggregated exposures (that is, exposures that include derivatives) can be hedged items.
- IFRS 9 makes the hedging of groups of items more flexible, although it does not cover macro hedging (this will be the subject of a separate discussion paper in the future). Treasurers commonly group similar risk exposures and hedge only the net position (for example, the net of forecast purchases and sales in a foreign currency). Under IAS 39, such a net position cannot be designated as the hedged item; but IFRS 9 permits this if it is consistent with an entity's risk management strategy. However, if the hedged net position consists of forecast transactions, hedge accounting on a net basis is only available for foreign currency hedges.
- IFRS 9 allows hedge accounting for equity instruments measured at fair value through other comprehensive income (OCI), even though there will be no impact on P&L from these investments.

### Hedging instruments

IFRS 9 relaxes the rules on the use of some hedging instruments as follows:

- Under IAS 39, the time value of purchased options is recognised on a fair value basis in P&L, which can create significant volatility. IFRS 9 views a purchased option as similar to an insurance contract, such that the initial time value (that is, the premium generally paid for an at or out of the money option) must be recognised in P&L, either over the period of the hedge (if the hedge item is time related, such as a fair value hedge of inventory for six months), or when the hedged transaction affects P&L (if the hedge item is transaction related, such as a hedge of a forecast purchase transaction). Any changes in the option's fair value associated with time value will be recognised in OCI.
- A similar accounting treatment to options can also be applied to the forward element of forward contracts and to foreign currency basis spreads of financial instruments. This should result in less volatility in P&L.
- Under IAS 39, non-derivative financial items were allowed for hedge of FX risk. The eligibility of non-derivative financial items as hedging instruments is extended to non-derivative financial items accounted for at fair value through P&L.

### Accounting, presentation and disclosure

The accounting and presentation requirements for hedge accounting in IAS 39 remain largely unchanged in IFRS 9. However, entities will now be required to reclassify the gains and losses accumulated in equity on a cash flow hedge to the carrying amount of a non-financial hedged item when it is initially recognised. This was permitted under IAS 39, but entities could also choose to accumulate gains and losses in equity. Additional disclosures are required under the new standard.

### Own credit risk in financial liabilities

Although not related to hedge accounting, the IASB has also amended IFRS 9 to allow entities to early adopt the requirement to recognise in OCI the changes in fair value attributable to changes in an entity's own credit risk (from financial liabilities that are designated under the fair value option). This can be applied without having to adopt the remainder of IFRS 9.

## Effective date and transition

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. IFRS 9 is to be applied retrospectively but comparatives are not required to be restated. If an entity elects to early apply IFRS 9 it must apply all of the requirements at the same time. Entities applying the standard before 1 February 2015 continue to have the option to apply the standard in phases. However, IFRS 9 is still subject to the endorsement process.

## Insight

IFRS 9 applies to all entities. However, financial institutions and other entities with large portfolios of financial assets measured at amortised cost or FVOCI will be the most effected and in particular, by the ECL model. It is critical that these entities assess the implications of the new standard as soon as possible. It is expected that the implementation of the new ECL model will be challenging and might involve significant modifications to credit management systems. An implementation group has been set up by the IASB in order to deal with the most challenging aspects of implementation of the new ECL model.

# *Regulatory deferral accounts*

## IFRS 14

***Effective date***

Annual periods beginning on or after 1 January 2016. Early adoption is permitted.

***EU adoption status***

Not adopted at the time of going to print.

The IASB has issued IFRS 14, 'Regulatory deferral accounts' ('IFRS 14'), an interim standard on the accounting for certain balances that arise from rate–regulated activities ('regulatory deferral accounts').

IFRS 14 is only applicable to entities that apply IFRS 1 as first-time adopters of IFRS. It permits such entities, on adoption of IFRS, to continue to apply their previous GAAP accounting policies for the recognition, measurement, impairment and de-recognition of regulatory deferral accounts. The interim standard also provides guidance on selecting and changing accounting policies (on first–time adoption or subsequently) and on presentation and disclosure.

There is currently no standard that specifically addresses rate–regulated activities. The objective of the interim standard is to allow entities adopting IFRS to avoid major changes in accounting policy before completion of the broader IASB project to develop an IFRS on rate-regulated activities.

## *What are the key provisions?*

### *Scope*

IFRS 14 only applies to first-time adopters of IFRS that apply IFRS 1 and conduct rate–regulated activities. Rate regulation is a framework where the price that an entity charges to its customers for goods and services are subject to oversight and/or approval by an authorised body. IFRS 14 excludes entities that are self–regulated (for example, if prices are regulated solely by the entity's own governing body).

Entities in the scope of IFRS 14 are permitted to continue applying previous GAAP accounting policies for regulatory deferral accounts. Changes to existing policies are restricted. Any change must make the financial statements more relevant and no less reliable, as described by IAS 8.

Entities are not permitted to change accounting policies to start recognising regulatory deferral account balances that were not recognised under previous GAAP. Entities can, however, recognise new balances that arise as a result of a change in accounting policy (such as on the first–time adoption of IFRS or for changes to IFRS). For example, if a new deferral account arises from the adoption of new IFRS employee benefits guidance, the new account is accounted for consistently with the entity's previous GAAP accounting policies.

### *Recognition, measurement, impairment and de-recognition*

An entity is permitted to continue applying its previous GAAP accounting policies for the recognition and measurement of regulatory deferral accounts on first–time adoption. The interim standard does not include any further guidance on recognition, measurement, impairment and de-recognition.

Previous GAAP accounting policies are only applied to balances that are not otherwise covered by specific IFRSs. That is, other specific IFRSs should be applied first, and only any residual balance is accounted for under IFRS 14.

Other standards might also need to be applied to regulatory deferral accounts to reflect them appropriately in the financial statements. For example, the entity would apply its previous GAAP accounting policy to the impairment of regulatory deferral account balances, but it would apply the IFRS impairment guidance to cash generating units that contain such balances.

Judgment will be required to determine what other standards might be applicable and how they might interact with previous GAAP accounting policies.

### *Presentation*

Balances arising from the application of IFRS 14 are presented separately in the balance sheet and the statement of comprehensive income.

A separate line item is presented in the balance sheet for total regulatory deferral debit balances and total regulatory deferral credit balances, following a sub–total of all other assets and liabilities. The distinction between current and non–current balances is not presented on the balance sheet, and offsetting is not permitted, although this information might be disclosed elsewhere.

The total movement in all regulatory deferral accounts is split between other comprehensive income (OCI) and profit and loss. The amount recorded in profit and loss is separately presented as a single line item after a sub–total for profit and loss. The amount recorded in OCI is presented in two line items, based on whether the amount relates to items that will or will not be subsequently reclassified to profit and loss. Movements are classified in OCI where the balances relate to items recognised in OCI.

An entity that presents earnings per share (EPS) should present, in the income statement, EPS excluding and including the movement in the regulatory deferral accounts.

### *Disclosures*

The disclosure requirements address information about the nature and risk of the regulation and the effect on the financial statements, including:

- a description of the nature and extent of rate regulation;
- how the future recovery or reversal of each balance is affected by risks and uncertainties;
- the basis on which the regulatory deferral account balances are recognised and measured; and
- a reconciliation of the balances from the beginning to the end of the period.

## *Insight*

IFRS 14 will affect first–time adopters of IFRS that currently recognise balances arising from rate regulation under previous GAAP accounting policies. This is common in the utilities industry, but the interim standard might affect other industries where prices are regulated.

## *What is next?*

IFRS 14 is effective from 1 January 2016. Early adoption is permitted. Application is not compulsory, but entities that will apply the guidance should begin to consider the implications in connection with the adoption of IFRS.

# *Revenue from contracts with customers*

## IFRS 15

### *Effective date*

Annual periods beginning on or after 1 January 2016. Early adoption is permitted.

### *EU adoption status*

Not adopted at the time of going to print.

### *Issue*

In May 2014, the IASB and FASB issued their long-awaited converged standard on revenue recognition. Those closely following the project know there are potentially significant changes coming for certain industries, and some level of change for almost all entities.

IFRS 15, Revenue from contracts with customers will be effective for IFRS reporters for the first interim period within annual reporting periods beginning on or after 1 January 2017, and will allow early adoption. The new standard will be effective for US GAAP reporters for the first interim period within annual reporting periods beginning after 15 December 2016 for public entities and after 15 December 2017 for non-public entities, with no early adoption permitted.

### *Impact*

The new standard will affect most entities that apply IFRS or US GAAP. Entities that currently follow industry-specific guidance should expect the greatest impact. Summarised below are some of the areas that could create the most significant challenges for entities as they transition to the new standard.

#### *Transfer of control*

Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. Transfer of control is not the same as transfer of risks and rewards, nor is it necessarily the same as the culmination of an earnings process as it is considered today. Entities will also need to apply new guidance to determine whether revenue should be recognised over time or at a point in time.

#### *Variable consideration*

Entities might agree to provide goods or services for consideration that varies upon certain future events occurring or not occurring. Examples include refund rights, performance bonuses and penalties. These amounts are often not recognised as revenue today until the contingency is resolved. Now, an estimate of variable consideration is included in the transaction price if it is highly probable (IFRS) or probable (US GAAP) that the amount will not result in a significant revenue reversal if estimates change. Even if the entire amount of variable consideration fails to meet this threshold, management will need to consider whether a portion (a minimum amount) does meet the criterion. This amount is recognised as revenue when goods or services are transferred to the customer. This could affect entities in multiple industries where variable consideration is currently not recorded until all contingencies are resolved. Management will need to reassess estimates each reporting period, and adjust revenue accordingly.

There is a narrow exception for intellectual property (IP) licences where the variable consideration is a sales-or usage-based royalty.

*Allocation of transaction price based on relative stand-alone selling price*

Entities that sell multiple goods or services in a single arrangement must allocate the consideration to each of those goods or services. This allocation is based on the price an entity would charge a customer on a stand-alone basis for each goods or services that have not previously required this assessment, such as entities that report under US GAAP and issue customer loyalty points.

### *Licences*

Entities that license their IP to customers will need to determine whether the licence transfers to the customer over time or at a point in time. A licence that is transferred over time allows a customer access to the entity's IP as it exists during the licence period. Licences that are transferred at a point in time allow the customer the right to use the entity's IP as it exists when the licence is granted. The customer must be able to direct the use of and obtain substantially all of the remaining benefits from the licensed IP to recognise revenue when the licence is granted. The standard includes several examples to assist entities making this assessment.

### *Time value of money*

Some contracts provide the customer or the entity with a significant financing benefit (explicitly or implicitly). This is because performance by an entity and payment by its customer might occur at significantly different times. An entity should adjust the transaction price for the time value of money if the contract includes a significant financing component. The standard provides certain exceptions to applying this guidance and a practical expedient which allows entities to ignore time value of money if the time between transfer of goods or services and payment is less than one year.

### *Contract costs*

Entities sometimes incur costs (such as sales commissions or mobilisation activities) to obtain or fulfil a contract. Contract costs that meet certain criteria are capitalised as an asset and are amortised as revenue is recognised. More costs are expected to be capitalised in some situations. Management will also need to consider how to account for contract costs incurred for contracts that are not completed upon the adoption of the standard.

### *Disclosures*

Extensive disclosures are required to provide greater insight into both revenue that has been recognised, and revenue that is expected to be recognised in the future from existing contracts. Quantitative and qualitative information will be provided about the significant judgments and changes in those judgments that management made to determine revenue that is recorded.

# Annual improvements 2010-2012

## Annual improvements project 2010-2012

***Effective date***

See final column in table below.

***EU adoption status***

EU endorsed for periods on or after 1 February 2015

The table below identifies the more significant changes to the standards arising from the 2010 to 2012 annual improvements project and the implications for management.

| Standard/Interpretation | Amendment | Effective date |
|---|---|---|
| Amendment to IFRS 2, 'Share based payment' | The amendment clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition'. | For share-based payment transactions for which the grant date is on or after 1 July 2014. |
| IFRS 3, 'Business combinations' | The standard is amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, 'Financial instruments: Presentation'.<br>The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss.<br>Consequential changes are also made to IFRS 9, IAS 37 and IAS 39. | For business combinations where the acquisition date is on or after 1 July 2014. |
| IFRS 8, 'Operating segments' | The standard is amended to require disclosure of the judgements made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics.<br>The standard is further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported. | Annual period beginning on or after 1 July 2014. |

| Standard/Interpretation | Amendment | Effective date |
|---|---|---|
| IFRS 13, 'Fair value measurement' | When IFRS 13 was published, paragraphs B5.4.12 of IFRS 9 and AG79 of IAS 39 were deleted as consequential amendments. This led to a concern that entities no longer had the ability to measure short-term receivables and payables at invoice amounts where the impact of not discounting is immaterial. The IASB has amended the basis for conclusions of IFRS 13 to clarify that it did not intend to remove the ability to measure short-term receivables and payables at invoice amounts in such cases. | Amendment to the basis for conclusions only. |
| IAS 16, 'Property, plant and equipment', and IAS 38, 'Intangible assets' | Both standards are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.<br>The carrying amount of the asset is restated to the revalued amount.<br>The split between gross carrying amount and accumulated depreciation is treated in one of the following ways:<br>• either the gross carrying amount is restated in a manner consistent with the revaluation of the carrying amount, and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses; or<br>• the accumulated depreciation is eliminated against the gross carrying amount of the asset. | Annual periods beginning on or after 1 July 2014. |
| IAS 24, 'Related party disclosures' | The standard is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity').<br>The reporting entity is not required to disclose the compensation paid by the management entity to the management entity's employees or directors, but it is required to disclose the amounts charged to the reporting entity by the management entity for services provided. | Annual periods beginning on or after 1 July 2014. |

# Annual improvements 2011-2013

***Effective date***

See final column in table below.

***EU adoption status***

EU endorsed for periods on or after 1 January 2015.

The table below identifies the more significant changes to the standards arising from the 2011 to 2013 annual improvements project and the implications for management.

| Standard/Interpretation | Amendment | Effective date |
|---|---|---|
| IFRS 1, 'First-time adoption of International Financial Reporting Standards' | The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. | Amendment to basis of conclusion only. |
| IFRS 3, 'Business combinations' | The standard is amended to clarify that IFRS 3 does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. | Annual periods beginning on or after 1 July 2014. |
| IFRS 13, 'Fair value measurement' | The amendment clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9. | Annual periods beginning on or after 1 July 2014. An entity shall apply the amendment prospectively from the beginning of the first annual period in which IFRS 13 is applied. |
| IAS 40, 'Investment property' | The standard is amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. | Annual periods beginning on or after 1 July 2014, but can be applied to individual acquisitions of investment property before that date if, and only if, the information necessary to apply the amendment is available. |

# Annual improvements 2012-2014

***Effective date***

See final column in table below.

***EU adoption status***

Not adopted at time of going to print.

The table below identifies the more significant changes to the standards arising from the 2012 to 2014 annual improvements project and the implications for management

| Standard/Interpretation | Amendment | Effective date |
|---|---|---|
| IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal | The amendment clarifies that, when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution', or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as 'held for sale' or 'held for distribution' simply because the manner of disposal has changed. The amendment also rectifies an omission in the standard by explaining that the guidance on changes in a plan of sale should be applied to an asset (or disposal group) which ceases to be held for distribution but is not reclassified as 'held for sale'. | Annual periods beginning on or after 1 January 2016. |

| Standard/Interpretation | Amendment | Effective date |
|---|---|---|
| IFRS 7, 'Financial instruments: Disclosures' | There are two amendments to IFRS 7.<br>1. Servicing contracts<br>If an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets.<br>IFRS 7 provides guidance on what is meant by continuing involvement in this context. The amendment adds specific guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement. The amendment is prospective with an option to apply retrospectively. A consequential amendment to IFRS 1 is included to give the same relief to first-time adopters.<br>2. Interim financial statements<br>The amendment clarifies that the additional disclosure required by the amendments to IFRS 7, 'Disclosure – Offsetting financial assets and financial liabilities' is not specifically required for all interim periods, unless required by IAS 34. The amendment is retrospective. | Annual periods beginning on or after 1 January 2016. |
| IAS 19, 'Employee benefits' | The amendment clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used. The amendment is retrospective but limited to the beginning of the earliest period presented. | Annual periods beginning on or after 1 January 2016. |

| Standard/Interpretation | Amendment | Effective date |
|---|---|---|
| IAS 34, ‘Interim financial reporting’ | The amendment clarifies what is meant by the reference in the standard to ‘information disclosed elsewhere in the interim financial report’. The amendment further amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective. | Annual periods beginning on or after 1 January 2016. |

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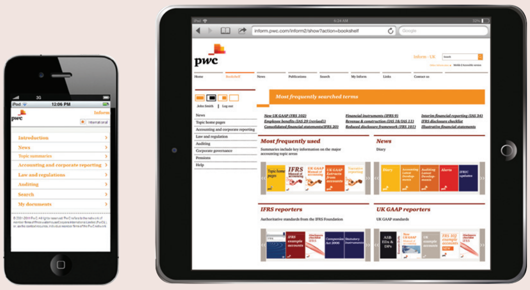

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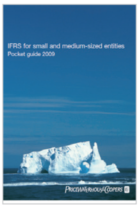

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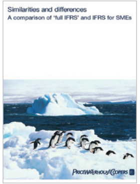
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