In brief
A look at current financial reporting issues

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Adopting IFRS or preparing a transaction document? You may be subject to different transition requirements when applying IFRS 9, 15, 16 and 17

Issue

This In Brief highlights the differences between how existing reporters and first time adopters will transition to the new standards. Those preparing longer 'track record' financial information for transactions as a first time adopter may also be affected.

IFRS 1, the relevant standard for first time adoption of IFRS, requires the same accounting policies to be applied in the opening IFRS statement of financial position and throughout all periods presented in the first IFRS financial statements. Those accounting policies must comply with the IFRS standards effective at the end of the first IFRS reporting period, except for those IFRS 1 mandatory exceptions or voluntary exemptions. The transition provisions of other standards do not apply to first-time adopters, except where specified in IFRS 1.

A first time adopter may choose to early adopt any new standards that are not mandatory at the end of an entity's first IFRS reporting period. IFRS 1 does not require an entity to use newly issued but not yet mandatory versions of an IFRS, but it explains the advantages of doing so.

Impact

Impact of IFRS 9 – Financial instruments

IFRS 9, effective for periods beginning on or after 1 January 2018, is applied retrospectively in accordance with IAS 8, '*Accounting policies, changes in accounting estimates and errors*'. Entities may however choose to continue to apply the hedge accounting requirements of IAS 39. There are some mandatory exceptions and optional exemptions set out in Section 7.2 of IFRS 9.

IFRS 9 must be applied in full by a first time adopter but there is short term relief for reporting periods beginning before January 2019 that allows use of previous GAAP. Any adjustments to align to IFRS 9 are reflected in the period of adoption. This aligns the timing of IFRS 9 application by a first time adopter with existing reporters.

IFRS 1 mirrors the specific mandatory exceptions and optional exemptions for transition for existing IFRS preparers that are in IFRS 9.

Impact of IFRS 15 – Revenue from contracts with customers

IFRS 15, effective for periods beginning on or after 1 January 2018, contains transition provisions that allow either fully retrospective adoption (with some practical expedients) or a simplified transition method. The simplified transition method is also retrospectively but the cumulative effect recognised at the date of initial application without restating any comparative periods presented.
IFRS 15 must be adopted fully retrospectively by a first time adopter, hence the simplified transition method is not available. However, IFRS 1 allows the use of the practical expedients described in Appendix C5 of IFRS 15 for full retrospective application. .

Impact of IFRS 16 – Leases

IFRS 16, effective for annual reporting periods beginning on or after 1 January 2019, allows either fully retrospective adoption or a 'simplified approach' similar to that of IFRS 15. The simplified approach is not available to first time adopters.

IFRS 1 requires first time adopters to use the fully retrospective approach when applying IFRS 16. First time adopters that are lessees are permitted to apply some of the transition reliefs that are available to existing IFRS preparers under the 'simplified approach'. For example, the lessee may measure the lease liability at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of transition to IFRS.

The right-of-use asset can be measured either as if IFRS 16 has always been applied but discounted using the lessee's incremental borrowing rate at the date of transition or at an amount equal to the lease liability (adjusted by the amount of any prepaid or accrued lease payments). A lessee that chooses these simplifications has to test the right-of-use assets for impairment at the date of transition applying IAS 36.

However, a first time adopter must re-assess all contracts for leases either at inception of the contract or at the date of transition to IFRS. It also has to restate comparative information.

Impact of IFRS 17 – Insurance contracts

IFRS 17 applies to annual periods beginning on or after 1 January 2021, with earlier application permitted if IFRS 15 and IFRS 9 are also applied. The standard should be applied retrospectively unless impracticable.

IFRS 17 must be applied fully retrospectively. IFRS 1 mirrors the transition guidance set out in Appendix C of IFRS 17.

Transactions scenarios

An entity may undertake a transaction such as a material business combination or a listing of shares and need to present IFRS financial information as a first time adopter. The financial information presented typically includes the latest reporting period plus one or more comparative periods, commonly known as the 'track record'. The financial information is usually presented on a consistent basis across all periods. Market regulations may require that the reporting entity applies the standards that will be in force at the end of the *following* reporting period. A good understanding of the relevant regulator's requirements is recommended.

The date of transition is the opening day of the earliest comparative period presented. The new standards might then be adopted at a much earlier date than would be applicable for an existing reporter. For example, a three year track record ending in December 2018 might apply IFRS 15 from January 2016, two years earlier than would be required under the cumulative catch up method.

If there are any new standards that are not effective in the track record period then, similar to an existing IFRS reporter, the reporting entity can apply them in the future. The entity should include relevant IAS 8 disclosures concerning the impact that the new standards will have when applied.

These differences can be summarised as follows:

	Existing IFRS reporter	***First time adopter***
IFRS 9, 'Financial instruments'		
Short term relief from applying IFRS 9 prior to 1 Jan 2019	N/a	Yes - E1/E2 Adjustments to align to IFRS 9 are reflected in the period of adoption.
IAS 39 hedge accounting may be use	Yes -7.2.21	No
IFRS 9 hedge accounting may be used	Yes -7.2.21	Yes - B4/B6
IFRS 15, **Revenue from contracts with customers**	***References are to relevant new standard***	***References are to IFRS 1 unless stated***
Fully retrospective adoption	Yes - C3(a) ; C5	Yes - D34
'Simplified transition method' Retrospective with cumulative effect recognised on date of initial application	Yes - C3(b) ; C5(c)	No
IFRS 16, 'Leases'		
Fully retrospective adoption or 'Simplified approach' Retrospective with cumulative effect recognised on date of initial application	Yes - C5(a) Yes - C5(b)	Yes - para 13 No
No need to re-assess whether a contract contains a lease	Yes - C3	No
Assess whether a contract contains a lease at inception	Yes, ignore C3 and apply IFRS 16 para 9	Yes, ignore D9 and apply IFRS 16 para 9
Assess whether a contract contains a lease on date of transition to IFRS	N/a	Yes. apply D9 and ignore IFRS 16 para 9
Lease liabilities discounted at incremental borrowing rate	If apply fully retrospective:	At the date of inception

	at the date of inception Para 26 if apply simplified approach: at the date of initial application C8(a)	Ignore D9B(a), apply IFRS 16 para 26 or at the date of transition to IFRS D9B(a)
Apply IAS36 impairment to right of use assets	Yes if apply fully retrospective Para 33 Optional if apply simplified approach C8(c); C10(b)	Yes - D9B(c)
Apply IAS37 onerous contracts instead of IAS36	No if apply fully retrospective. Para 33 Optional if apply simplified approach C8(c); C10(b)	No
IFRS 17, 'Insurance contracts'		
Retrospective application	Transition is the same – fully retrospective (unless impracticable)	

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