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In depth
New IFRSs for 2017

March 2017

Introduction

Since March 2016, the IASB has issued the following amendments:

- Amendments to IFRS 4, 'Insurance contracts', regarding the implementation of IFRS 9
- Amendments to IFRS 2, 'Share based payment', regarding the classification and measurement of share based payment transactions
- Amendments to IAS 40, 'Investment property', regarding transfers of investment property
- Amendments to IFRS 15, 'Revenue from contracts with customers', regarding clarifications to the standard
- Annual improvements 2014-2016 covering IFRS 12, 'Disclosure of interests in other entities', IFRS 1, 'First-time adoption of IFRS', and IAS 28, 'Investments in associates and joint ventures'
- IFRIC 22 – 'Foreign currency transactions and advance consideration'

This guide summarises these new amendments and IFRIC plus those standards and amendments issued previously that are effective from 1 January 2017.

It is designed to be used by preparers, users and auditors of IFRS financial statements. It includes a quick reference table of each standard/amendment/interpretation categorised by the effective date, whether early adoption is permitted and the EU endorsement status as of 1 March 2017. The publication gives an overview of the impact of the changes, which may be significant for some entities, helping companies understand if they will be affected and to begin their considerations. It will help entities plan more effectively by flagging up where new processes and systems or more guidance may be needed.

Standard/amendment/ interpretation	**Effective date**	**Adoption status**	**EU status (as of 1 March 2017)**	**Page**
1 January 2017				
Amendment to IAS 12, 'Income taxes', regarding recognition of deferred tax assets for unrealised losses'	Annual periods beginning on or after 1 January 2017	Early adoption is permitted	Not yet endorsed	4
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Annual improvements 2014-2016 IFRS 1, 'First time adoption of IFRS', regarding IFRS 7, IAS 19 and IFRS 10, IAS 28 'Investment in associates and joint ventures'	Annual periods beginning on or after 1 January 2018	Early adoption permitted	Not yet endorsed	20
IFRIC 22, 'Foreign currency transactions and advance consideration'	Annual periods beginning on or after 1 January 2018	Early adoption is permitted	Not yet endorsed	21
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Contents

Amended standards

Recognition of deferred tax assets for unrealised losses

Amendments to IAS 12, 'Income taxes'

Effective date

Annual periods beginning on or after 1 January 2017. Early adoption is permitted.

EU adoption status

Not adopted at time of going to print.

Issue

These amendments clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets.

Impact

What is the additional guidance?

Is there any temporary difference when an asset is measured at fair value and that fair value is less than its tax base?

Yes. A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.

Can an entity assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit?

Yes. Determining the existence and amount of temporary differences and estimating future taxable profit against which deferred tax assets can be utilised are two separate steps. Recovering assets for more than their carrying amounts is inherent in an expectation of taxable profits and should therefore be included in estimated taxable profit. For example, an entity should assume that an available-for¬sale debt investment will be recovered for more than its carrying value when that outcome is probable even if carrying value below its tax base (original investment cost).

Is the recoverability of deferred tax assets considered separately or collectively?

It depends on the tax law. Deferred tax assets are assessed in combination with other deferred tax assets where the tax law does not restrict the source of taxable profits against which particular types of deferred tax assets can be recovered. Where restrictions apply, deferred tax assets are assessed in combination only with other deferred tax assets of the same type.

How do deferred tax assets affect future taxable profit?

The tax deduction resulting from the reversal of deferred tax assets is excluded from estimated future taxable profit used to evaluate the recoverability of those assets.

Effective date and transition

The amendments are effective for annual periods beginning on or after 1 January 2017. Earlier application is permitted. An entity may, on initial application of this amendment, elect to recognise any change in the opening equity of the earliest comparative period presented in the opening retained earnings (or in another component of equity, as appropriate), without allocating the change across different equity components.

Insight

The amendments clarify the existing guidance under IAS 12. They do not change the underlying principles for the recognition of deferred tax assets.

The amendments arose from a question about the deferred tax accounting on debt investments measured at fair value, however, the amendments are not limited to any specific type or class of assets, and they clarify several of the general principles underlying the accounting for deferred tax assets.

Disclosure Initiative

Amendments to IAS 7, 'Cash flow statements'

Effective date

Annual periods beginning on or after 1 January 2017. Early adoption is permitted.

EU adoption status

Not adopted at time of going to print.

Issue

These amendments IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

Impact

What is the additional disclosure?

An entity is required to disclose information that will allow users to understand changes in liabilities arising from financing activities. This includes changes arising from:

- cash flows, such as drawdowns and repayments of borrowings; and
- non-cash changes, such as acquisitions, disposals and unrealised exchange differences.

What items should an entity include in the additional disclosure?

Is the disclosure limited to debt?

No. Debt is not defined or required to be disclosed by current IFRS, so the IASB decided to require disclosure of changes in liabilities for which cash flows were, or future cash flows will be, classified as financing activities in the statement of cash flows.

Should an entity include financial assets in the disclosure if those assets are used to manage its financing activities?

Yes. An entity should include changes in financial assets (for example, assets that hedge liabilities arising from financing liabilities) in the new disclosures if such cash flows were, or will be, included in cash flows from financing activities.

Can an entity include changes in other items as part of the disclosures?

Yes. Changes in other items should be included where an entity considers that such disclosures would meet the objective of the disclosure requirement above. For example, an entity might consider including changes in cash and cash equivalents, pension liabilities and interest payments that are classified as operating activities in the statement of cash flows, etc. However, the amendment requires such disclosure to be separate from the disclosure of changes in liabilities arising from financing activities.

Is a specific disclosure format required?

No. The amendment suggests that a reconciliation between the opening and closing balances in the balance sheet for liabilities arising from financing activities would meet the disclosure requirement, but a specific format is not mandated. However, where a reconciliation is used, the disclosure should provide sufficient information to link items included in the reconciliation to the balance sheet and statement of cash flows.

Effective date and transition

The amendment is effective for annual periods beginning on or after 1 January 2017. Earlier application is permitted. When an entity first applies the amendment, it is not required to provide comparative information in respect of preceding periods.

Insight

The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available.

Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities.

Applying IFRS 9, 'Financial instruments' with IFRS 4, 'Insurance contracts'

Amendments to IFRS 4, 'Insurance contracts'

Effective date

Annual periods beginning on or after 1 January 2018. Early adoption is permitted.

EU adoption status

Not adopted at time of going to print.

Issue

These amendments address the concerns of insurance companies about the different effective dates of IFRS 9, 'Financial instruments', and the forthcoming new insurance contracts standard. The amendment to IFRS 4 provides two different solutions for insurance companies: a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level); and the 'overlay approach'. Both approaches are optional.

IFRS 4 (including the amendments that have now been issued) will be superseded by the forthcoming new insurance contracts standard. Accordingly, both the temporary exemption and the 'overlay approach' are expected to cease to be applicable when the new insurance standard becomes effective.

Key provisions

Temporary exemption from applying IFRS 9

For annual periods beginning before 1 January 2021, the amendment to IFRS 4 allows insurers to continue to apply IAS 39, 'Financial Instruments: Recognition and measurement', instead of adopting IFRS 9, if their activities are 'predominantly connected with insurance'. The exemption can only be applied at the level of the reporting entity. To assess whether activities are 'predominantly connected with insurance', two tests have to be performed. Only if both tests are passed an insurer's activities are considered to be predominantly connected with insurance.

First, an insurer assesses whether the carrying amount of its liabilities arising from contracts within IFRS 4's scope is significant, compared to the total carrying amount of all of its liabilities.

Secondly, the insurer compares the total carrying amount of its liabilities connected with insurance with the total carrying amount of all of its liabilities. In addition to liabilities arising directly from contracts within IFRS 4's scope, liabilities connected with insurance include

- non-derivative investment contract liabilities measured at fair value through profit or loss applying IAS 39; and
- liabilities that arise because the insurer issues, or fulfils obligations arising from, those insurance and non-derivative investment contracts.

The second test is passed if the resulting percentage is either: greater than 90%; or if it is less than or equal to 90% but greater than 80% and the insurer is not engaged in a significant activity unconnected with insurance.

The assessment is made, based on the carrying amounts as at the annual reporting date that immediately precedes 1 April 2016. Under certain circumstances, a reassessment is required or permitted.

Overlay approach

Under IFRS 9, certain financial assets have to be measured at fair value through profit or loss; whereas, under IFRS 4, the related liabilities from insurance contracts are often measured on a cost basis. This mismatch creates volatility in profit or loss. By using the 'overlay approach', the effect is eliminated for certain eligible financial assets. For these financial assets, an insurer is permitted to reclassify – from profit or loss to other comprehensive income – the difference between the amount that is reported in profit or loss under IFRS 9 and the amount that would have been reported in profit or loss under IAS 39.

Financial assets are eligible for designation for the 'overlay approach' if they are measured at fair value through profit or loss under IFRS 9, but not so measured under IAS 39. In addition, the asset cannot be held in respect of an activity that is unconnected with contracts within IFRS 4's scope. If a designated financial asset no longer meets the eligibility criteria (for example, because it is transferred so that it is now held in respect of an entity's banking activities or because the entity ceases to be an insurer), it shall be de-designated; in that case, any balance accumulated in other comprehensive income relating to this financial asset is reclassified to profit or loss.

The 'overlay approach' is applied retrospectively. Accordingly, the difference between the fair value of the designated financial assets and its carrying amount is recognised as an adjustment to the opening balance of accumulated other comprehensive income. Following the same logic, if the entity stops using the overlay approach, it adjusts the opening balance of retained earnings for the balance of accumulated other comprehensive income.

Impact

Both the temporary exemption and the 'overlay approach' allow entities to avoid temporary volatility in profit or loss that might result from adopting IFRS 9 before the forthcoming new insurance contracts standard. Furthermore, by using the temporary exemption, an entity does not have to implement two sets of major accounting changes within a short period, and it can take into account the effects of the new insurance standard when first applying the classification and measurement requirements of IFRS 9.

Groups that contain insurance subsidiaries should be aware that the temporary exemption only applies at the level of the reporting entity. So, unless the whole group is eligible for the temporary exemption, whilst an eligible insurance subsidiary can continue to apply IAS 39 in its individual financial statements, the subsidiary will have to prepare IFRS 9 information for consolidation purposes. Furthermore, it should be noted that, under both approaches, significant additional disclosures are required.

Classification and measurement of share-based payment transactions

Amendments to IFRS 2, 'Share based payment'

Effective date

Annual periods beginning on or after 1 January 2018. Early adoption is permitted.

EU adoption status

Not adopted at time of going to print.

Issue

This amendment addresses the accounting for cash-settled, share-based payments and equity-settled awards that include a 'net settlement' feature in respect of withholding taxes.

Impact

The amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

Insight

Measurement of cash-settled awards

Under IFRS 2, the measurement basis for an equity-settled, share-based payment should not be 'fair value' in accordance with IFRS 13. However, 'fair value' was not defined in connection with a cash-settled, share-based payment, and there has been diversity in practice. The amendment clarifies that the fair value of a cash-settled award is determined on a basis consistent with that used for equity-settled awards. Market-based performance conditions and non-vesting conditions are reflected in the 'fair value', but non-market performance conditions and service conditions are reflected in the estimate of the number of awards expected to vest.

This change has most impact where an award vests (or does not vest) based on a non-market condition. Previously, some argued that the fair value of a cash-settled award was determined using the guidance in IFRS 13 and reflected the probability that non-market and service vesting conditions would be met. The amendment clarifies that non-market and service vesting conditions are ignored in the measurement of fair value.

Modification of cash-settled awards

IFRS 2 includes guidance on how to account for a modification that adds a cash alternative to an equity-settled award, but it did not include guidance on how to account for a modification from cash-settled to equity-settled.

A modification to a cash-settled award is reflected immediately in the measurement of fair value. Any incremental value added to an equity-settled award is recognised over any remaining vesting period, and any reduction in value is ignored. The amendment addresses the accounting for a modification that changes both the value and the classification of a cash-settled award and, in particular, clarifies the order in which the changes are applied.

The amendment requires any change in value to be dealt with before the change in classification. The cash-settled award is remeasured, with any difference recognised in the income statement before the remeasured liability is reclassified into equity.

Awards with net settlement features

Tax laws or regulations may require the employer to withhold some of the shares to which an employee is entitled under a share-based payment award, and to remit the tax payable on the award to the tax authority. The Basis for Conclusions paragraphs added to IFRS 2 by the amendments note that IFRS 2 would require such an award to be split into a cash settled component for the tax payment and an equity settled component for the net shares issued to the employee. However the amendment adds an exception that requires the award to be treated as equity-settled in its entirety. The cash payment to the tax authority is treated as if it was part of an equity settlement. The exception would not apply to any equity instruments that the entity withholds in excess of the employee's tax obligation associated with the share-based payment.

The cash payment to the tax authority might be much greater than the expense that has been recognised for the share-based payment. The amendment says that the entity should disclose an estimate of the amount that it expects to pay to the tax authority in respect of the withholding tax obligation where that is necessary to inform users about the future cash flows.

Who is affected?

Entities that have employee share-based payments will need to consider whether or not these changes will affect their accounting. In particular entities with the following arrangements are likely to be effected:

- Cash-settled share-based payments that include performance conditions;
- Equity-settled awards that include net settlement features relating to tax obligations; and
- Cash-settled arrangements that are modified to equity-settled share-based payments.

The changes are effective from 1 January 2018, with early adoption permitted. The transition provisions, in effect, specify that the amendments apply to awards that are not settled as at the date of first application or to modifications that happen after the date of first application, without restatement of prior periods. There is no income statement impact as a result of any reclassification from liability to equity in respect of 'net settled awards'; the recognised liability is reclassified to equity without any adjustment.

The amendments can be applied retrospectively, provided that this is possible without hindsight and that the retrospective treatment is applied to all of the amendments.

Transfers of investment property

Amendments to IAS 40, 'Investment property'

Effective date

Annual periods beginning on or after 1 January 2018. Early adoption is permitted.

EU adoption status

Not adopted at time of going to print.

Issue

These amendments clarify when assets are transferred to, or from, investment properties.

Impact

The amendment clarified that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition of an investment property. This change must be supported by evidence. The Board confirmed that a change in intention, in isolation, is not enough to support a transfer.

The issue arose from confusion over whether an entity transfers property under development from inventory to investment property when there is evidence of a change in use that was not explicitly included in the standard. The list of evidence was therefore re-characterised as a non-exhaustive list of examples to help illustrate the principle. The examples were expanded to include assets under construction and development and not only transfers of completed properties.

The Board provided two options for transition.

1. Prospective application. Any impact from properties that are reclassified would be treated as an adjustment to opening retained earnings as at the date of initial application. There are also special disclosure requirement if this option is selected.

2. Retrospective application. This option can only be selected without the use of hindsight.

New standards

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

Endorsed.

Issue

In July 2014, the IASB 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 contractual cash flows, it is classified as amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held both to collect assets' contractual cash flows and to sell the assets are classified as FVOCI. Under the new model, FVPL is the residual category – financial assets should therefore be classified as FVPL if they do not meet the criteria of FVOCI or amortised cost. Regardless of the business model assessment, an entity can elect to classify a financial asset at FVPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch').

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 hedging 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.

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.

Revenue from contracts with customers

IFRS 15

Effective date

Annual periods beginning on or after 1 January 2018. Early adoption is permitted.

EU adoption status

Endorsed.

Issue

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

Impact

The new standard will affect most entities that apply IFRS. 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 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 should allocate the consideration to each of those goods or services on a relative stand-alone selling price basis. This allocation is based on the price an entity would charge a customer on a stand-alone basis for each good or service.

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 should 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 judgements and changes in those judgements that management made to determine revenue that is recorded.

Effective date and transition

IFRS 15 is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

Entities can apply the revenue standard retrospectively to each prior reporting period presented (full retrospective method) or retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application in equity (modified retrospective method). Entities that elect to apply the standard using the full retrospective method can apply certain practical expedients.

Insight

Finalise now

Entities should ensure that they have identified the key terms of their revenue contracts and determined the impact on their accounting before the effective date of IFRS 15. They should also have implemented the systems and processes to capture the information needed to determine the measurement of revenue, and to prepare the new disclosures.

Clarifications to IFRS 15

Amendments to IFRS 15, 'Revenue from contracts from customers'

Effective date

Annual periods beginning on or after 1 January 2018. Early adoption is permitted.

EU adoption status

Not adopted at time of going to print.

These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation permitted). New and amended illustrative examples have been added for each of these areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard. The amendments are effective for annual reporting periods beginning on or after 1 January 2018, with early application permitted.

The amendments do not change the core principles of IFRS 15 however, they clarify some of the more complex aspects of the standard. The amendments could be relevant to a broad range of entities and should be considered as management evaluates the impact of IFRS 15.

Impact

Identifying performance obligations

The amendments clarify the guidance for determining when the promises in a contract are 'distinct' goods or services and, therefore, should be accounted for separately. The amendments specifically address how an entity determines whether goods or services are 'separately identifiable' from other promises in the contract and clarify that the objective is to determine whether the nature of an entity's promise is to transfer individual goods or services to the customer, or to transfer a combined item (or items) to which the individual goods and services are inputs.

Licences of IP

The amendments to the licensing guidance clarify when revenue from a licence of IP should be recognised 'over time' and when it should be recognised at a 'point in time'. An entity should be expected to undertake activities that significantly affect the IP to conclude that revenue is recognised over time. The amendment clarifies that activities significantly affect the IP when:

(a) the activities are expected to change the form or functionality of the IP or (b) the ability of the customer to obtain benefit from the IP is substantially derived from, or dependent upon, those activities (for example, a brand or logo).

The amendments also clarify when to apply the guidance on recognising revenue for licences of IP with fees in the form of a sales- or usage-based royalty. This guidance only applies when the licence is the predominant item.

Principal versus agent guidance

The IASB has clarified that the principal in an arrangement controls a good or service before it is transferred to a customer. The amendments make targeted improvements to clarify the relationship between the control principle and the indicators, the 'unit of account' for the assessment and how to apply the control principle to services. The IASB also revised the structure of the indicators so that they indicate when the entity is the principal rather than indicate when it is an agent, and eliminated two of the indicators ('the entity's consideration is in the form of a commission' and 'the entity is not exposed to credit risk').

Practical expedients on transition

The amendments introduce additional practical expedients to simplify transition. One expedient allows entities to use hindsight at the beginning of the earliest period presented or the date of initial application (additional option under modified transition method) to account for contract modifications before that date. The second expedient allows entities applying the full retrospective method to elect not to restate contracts that are completed at the beginning of the earliest period presented. In addition, the IASB also allows entities applying modified retrospective method opting out completed contract practical expedient.

Insight

Finalise now

Entities should ensure that they have identified the key terms of their revenue contracts and determined the impact on their accounting before the effective date of IFRS 15. They should also have implemented the systems and processes to capture the information needed to determine the measurement of revenue, and to prepare the new disclosures.

Leases

IFRS 16

Effective date

Annual periods beginning on or after 1 January 2019. Early adoption is permitted if IFRS 15 is applied.

EU adoption status

Not adopted at the time of going to print.

Issue

In January 2016, the IASB finished its long-standing project on lease accounting and published IFRS 16, 'Leases', which replaces the current guidance in IAS 17. This will require far-reaching changes in accounting by lessees in particular.

Key provisions

Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting stays almost the same. However, as the IASB has updated the IAS 17 guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Impact

IFRS 16 is likely to have a significant impact on the financial statements of a number of lessees.

Statement of financial position

The new standard will affect both the balance sheet and related ratios, such as debt/equity ratios. Depending on the particular industry and the number of lease contracts previously classified as operating leases under IAS 17, the new approach will result in a significant increase in debt on the balance sheet.

Statement of comprehensive income

Lessees will have to present interest expense on the lease liability and depreciation on the right-of-use asset in their income statement. In comparison with operating leases under IAS 17, this will change not only the allocation of expenses but also the total amount of expenses recognised for each period of the lease term. The combination of a straight-line depreciation of the right-of use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term.

Statement of cash flows

The new guidance will also change the cash flow statement, because lease payments that relate to contracts that have previously been classified as operating leases are no longer presented as operating cash flows in full. Only the part of the lease payments that reflects interest on the lease liability can be presented as an operating cash flow (if it is the entity's policy to present interest payments as operating cash flows). Cash payments for the principal portion of the lease liability are classified within financing activities. Payments for short-term leases, for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are presented within operating activities.

Transition

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted, but only in conjunction with IFRS 15, 'Revenue from Contracts with Customers'. In order to facilitate transition, entities can choose a 'simplified approach' that includes certain reliefs related to the measurement of the right-of-use asset and the lease liability, rather than full retrospective application; furthermore, the 'simplified approach' does not require a restatement of comparatives. In addition, as a practical expedient entities are not required to reassess whether a contract is, or contains, a lease at the date of initial application (that is, such contracts are 'grandfathered').

Insight

Start preparing now

Entities should ensure that they have implemented systems and processes to identify all lease contracts, to capture the information needed to determine the measurement of the right-of-use asset and the lease liability, and to prepare the new disclosures.

Annual improvements 2014-2016 cycle

Annual improvements 2014-2016

Effective date
See final column in table below.

EU adoption status
Not adopted at the time of going to print.

Standard/Interpretation	Amendment	Effective date
Amendment to IFRS 1, 'First time adoption of IFRS.	This amendment deletes the short-term exemptions covering transition provisions of IFRS 7, IAS 19, and IFRS 10. These transition provisions were available to entities for passed reporting periods and are therefore no longer applicable.	Annual periods starting on or after 1 January 2018.
IFRS 12, 'Disclosure of interests in other entities'.	This amendment clarifies that the disclosure requirement of IFRS 12 is applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of IFRS 12). Previously, it was unclear whether all other IFRS 12 requirements were applicable for these interests. The objective of IFRS 12 was to provide information about nature of interests in other entities, risks associated with these interests, and the effect of these interests on financial statements. The Board noted that this objective is relevant to interests in other entities regardless of whether they are classified as held for sale.	Should be applied retrospectively for annual periods beginning on or after 1 January 2017.
IAS 28, 'Investments in associates and joint ventures'.	IAS 28 allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss (FVTPL). The Board clarified that this election should be made separately for each associate or joint venture at initial recognition.	Should be applied retrospectively for annual periods beginning on or after 1 January 2018.

IFRIC 22

Foreign currency transactions and advance consideration

Effective date

Annual periods beginning on or after 1 January 2018. Early adoption is permitted.

EU adoption status

Not adopted at time of going to print.

Issue

This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The Interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts.

The date of the transaction determines the exchange rate to be used on initial recognition of the related asset, expense or income. The issue arises because IAS 21 requires an entity to use the exchange rate at the 'date of the transaction', which is defined as the date when the transaction first qualifies for recognition. The question therefore is whether the date of the transaction is the date when the asset, expense or income is initially recognised, or the earlier date on which the advance consideration is paid or received, resulting in recognition of a prepayment or deferred income.

The Interpretation provides guidance for when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

Key provisions

Single payment/receipt

The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate to use on initial recognition of the related item, should be the date on which an entity initially recognises the non-monetary asset or liability arising from the advance consideration.

Example – Single upfront payment

Supplier enters into a contract with a customer on 1 January 20x1 and receives the full consideration of CU50 on this date. The goods are delivered and revenue is recognised on 31 March 20x1.

The Interpretation requires that:

- Supplier will recognise a non-monetary contract liability, translating CU50 at the exchange rate on 1 January 20x1.
- Supplier will recognise revenue at 31 March 20x1 (that is, the date on which the goods are transferred to the customer). Supplier will derecognise the non-monetary contract liability. Revenue will be recognised at the same amount in functional currency, using the exchange rate at the date of the transaction, which is 1 January 20x1. In this case, the amount of revenue is the same as the amount of the non-monetary contract liability derecognised.

Multiple receipts/payments

The Interpretation states that, if there are multiple payments or receipts in advance of recognising the related item, the entity should determine the date of the transaction for each payment or receipt.

The illustrative examples accompanying the Interpretation provide guidance on multiple receipts/payments when:

- revenue is recognised at a single point in time;
- services are purchased over a period of time; and
- revenue is recognised at multiple points in time.

Example – Revenue recognised at a single point in time with multiple payments

Supplier enters into a contract with a customer on 1 January 20x1 to deliver goods in exchange for total consideration of CU50 and receives an upfront payment of CU20 on this date. The goods are delivered and revenue is recognised on 31 March 20x1. CU30 is received on 1 April 20x1 in full and final settlement of the purchase consideration.

The Interpretation requires that:

- Supplier will recognise a non-monetary contract liability, translating CU20 at the exchange rate on 1 January 20x1.
- Supplier will recognise revenue at 31 March 20x1 (that is, the date on which it transfers the goods to the customer).
- On 31 March 20x1, Supplier will:
  - derecognise the non-monetary contract liability of CU20 and recognise CU20 of revenue using the same exchange rate (that is, the exchange rate at 1 January 20x1); and
  - recognise revenue and a receivable for the remaining CU30, using the exchange rate on 31 March 20x1.
- The receivable of CU30 is a monetary item, so it should be translated using the closing rate until the receivable is settled.

Impact

This Interpretation will impact all entities that enter into foreign currency transactions for which consideration is paid or received in advance. The most significant impact is expected for entities that enter into long-term crossborder/ foreign currency contracts, with significant upfront payments. Such arrangements are common in the construction industry and will impact both the supplier and their customers (for example, shipping and airlines).

Effective date and transition

The amendment is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. Entities can choose to apply the Interpretation:

- retrospectively for each period presented;
- prospectively to items in scope that are initially recognised on or after the beginning of the reporting period in which the Interpretation is first applied; or
- prospectively from the beginning of a prior reporting period presented as comparative information.

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