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March 2018

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Introduction

Since March 2017, the IASB has issued the following:

- IFRS 17, 'Insurance contracts'
- Amendments to IFRS 9, 'Financial instruments' – Prepayment features with negative compensation
- Amendments to IAS 28, 'Investments in associates' – Long term interests in associates and joint ventures
- Amendments to IAS 19, 'Employee benefits' – Plan amendment, curtailment or settlement
- IFRIC 23, 'Uncertainty over income tax treatments'

This guide summarises the new standard, amendments and IFRIC plus those standards and amendments issued previously that are effective from 1 January 2018.

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 2018. 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 2018				
IFRS 9, 'Financial instruments'	Annual periods beginning on or after 1 January 2018	Early adoption is permitted	Endorsed	11
IFRS 15, 'Revenue from contracts with customers'	Annual periods beginning on or after 1 January 2018	Early adoption is permitted	Endorsed	15
Amendment to IFRS 15, 'Revenue from contracts with customers' Clarifications	Annual periods beginning on or after 1 January 2018	Early adoption is permitted	Endorsed	17
Amendments to IFRS 2, 'Share based payments' classification and measurement of share-based payment transactions	Annual periods beginning on or after 1 January 2018	Early adoption is permitted	Endorsed	6
Amendments to IFRS 4, 'Insurance contracts', regarding implementation of IFRS 9	Annual periods beginning on or after 1 January 2018	Early adoption is permitted	Endorsed	4
Amendment to IAS 40, 'Investment property' regarding the transfer of property	Annual periods beginning on or after 1 January 2018	Early adoption is permitted	Not yet endorsed	8
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 is permitted	Endorsed	26
IFRIC 22, 'Foreign currency transactions and advance consideration'	Annual periods beginning on or after 1 January 2018	Early adoption is permitted	Not yet endorsed	28
1 January 2019				
IFRS 16, Leases'	Annual periods on or after 1 January 2019	Early adoption is permitted if IFRS 15 is implemented	Endorsed	19
Amendments to IFRS 9, 'Financial instruments' – Prepayment features with negative compensation	Annual periods on or after 1 January 2019	Early adoption is permitted	Not yet endorsed	13
Amendments to IAS 28, 'Investments in associates' Long term interests in associates and joint ventures	Annual periods on or after 1 January 2019	Early adoption is permitted	Not yet endorsed	9
Amendments to IAS 19, 'Employee benefits' – Plan amendment, curtailment or settlement	Annual periods on or after 1 January 2019	Early adoption is permitted	Not yet endorsed	10
Annual improvements 2015-2017 IFRS 3, Business combinations IFRS 11, Joint ventures IAS 12, Income taxes' IAS 23, 'Borrowing costs'	Annual periods on or after 1 January 2019	Early adoption is permitted	Not yet endorsed	27
IFRIC 23,'Uncertainty over income tax 1 January 2021	Annual periods on or after 1 January 2019	Early adoption is permitted	Not yet endorsed	30
1 January 2021				
IFRS 17, 'Insurance contracts'	Annual periods on or after 1 January 2021	Early adoption is permitted if IFRS 15 and IFRS 9 are applied.	Not yet endorsed	21

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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

Endorsed.

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 are an insurer's activities 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%, 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 payments'

Effective date

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

EU adoption status

Endorsed.

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.

Long term interests in associates and joint ventures

Amendments to IAS 28, 'Investments in associates'

Effective date

Annual periods beginning on or after 1 January 2019.

EU adoption status

Not adopted at time of going to print.

Issue

Investors could have long-term interests (for example, preference shares or long-term loans) in an associate or joint venture that form part of the net investment in the associate or joint venture. The IASB was asked to clarify whether these long-term interests are within the scope of IFRS 9, and whether IFRS 9 impairment requirements are applicable.

Insight

The IASB issued a narrow scope amendment to IAS 28 that clarified that these long-term interests in an associate or joint venture to which the equity method is not applied should be accounted for using IFRS 9. This includes the impairment requirements in IFRS 9. An illustrative example is also provided.

The amendments are effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted.

Plan amendment, curtailment or settlement

Amendments to IAS 19, 'Employee benefits'

Effective date

Annual periods beginning on or after 1 January 2019.

EU adoption status

Not adopted at time of going to print.

Issue

This amendment requires an entity:

- to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
- to recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

Impact

Changes in the terms or membership of a defined benefit plan might result in a plan amendment or a curtailment or settlement. IAS 19 requires an entity to determine the amount of any past service cost, or gain or loss on settlement, by remeasuring the net defined benefit liability before and after the amendment, using current assumptions and the fair value of plan assets at the time of the amendment.

Current service cost and net interest are usually calculated using assumptions determined at the beginning of the period. However, if the net defined benefit liability is remeasured to determine past service cost, or the gain or loss on curtailment or settlement, current service cost and net interest for the remainder of the period are remeasured using the same assumptions and the same fair value of plan assets. This will change the amounts that would otherwise have been charged to profit or loss in the period after the plan amendment, and it might mean that the net defined benefit liability is remeasured more often.

A plan amendment, curtailment or settlement might reduce or eliminate a surplus, which could change the effect of the asset ceiling. Past service cost, or a gain or loss on settlement, is calculated in accordance with IAS 19, and it is recognised in profit or loss. This reflects the substance of the transaction, because a surplus that has been used to settle an obligation or provide additional benefits is recovered. The impact on the asset ceiling is recognised in other comprehensive income, and it is not reclassified to profit or loss. The impact of the amendments is to confirm that these effects are not offset.

Who is affected

The amendments will affect any entity that changes the terms or the membership of a defined benefit plan such that there is past service cost or a gain or loss on settlement.

The amendments are applied prospectively to plan amendments, settlements or curtailments that occur after the beginning of the first annual reporting period beginning on or after 1 January 2019.

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.

Prepayment features with negative compensation

Amendments to IFRS 9, ‘Financial instruments’

Effective date

Annual periods beginning on or after 1 January 2019.

EU adoption status

Not adopted at time of going to print.

This amendment covers two issues:

- What financial assets may be measured at amortised cost. The amendment permits more assets to be measured at amortised cost than under the previous version of IFRS 9, in particular some prepayable financial assets. It is likely to have the biggest impact on banks and other financial services entities and be broadly welcomed by companies.
- How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowings.

All companies should ensure that their projects to implement IFRS 9 identify what assets and transactions are or may be affected. Significant judgement may be required to apply the amendment, so early identification of the issues is advised.

Prepayment Features with Negative Compensation

Issue

The IASB issued a narrow-scope amendment to IFRS 9 to enable companies to measure at amortised cost some prepayable financial assets with negative compensation. The assets affected, that include some loans and debt securities, would otherwise have been measured at fair value through profit or loss (FVTPL).

Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest. However, to qualify for amortised cost measurement, the negative compensation[1] must be *‘reasonable compensation for early termination of the contract’*.

An example of such reasonable compensation is an amount that reflects the effect of the change in the relevant benchmark rate of interest. However, the standard does not define ‘reasonable compensation’ and significant judgement may be required to assess if this test is met.

In addition, to qualify for amortised cost measurement, the asset must be held within a ‘held to collect’ business model.

[1] That is the difference between the prepayment amount and unpaid amount of principal and interest.

Impact

The amendment is likely to be welcomed by preparers. In practice, there is a broad range of prepayment features with potentially negative compensation in many kinds of debt instruments:

- The prepayment option may be contingent on the occurrence of a trigger event (for example, sale or fall in value of collateral to a loan).
- The prepayment option may be held by only one party to the contract or both parties.
- Prepayment may be permitted or required (in particular circumstances).
- The compensation formula may differ. In many cases judgement will be required to assess whether the compensation meets the test of being *'reasonable compensation for early termination of the contract'*.

Effective date

The amendment is effective for annual periods beginning on or after 1 January 2019, that is, one year later than the effective date of IFRS 9. Early adoption is permitted. This will enable companies to adopt the amendment when they first apply IFRS 9, though for companies in the EU early adoption will be subject to endorsement.

Modification of financial liabilities – IFRS 9 accounting change confirmed

As expected, the IASB confirmed the accounting for modifications of financial liabilities under IFRS 9. That is, when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss should be recognised in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This will impact all companies, particularly those applying a different policy for recognising gains and losses under IAS 39 today.

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

Endorsed.

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

Endorsed.

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.

Insurance contracts

IFRS 17

Effective date

Annual periods beginning on or after 1 January 2021.

EU adoption status

Not adopted at time of going to print.

Issue

On 18 May 2017, the IASB finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, 'Insurance Contracts'. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

The standard applies to annual periods beginning on or after 1 January 2021, with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', and IFRS 9, 'Financial Instruments', are also applied.

Key provisions

Scope

IFRS 17 applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features if an entity also issues insurance contracts. For fixed-fee service contracts whose primary purpose is the provision of services, entities have an accounting policy choice to account for them in accordance with either IFRS 17 or IFRS 15. Similar to the position under IFRS 4, financial guarantee contracts are allowed to be within the scope of IFRS 17 if the entity previously asserted explicitly that it regarded them as insurance contracts. Insurance contracts (other than reinsurance) where the entity is a policyholder are not within the scope of IFRS 17.

Embedded derivatives and distinct investment and service components should be 'unbundled' and accounted for separately in accordance with the related IFRSs. Voluntary unbundling of other components is prohibited.

The measurement model

IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ('CSM') representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability-weighted cash flows.

For presentation and measurement, entities are required at initial recognition to disaggregate a portfolio (that is, contracts that are subject to similar risks and managed together as a single pool) into three groups of contracts: onerous; no significant risk of becoming onerous; and remaining contracts. Contracts that are issued more than one year apart should not be in the same group.

Changes in cash flows related to future services should be recognised against the CSM. The CSM cannot be negative, so changes in future cash flows that are greater than the remaining CSM are recognised in profit or loss. Interest is accreted on the CSM at rates locked in at initial recognition of a contract. To reflect the service provided, the CSM is released to profit or loss in each period on the basis of passage of time.

Under IFRS 17, entities have an accounting policy choice to recognise the impact of changes in discount rates and other assumptions that relate to financial risks either in profit or loss or in other comprehensive income ('OCI'). The OCI option for insurance liabilities reduces some volatility in profit or loss for insurers where financial assets are measured at amortised cost or fair value through OCI under IFRS 9.

The variable-fee approach is required for insurance contracts that specify a link between payments to the policyholder and the returns on underlying items, such as some 'participating', 'with profits' and 'unit linked' contracts. The interest on the CSM for such contracts is accreted implicitly through adjusting the CSM for the change in the variable fee. The variable fee represents the entity's share of the fair value of the underlying items less amounts payable to policyholders that do not vary based on the underlying items. The CSM is also adjusted for the time value of money and the effect of changes in financial risks not arising from underlying items such as options and guarantees.

Requirements in IFRS 17 align the presentation of revenue with other industries. Revenue is allocated to periods in proportion to the value of expected coverage and other services that the insurer provides in the period, and claims are presented when incurred. Investment components (that is, amounts repaid to policyholders even if the insured event does not occur) are excluded from revenue and claims.

Insurers are required to disclose information about amounts, judgements and risks arising from insurance contracts. The disclosure requirements are more detailed than currently required under IFRS 4.

On transition to IFRS 17, an entity applies IFRS 17 retrospectively to groups of insurance contracts, unless it is impracticable. In this case, the entity is permitted to choose between a modified retrospective approach and the fair value approach. In applying a modified retrospective approach, the entity achieves the closest outcome to retrospective application using reasonable and supportable information and choosing from a list of available simplifications. Alternatively, the CSM at transition can be based on fair value at transition. In practice, using different approaches to transition could result in significantly different outcomes that will drive profit recognised in future periods for contracts in force on transition.

Impact and insights

IFRS 17 will impact businesses well beyond the finance, actuarial and systems development areas (for example, product design and distribution, development of revised incentive and wider remuneration policies and reconfigured budgeting and forecasting methodologies feeding into business planning). There could also be an impact on the cash tax position and dividends, both on transition and going forward. IFRS 17 might require more than three years to implement. Gap analysis and impact assessments to develop an implementation roadmap will enable entities to begin the detailed implementation project. A fundamental shift might be required in the way in which data is collected, stored and analysed, changing the emphasis from a prospective to a retrospective basis of analysis and introducing a more granular level of measurement and additional disclosures. Before the effective date, insurers will need to carefully consider their 'IFRS 17 story' for investors and analysts, as well as the key metrics that they will apply in the new world.

Transition requirements when applying IFRS 9, 15, 16 and 17

Issue

This section highlights the differences between how existing reporters and first time adopters will transition to the new standards. Those preparing a longer 'track record' of financial information for initial public offerings or other 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.

Subsidiaries (including carve out entities) of existing IFRS reporting groups have additional flexibility when they choose to move to IFRS after their parent.

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 comparative 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 retrospective but the cumulative effect is recognised in retained earnings 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.

Subsidiaries (including carveout entities) moving to IFRS after their parent

There are two options set out in IFRS 1 para D16 for a subsidiary that adopts IFRS at a date later than the group headed by its parent (or entity that has significant influence or joint control over it). It can measure its assets and liabilities at either:

a. the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs; or
b. the carrying amounts required by IFRS 1, based on the subsidiary's date of transition to IFRSs.

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 modified retrospective 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 choose to 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 or subsidiaries choosing to apply IFRS 1 para D16(a)	First time adopter or subsidiaries choosing to apply IFRS 1 para D16(b)
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

	Existing IFRS reporter or subsidiaries choosing to apply IFRS 1 para D16(a)	First time adopter or subsidiaries choosing to apply IFRS 1 para D16(b)
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 para 26 if apply simplified approach: at the date of initial application C8(a)	At the date of inception 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)	

Annual improvements 2014-2016 cycle

Effective date

See final column in table below.

EU adoption status

Endorsed.

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.
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.

Annual improvements 2015-2017 cycle

Effective date

Annual periods beginning on or a after 1 January 2019.

EU adoption status

Not adopted at time of going to print.

Standard/Interpretation	Amendment	Effective date
IFRS 3, 'Business combinations'	The amendments clarify that obtaining control of a business that is a joint operation, is a business combination achieved in stages. The acquirer should re-measure its previously held interest in the joint operation at fair value at the acquisition date.	Annual periods beginning on or after 1 January 2019. Earlier application is permitted.
IFRS 11, 'Joint arrangements'	The amendments clarify that the party obtaining joint control of a business that is a joint operation should not re-measure its previously held interest in the joint operation.	Annual periods beginning on or after 1 January 2019. Earlier application is permitted.
IAS 12, 'Income taxes'	The amendment clarifies that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. These requirements apply to all income tax consequences of dividends. Previously, it was unclear whether the income tax consequences of dividends should be recognised in profit or loss, or in equity, and the scope of the existing guidance was ambiguous.	Annual periods beginning on or after 1 January 2019. Earlier application is permitted.
IAS 23, 'Borrowing costs'	The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.	Prospectively for borrowing costs incurred on or after the beginning of annual periods beginning on or after 1 January 2019. Earlier application is permitted.

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.

IFRIC 23

Uncertainty over income tax

Effective date

Annual periods beginning on or after 1 January 2019.

EU adoption status

Not adopted at time of going to print.

Issue

This interpretation clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments.

Impact

When does the Interpretation apply?

The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

What is the unit of account?

Each uncertain tax treatment is considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty. The factors that an entity might consider to make this determination include:

1. how it prepares and supports the tax treatment; and
2. the approach that it expects the tax authority i.e. take during an examination.

What should an entity assume about the examination of tax treatments by taxation authorities?

An entity is required to assume that a tax authority with the right to examine and challenge tax treatments will examine those treatments and have full knowledge of all related information. Detection risk is not considered in the recognition and measurement of uncertain tax treatments.

When should an entity account for any uncertain tax treatments?

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made (for example, by recognising an additional tax liability or applying a higher tax rate).

How is the effect of uncertainty recognised?

The entity should measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The most likely amount method might be appropriate if the possible outcomes are binary or are concentrated on one value. The expected value method might be appropriate if there is a range of possible outcomes that are neither binary nor concentrated on one value. Some uncertainties affect both current and deferred taxes (for example, an uncertainty over the year in which an expense is deductible). IFRIC 23 requires consistent judgements and estimates to be applied to current and deferred taxes.

What about changes in circumstances?

The judgements and estimates made to recognise and measure the effect of uncertain tax treatments are reassessed whenever circumstances change or when there is new information that affects those judgements. New information might include actions by the tax authority, evidence that the tax authority has taken a particular position in connection with a similar item, or the expiry of the tax authority's right to examine a particular tax treatment. IFRIC 23 states specifically that the absence of any comment from the tax authority is unlikely to be, in isolation, a change in circumstances or new information that would lead to a change in estimate.

What about the disclosures?

There are no new disclosure requirements in IFRIC 23. However, entities are reminded of the need to disclose, in accordance with IAS 1, the judgements and estimates made in determining the uncertain tax treatment.

Effective date and transition

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted. An entity can, on initial application, elect to apply this Interpretation either:

1. retrospectively applying IAS 8, if possible without the use of hindsight; or
2. retrospectively, with the cumulative effect of initially applying the Interpretation recognised at the date of initial application as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate).

Insight

IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. For example, the Interpretation specifies how to determine the unit of account and the recognition and measurement guidance to be applied to that unit. There is no specific guidance in IAS 12, and entities today might be using different models to determine the unit of account and measure the consequences of tax uncertainties. The Interpretation also explains when to reconsider the accounting for a tax uncertainty, and it states specifically that the absence of comment from the tax authority is unlikely, in isolation, to trigger a reassessment.

Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management should assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting.

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