NEXIA INTERNATIONAL

IFRS link

April 2014 Issue 19

Publications of IFRS rules by the IASB

The publications presented below relate to the period from October 2013 up to and including December 2013.

Annual Improvements to IFRSs 2010-2012 Cycle

On 12 December 2013, the IASB published the final amendments as part of the Annual Improvements to IFRSs 2010-2012 Cycle. Seven standards are affected by the amendments.

IFRS 2: Share-based Payment
The amendment involves the clarification of the definitions "vesting conditions" and "market conditions" and also adds independent definitions for "performance conditions" and "service conditions". Performance conditions must be within the influence of the employee, for example revenue, EBIT or the share price of the company. Service conditions are characterised by the fact that they are linked solely to a certain service period within the company. The breakdown of individual vesting conditions into service conditions, market-related and other performance conditions has an impact on the measurement of a share-based payment.

IFRS 3: Business Combinations
Contingent considerations classified as an asset or a liability must be measured at fair value at each reporting date. This subsequent measurement is regardless of whether the contingent consideration is a financial instrument, as defined by IFRS 9 or IAS 39 or a non-financial asset or a non-financial liability.

IFRS 8: Operating Segments
When aggregating operating segments into one reportable segment, an entity must disclose the judgements made by management when creating the segment. A brief description of the individual aggregated segments is also required in this context. In addition, the total of the reportable segments' assets must be reconciled to the total assets of the entity only if the segment assets are also reported to management for internal purposes.

IFRS 13: Fair Value Measurement
Discounting can continue to be disregarded for short-term receivables and payables as long as the effect of not discounting is immaterial. Despite removing the simplification rule for short-term receivables and payables as part of the introduction of IFRS 13, IAS 8 applies with respect to assessing the general materiality criterion and discounting can be dispensed with if interest effects are immaterial.

IAS 16: Property, Plant and Equipment and IAS 38: Intangible Assets
When an asset is revalued, the change in the gross carrying amount is determined using the same method as the change in the net carrying amount. The accumulated depreciation is the difference between the gross carrying amount and the net carrying amount.

IAS 24: Related Party Disclosures
The amendment extends the group of related parties to include those who provide key management personnel services to the reporting entity or the parent. These persons qualify as related parties even if no other legal or personal relationships exist with the reporting unit.

All amendments take effect for reporting periods beginning on or after 1 July 2014. Earlier application is permitted. Transposition to EU law is expected to take place in the fourth quarter of 2014.

Annual improvements to IFRSs 2011-2013 Cycle

On 12 December 2013, the IASB published the final amendments as part of the Annual Improvements to IFRSs 2011-2013 Cycle. Amendments were made to four standards in total.

IFRS 1: First-time Adoption of IFRS
The amendment specifically allows first-time adopters to early adopt on a voluntary basis standards that have been pronounced by the IASB but that are not yet mandatory. If a first-time adopter uses this option, it must apply the standard early adopted on a voluntary basis in both periods presented in the first set of IFRS financial statements.

IFRS 3: Business Combinations
The amendment clarifies that the accounting for the formation of joint arrangements that fall under the scope of IFRS 11 is specifically excluded from the scope of IFRS 3. This also applies if the assets and liabilities contributed to a joint arrangement meet the criteria for a business as defined by IFRS 3. However, the scope exception from IFRS 3 only applies to presentation in the financial statements of the joint arrangement itself. The planned amendment will correct a manual error in IFRS 3, as the terms amended by IFRS 11 were not adjusted accordingly in IFRS 3 when IAS 31 was replaced by IFRS 11.

IFRS 13: Fair Value Measurement
IFRS 13 provides for portfolios of financial assets and liabilities that are controlled accordingly to also be measured at fair value on a net basis (portfolio exception). The amendment clarifies that the portfolio exception also applies to contracts that do not meet the definitions of financial assets or liabilities in IAS 32 (eg commodities). The decisive factor is whether the contracts are classified as financial instruments and accounted for in accordance with IFRS 9 or IAS 39.

IAS 40: Investment Property
The amendment by the IASB emphasises that the rules in IFRS 3 and in IAS 40 are equally applicable and are not mutually exclusive. The question of whether the acquisition of one or several investment properties is recognised pursuant to IFRS 3 (business combinations) as the acquisition of an asset, a group of assets or a business must be answered using the criteria in IFRS 3. Separately from this, the criteria in IAS 40 must be used to decide whether the property acquired is a business property or an investment property.

All amendments take effect for reporting periods beginning on or after 1 July 2014. Earlier application is permitted. Transposition to EU law is expected to take place in the fourth quarter of 2014.

Exposure Draft on the Annual Improvements to IFRSs 2012-2014 Cycle

On 11 December 2013, the IASB published Exposure Draft ED/2013/11 as part of the Annual Improvements to IFRSs 2012-2014 Cycle.

Five amendments are proposed to four financial reporting standards.

IFRS 5: Non-current Assets Held for Sale and Discontinued Operations
The amendments to IFRS 5 relate to rules on subsequent measurement in cases where assets held for sale are reclassified to assets held for distribution and vice versa or where assets previously held for distribution are to continue to be used by the entity.

Such reclassifications do not lead to the end of recognition as held for sale or held for distribution and do not lead to a measurement change. In addition, non-current assets that no longer meet the criteria for held for distribution will be treated in the same way as those that are removed from the held for sale category.

IFRS 7: Financial Instruments: Disclosures
Clarification is provided regarding under which conditions the management of a transferred financial instrument is a continuing involvement and thus has to be reported. Furthermore, the disclosures on offsetting financial assets and financial liabilities do not specifically have to be included in all interim reporting pursuant to IAS 34.

IAS 19: Employee Benefits
The amendments to IAS 19 relate to determining the discount rate. The planned amendments propose that high-quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability.

IAS 34: Interim Financial Reporting
Disclosures and information which contrary to IAS 34 are not presented in the interim financial statements themselves, but elsewhere in the annual report and should include a cross-reference in the interim financial statements.

Standards amendment on hedge accounting (IFRS 9)

On 19 November 2013, the IASB published the standards amendment to IFRS 9 Financial Instruments.

The new rules allow companies to better reflect their risk management activities in the financial statements, as more options are provided for applying hedge accounting. The IASB wishes to ensure that hedges that make sense from a risk management perspective are not prevented by the rules in IAS 39 (as is the case to date). Consequently, the standards amendment mainly sets out the following:

- extension of the scope of the eligible underlyings and hedged items
  a) underlyings:
    - risk components of non-financial items
    - derivatives
    - groups and net positions
  b) hedged items
    - regular way contracts measured at fair value
- removal of an effectiveness interval with quantitative threshold values (this is a fundamental difference from IAS 39)
- extension of the disclosure requirements for hedge accounting with respect to the risk management strategy, the cash flows from hedging measures and the effects of hedges on the financial statements.

A mandatory date for first-time application of IFRS 9 is not expected before 1 January 2017.

Standards amendment on accounting for Employee Benefits (IAS 19)

On 21 November 2013, the IASB published the standards amendment Defined Benefit Plans: Employee Contributions (amendments to IAS 19 Employee Benefits). The standards amendment aims to provide a simplification for companies, in that contributions by employees or third parties as part of defined benefit plans can be deducted in the period in which the service is rendered. If the employee contributions are independent of the number of years of service, there is an option to recognise the contributions as a reduction in the service cost in the period in which the related service is rendered. Otherwise the employee contributions are attributed to the periods of service using the plan's formula.

The amendments take effect for reporting periods beginning on or after 1 July 2014. Earlier application is permitted. Transposition to EU law is expected to take place in the fourth quarter of 2014.

Exposure Draft on permission to use the Equity Method in Separate Financial Statements (IAS 27)

On 2 December 2013, the IASB published Exposure Draft ED/2013/10 Equity Method in Separate Financial Statements.

The background to the project is the fact that in some countries there are local laws which require investments in subsidiaries, joint ventures and associates to be recognised in the investor's separate financial statements using the equity method, but this is currently not permitted under IAS 27. In order to comply both with the rules in IAS 27 and with local law, it would be necessary to prepare two sets of financial statements.

To prevent this from giving rise to reasons not to adopt IFRS, the IASB is proposing the amendment of IAS 27 to allow the equity method as a permissible option for the recognition of investments in subsidiaries, joint ventures and associates in an investor's separate financial statements. In order to ensure consistent interpretation with the IFRSs, the IASB is also proposing that IFRS 1 and IAS 28 be amended accordingly.

Furthermore, the amendment to IAS 27 is to be applicable retrospectively if a company decides to switch to the equity method.

The proposed rules would mean that companies have three options for measuring investments in subsidiaries, joint ventures and associates in the separate financial statements: at amortised cost, at fair value pursuant to IAS 39 or IFRS 9, or according to the equity method (IAS 28).

Adoption of IFRS by the EU

Standards adopted

In the Official Journal dated 21 November 2013 the European Union published Regulation (EU) No. 1174/2013 of 20 November 2013 and in the Official Journal dated 20 December 2013 it published Regulation (EU) No. 1374/2013 and 1375/2013 of 19 December 2013 amending Regulation (EC) No. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council. By way of these regulations, amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements concerning investment entities, to IAS 36 Impairment of Assets regarding the disclosures in the notes on recoverable amount and to IAS 39 Financial Instruments regarding the novation of derivatives and continuation of hedge accounting are adopted.

Update of standards not yet adopted

On 23 December 2013, the European Financial Reporting Advisory Group (EFRAG) issued the current EU endorsement status report.

As of 31 December 2013, the following five IASB pronouncements have not yet been endorsed for adoption in Europe:

New standards

IFRS 7 and IFRS 9	Financial Instruments (12 November 2009) and subsequent amendments to IFRS 9 and IFRS 7 (16 December 2011)

Amendments to standards

IFRS 19	Defined Benefit Plans: Employee Contributions (amendments to IAS 19) (21 November 2013)
IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38	Annual Improvements to IFRSs (2010-2012 Cycle) (12 December 2013)
IFRS 1, IFRS 3, IFRS 13, IAS 40	Annual Improvements to IFRSs (2011-2013 Cycle) (12 December 2013)

Interpretations

IFRIC 21	Levies (20 May 2013)

Contact Us

For further information on any of the matters discussed in this Newsletter, please contact:

Mohammed Yaqoob
E myaqoob@nexia.com
T +44 (0)20 7436 1114