IFRS link

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Publications of IFRS rules by the IASB

The publications presented below relate to the period from January 2014 up to and including mid-May 2014.

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

On 12 May 2014, the IASB published clarification on the acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38). The amendment formulates further guidelines on how to calculate the decrease in value of property, plant and equipment and of intangible assets correctly. While the amendments to IAS 16 prohibit depreciation based on income or revenue, the amendments in IAS 38 include a rebuttable presumption.

In addition, both standards were extended to provide that expected future reductions in the selling price could be an indication of stronger consumption of the future economic benefit embodied in the asset.

Amendments to IAS 16 Property, Plant and Equipment
The three basic types of depreciation possible (straight-line, diminishing balance and units of production) remain unchanged. However, the reference basis is restricted for the basis for the units of production method. Accordingly, it will not be permissible to base the depreciation of an asset on the income or revenue from the goods created using the asset. The reasoning provided is that the revenue-based reference amount is derived from an interaction between quantity and price but that the price component does not have any bearing on the actual decrease in value of the asset.

Amendments to IAS 38 Intangible Assets
The amendments in IAS 38 contain a rebuttable presumption that a revenue-based amortisation method is not appropriate for the same reasons as those stated in IAS 16. Accordingly, revenue-based amortisation is limited to the following situations:

- the intangible asset is expressed as a measure of revenue, if for example the predominant limiting factor inherent in the intangible asset is the achievement of a revenue threshold, or
- it can be demonstrated that revenue and the consumption of the economic benefits of the asset are highly correlated.

The amendments are applicable to annual periods commencing on or after 1 January 2016. Earlier application is permitted subject to EU endorsement.

Amendments concerning Acquisitions of Interests in Joint Operations (IFRS 11)

On 6 May 2014, the IASB published amendments to IFRS 11 concerning the acquisition of interests in joint operations. IFRS 11 contains provisions on accounting for joint ventures and joint operations in the statement of financial position and statement of profit or loss. While joint ventures are accounted for using the equity method, the presentation of joint operations provided for in IFRS 11 is comparable to proportionate consolidation. Up until now there were no guidelines on accounting for acquisitions of interests in joint operations in which the activity constitutes

a business pursuant to IFRS 3. Thus the IFRS Interpretations Committee was asked whether the acquirer of such interests must apply the principles of IFRS 3 Business Combinations or whether the acquirer should instead recognise the interests as a group of assets. In December 2012 the IASB responded with an exposure draft (ED/2012/7) in order to eliminate the accounting diversity in practice to date.

With the final approval of the amendments to IFRS 11, the IASB now clarifies that when acquiring interests in joint operations in which the activity constitutes a business pursuant to IFRS 3 all of the principles on business combinations accounting in IFRS 3 and other IFRSs must be applied as long as they do not conflict with the guidance in IFRS 11. Among other things this means that most identifiable assets and liabilities must be measured at fair value, deferred taxes and goodwill must be recognised and impairment tests must be performed. In addition the disclosure requirements in IFRS 3 also apply in these cases.

By comparison with the exposure draft (ED/2012/7), there is now clarification that in the event of an acquisition of additional interests in a joint operation it is not necessary to remeasure the previously held interests.

The amendments are applicable to annual periods commencing on or after 1 January 2016. Earlier application is permitted subject to EU endorsement.

New standard for accounting for Regulatory Deferral Accounts (IFRS 14)

On 30 January 2014, the IASB published the final (interim) standard IFRS 14 Regulatory Deferral Accounts. The aim of this standard is to enhance the comparability of financial reporting by entities with rate-regulated activities. While many countries already have specific guidelines for recognising assets and liabilities for an entity operating in a rate-regulated environment, there are not yet any IFRS regulations in relation to this issue. Because rate regulation can have a significant impact on the timing and scope of revenue, the IASB initiated a comprehensive project on this topic. IFRS 14 permits first-time adopters within the scope of IFRS 1 to account for the effects of rate regulations separately if they also do so in accordance with their previous GAAP. This standard does not apply to entities operating in a rate-regulated environment that already apply IFRS. The standard is intended as an interim solution until the IASB has completed its comprehensive project on rate-regulated activities. The IASB also explained that the publication of IFRS 14 does not anticipate the outcome of the comprehensive project.

To summarise, IFRS 14 contains the following provisions:

- rate regulation is a framework for establishing the prices that can be charged to customers for goods or services by a supervisory body or government. Unlike in the exposure draft (see IFRS newsletter for the third quarter of 2013), the prerequisite for the costs incurred by the entity to be adequately covered by the regulated rate no longer applies in order to fall under the scope of the standard. The reason for this is to avoid making the group of potential adopters too restrictive.
- IFRS 14 provides an option: First-time adopters within the scope of IFRS 1 that are subject to rate regulation can continue to use the existing recognition and measurement methods in accordance with their previous GAAP.
- regulatory deferral accounts should be reported as separate items in the statement of financial position, statement of profit or loss and other comprehensive income
- specific disclosures are required to identify the nature of, and risks associated with, the rate regulation that has resulted in the recognition of regulatory deferral account balances (eg explanations of the rate-regulated activity, the pricing process, the basis for recognition and measurement of the regulatory deferral accounts as well as the underlying discount rates).

IFRS 14 is applicable to annual periods commencing on or after 1 January 2016. Earlier application is permitted subject to EU endorsement.

Exposure Draft on the Presentation of the Financial Statements (IAS 1)

On 25 March 2014, the IASB announced Exposure Draft ED/2014/1 Disclosure Initiative (Proposed amendments to IAS 1). The exposure draft is part of the IASB's Disclosure Initiative, which comprises a series of sub-projects. The initiative aims to result in improvements to IAS 1 and IAS 7 in the short term. Another objective in the medium term is to fundamentally re-examine the development of presentation and disclosure requirements in the IFRS financial statements (including disclosures in the notes) and to develop improvements in the corresponding principles (principles of disclosure). This is to be used as a basis for a fundamental review of all standards.

This exposure draft is part of the short-term project activities and proposes smaller adjustments to IAS 1 Presentation of Financial Statements. These mainly include the following clarifications:

- the materiality principle in IAS 1 extends to all parts of the financial statements. Disclosures that result explicitly from other standards can be waived for reasons of immateriality. Furthermore, it is not permissible for information useful for decision making to be obscured by means of aggregation or disaggregation

- items in the statement of financial position, statement of profit or loss and statement of other comprehensive income should be disaggregated when this serves to improve clarity. As an example, the exposure draft states that an entity has to decide whether breaking down the item for property, plant and equipment into its individual components may provide useful information. In addition, the items listed in IAS 1 (minimum classification) can also be aggregated if they are immaterial
- additional requirements are set out for the presentation of sub-totals
- the disclosures in the notes do not necessarily have to be made in the order specified in IAS 1.114. Disclosures should be made in the order of their understandability and comparability. Entities can determine their own order; for example accounting options can be presented together with the respective item
- the guidance in IAS 1 concerning the identification of significant accounting policies as part of the disclosures in the notes is to be deleted, as it is not seen as helpful
- shares of other comprehensive income arising from equity-accounted investments are to be presented in aggregate as a single line item. The basic division into items that will and will not be subsequently reclassified to profit or loss is to be retained.

Statements can be submitted to the IASB up until 23 July 2014.

IASB publishes discussion paper on macro hedging

On 17 April 2014, the IASB published a discussion paper on the topic of macro hedging (Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging). The discussion paper discusses the accounting for dynamically managed risks on a net basis.

In May 2012, the examination of macro hedging was separated out from the overall project for IFRS 9, which in three phases will replace the standard IAS 39 Financial Instruments. The provisions on portfolio hedges of interest rate risks already included in IAS 39 proved lacking and incomplete. From the perspective of the IASB, these matters constitute a special case from a methodological perspective, which is why corresponding hedge accounting regulations are being developed. These are then to supplement the general hedge accounting concept (see IFRS newsletter for the first quarter of 2014). As part of the consultation process, a discussion paper has now been published in order to consider a range of possible alternatives.

Although the discussion paper focuses on the example of portfolio hedging of interest rate risk at banks, the model discussed there is also to be extended to other types of risk (also non-financial items: e.g. commodities) and industries. The purpose of macro hedging is to account for dynamically managed risks on a net basis (open portfolios). The open portfolios constitute a special case in that they involve hedging of net items that are also structured dynamically. This means that opposing risk items are grouped in portfolios, and these are subject to very frequent changes in amount and composition over time. Both of these facts call for an entirely new and different accounting concept. The IASB has developed a model described as the "revaluation approach". At its core, it provides for revaluation of the entire net item where only the hedged risk can be included in the measurement. The resulting gain is recognized in profit or loss for the period, thus achieving a natural balancing of the valuation changes from the derivatives used to hedge these risks and also recognised in profit or loss. Like general hedge accounting, the new approach to macro hedging aims to create a closer link between the economic spreading of risks and its accounting.

In addition to the publication of the discussion paper, the IASB will organise various real-life events and webcasts (outreach activities) in order to obtain responses.

Statements on the discussion paper can be submitted to the IASB up until 17 October 2014.

Determining the effective date for IFRS 9

The original date for first-time application of IFRS 9 was already deferred from 1 January 2013 to 1 January 2015 at the end of 2011. In November 2013, the effective date was removed. At its meeting in February 2014, the IASB decided that application of IFRS 9 would be mandatory for annual periods commencing on or after 1 January 2018. This decision largely responds to demands for implementation with an estimated duration of three years as well as stronger consideration of the knock-on effect on the project for accounting for insurance contracts (IFRS 4).

The overall project for IFRS 9, which will replace the standard IAS 39 Financial Instruments, comprises the following three phases:

Phase 1 – Classification and measurement
Phase 2 – Impairment methodology
Phase 3 – Hedge accounting (general)

After phase 1 had already been approved in a 2009 version (Classification/measurement of financial assets) and a 2010 version (Classification/measurement of financial liabilities), further limited amendments were proposed in 2012 (see IFRS newsletter for the second quarter of 2013). The IASB currently envisages that this project phase and phase 2 will be completed at the end of the second quarter of 2014 with the publication of an amended version of IFRS 9. Phase 3 - Hedge accounting (general) was already finalised in November 2013.

The option existing thus far for early application of a version of IFRS 9 was possible only for entities accounting outside of the EU. The EU has not yet approved any of the published versions, and a decision on endorsement is not expected until all phases of IFRS 9 have been completed in full. Thus early application of IFRS 9 is not currently possible for entities accounting within the EU. The complete version of the final IFRS 9 is expected at the end of the second quarter and will include the regulations on classification and measurement, impairment methodology and hedge accounting (general). The IASB has decided that, six months after publication of the final IFRS 9, prior versions will no longer be permissible for first-time application (however, application of an earlier version that has already commenced can be continued up until the end of 2017). Early application is permissible only in its entirely and – for entities accounting within the EU – is also dependent on EU endorsement.

Consultation procedure as part of the post-implementation review of IFRS 3

The IASB is obliged to assess the effects of implementation of each new standard or significant amendments to existing standards as part of a post-implementation review. As part of this review, on 30 January 2014 the IASB published an RfI (Request for Information) on experience with implementing and applying IFRS 3. The objective is to review IFRS 3 to determine whether the standard provides information that is useful for decision making, whether there are implementation challenges and if so in what areas and whether unexpected costs have arisen when implementing or enforcing IFRS 3.

The RfI covers the following topics in particular:

- definition of a business
- application of fair value for business combinations
- separate recognition of intangible assets from goodwill and the accounting for negative goodwill
- impairment tests of goodwill and indefinite-life intangible assets instead of amortisation
- measurement and presentation of non-controlling interests
- accounting for step acquisitions and retained investments upon loss of control
- disclosures concerning the nature and effects of a business combination.

Statements on the RfI could be submitted to the IASB up until 30 May 2014.

Adoption of IFRS by the EU

Standards adopted

The European Union has not issued any new directives on the adoption of IFRS standards since the last newsletter was published.

Update of standards not yet adopted

On 12 May 2014, the EFRAG (European Financial Reporting Advisory Group) issued the current EU endorsement status report. According to the report, the following IASB pronouncements have not yet been endorsed for adoption in Europe:

New standards

IFRS 7 and IFRS 9	Financial Instruments (12 November 2009) and all subsequent amendments to IFRS 9 and IFRS 7 (including hedge accounting)
IFRS 14	Regulatory Deferral Accounts (30 January 2014)

Amendments to standards

IAS 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)
IFRS 11	Acquisitions of Interests in Joint Operations (6 May 2014)
IAS 16, IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (12 May 2014)

Interpretations

IFRIC 21	Levies (20 May 2013)

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