Nexia International

IFRS Link

October 2017 | Issue 27

Contents

IASB includes:

- Revision of IFRS Framework completed
- IFRS 17 “Insurance Contracts” published
- IASB publishes exposure draft on Annual Improvements to IFRS Standards 2015-2017 Cycle
- Exposure draft on IFRS 8 “Operating Segments” published
- Published exposure draft on IFRS 9 “Financial Instruments”
- IASB publishes exposure draft on IAS 16 “Property, plant and equipment”
- IFRIC 23 “Uncertainty over Income Tax Treatments” published.

EU Endorsement includes:

- EU Endorsement Status Report.

ESMA includes:

- ESMA issues report on the application of IFRS 13 “Fair Value Measurement”
- ESMA issues Q & A on the Guidelines on Alternative Performance Measures
- ESMA – Enforcement decisions published.

IASB

Revision of IFRS Framework completed

After the IASB and FASB originally commenced a joint comprehensive project on the Conceptual Framework in 2004, which was temporarily postponed, the IASB has continued to advance this project on its own since 2012.

The IFRS Framework project comprises the elements of financial statements, measurement, reporting entity, presentation and disclosure.

Two exposure drafts, ED/2015/3 "Conceptual Framework for Financial Reporting" and ED/2015/4 "Updating References to the Conceptual Framework" were published in 2015. The comments received on the exposure drafts were discussed by the Board on several occasions.

In June 2017, the IASB completed its discussions of the exposure drafts and published a summary of the preliminary decisions. The IASB intends to publish the revised Framework in the fourth quarter of 2017.

Note: The project progress and the summary of the decisions to date are available on the IASB website.

IFRS 17 "Insurance Contracts" published

On 18 May 2017, the IASB published IFRS 17 "Insurance Contracts", which is to replace IFRS 4 "Insurance Contracts". The objective of the new standard is, by means of consistent and principles-based financial reporting, to provide relevant information for users of financial statements and to ensure uniform presentation and measurement of insurance contracts. The new recognition, measurement and presentation rules must be applied by companies with:
- insurance contracts and reinsurance contracts it issues
- reinsurance contracts it holds
- investment contracts with discretionary participation features that a company issues, provided the company also issues insurance contracts.

If the primary purpose of a contract that meets the definition of an insurance contract under IFRS 17 is the provision of services for a fixed fee, IFRS 15 "Revenue from Contracts with Customers" can be used for the financial reporting instead of IFRS 17.

Note: IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021. The date of expected EU endorsement has not yet been set in EFRAG's EU-Endorsement Status Report.

IASB publishes exposure draft on Annual Improvements to IFRS Standards 2015-2017 Cycle

On 12 January 2017, the IASB issued Exposure Draft ED/2017/01 on the "Annual Improvements to IFRS Standards 2015-2017 Cycle". The proposed amendments relate to three IFRS standards:

IAS 12 "Income Taxes"
Under the existing wording, there was uncertainty surrounding the timing and presentation of income tax consequences of dividends. This uncertainty is to be eliminated with a new paragraph (IAS 12.58A). This will clarify that the recognition of the income tax consequences of dividends, set out in existing paragraph IAS 12.52B, applies to all income tax consequences of dividends. Without such clarification, there could be an impression that the existing rule in IAS 12.52B refers only to the cases listed in IAS 12.52A, where there are different tax rates for distributed and undistributed profits.

IAS 23 "Borrowing Costs"
IAS 23.14 regulates the determination of borrowing costs eligible for capitalization when a company has borrowed funds generally and used them to obtain a qualifying asset. The proposed amendment now clarifies that, once the asset is ready for its intended use or sale, any outstanding borrowing originally made specifically for that qualifying asset must be treated as part of the funds borrowed generally.

IAS 28 "Investments in Associates and Joint Ventures"
This involves clarification that IFRS 9 "Financial Instruments" applies to all other financial instruments that constitute long-term interests in an associate or joint venture and to which the equity method is not applied. In addition to the rules on classification and measurement, this also involves application of the impairment model pursuant to IFRS 9.

Note: The period for comments ended on 12 April 2017. No effective dates for the proposed amendments to IAS 12 and IAS 23 are set out in ED/2017/1. The amendment to IAS 28 is to take effect to coincide with the first-time adoption of IFRS 9, i.e. as of 1 January 2018.

Exposure draft on IFRS 8 "Operating Segments" published

On 29 March 2017, the IASB published Exposure Draft ED/2017/2, which contains clarifications for the following areas:

- Aggregation criteria for operating segments
- Disclosures required in reconciliation statements
- Definitions of the chief operating decision maker

Other novelties in the Exposure Draft ED/2017/2 relate to disclosures in the notes regarding

- identifying the chief operating decision maker, and
- providing an explanation of the reasons if the reportable segments in the financial statements differ from the segments in other part of the company's reporting.

The background to the exposure draft was the finding, after the post-implementation review of IFRS 8, that overall the standard achieves its objective but that a number of issues could be considered for improvement.

In connection with the proposed amendments to IFRS 8, there are also plans to amend IAS 34 "Interim Financial Reporting" in relation to the composition of a company's reportable segments. The IASB is proposing that, in the first interim report after a change in the composition of a company's reportable segments, the company must present restated segment information for all interim periods both of the current year and of prior years.

Note: The effective date of the amendments has not yet been specified, but early adoption is to be permitted if the amendments to IFRS 8 and IAS 34 are adopted in parallel. The period for comments ended on 31 July 2017.

Published exposure draft on IFRS 9 "Financial Instruments"

On 21 April 2017, the IASB published Exposure Draft ED/2017/3 on amendments to IFRS 9 "Financial Instruments". This exposure draft contains narrow-scope adjustments for the assessment of the classification of financial assets.

The background to the adjustment is that under IFRS 9 certain prepayment options would preclude instruments that otherwise only feature contractual cash flows that are solely payments of principal and interest on the principal amount outstanding from being measured at amortized cost or fair value through other comprehensive income.

Under IFRS 9, a financial asset in the form of a debt instrument must be measured either at amortized cost or at fair value through other comprehensive income. The prerequisite for this measurement is that the cash flows of the asset are solely payments of principal and interest on the principal amount outstanding (SPPI criterion). Assessment of the criterion must also account for contractual terms that lead to a change in the amount or timing of the contractual cash flows.

Based on the current rules in IFRS 9, the SPPI criterion was only fulfilled in the case of prepayment if the prepayment amount substantially represented unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination, payable by the party exercising the option.

The proposed amendments make it possible to measure at amortized cost or at fair value through other comprehensive income even if the party exercising the option receives additional compensation. In such cases, the SPPI criterion must also be fulfilled and the "prepayment feature" should have an insignificant fair value upon initial recognition of the debt instrument.

The IASB intended for the amendments to take effect for annual periods beginning on or after 1 January 2018.

Note: The period for comments ended on 24 May 2017.

IASB publishes exposure draft on IAS 16 "Property, plant and equipment"

On 20 June 2017, the IASB published Exposure Draft ED/2017/4 "Property, Plant and Equipment – Proceeds before Intended Use: Proposed amendments to IAS 16". This exposure draft deals with the accounting for proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended.

The exposure draft proposes to prohibit deducting these proceeds from the cost of an item of property, plant and equipment. Instead, a company should recognize the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The exposure draft does not contain an effective date, as the IASB does not intend to decide on a date until during the discussions. The IASB has concluded that earlier application would be permitted.

In reaction to the exposure draft, EFRAG published a statement on the IASB's proposals. Based on that statement, EFRAG is predominantly supportive of the IASB proposals, but considers the explanation of terms (e.g. "test runs") to be essential.

IFRIC 23 "Uncertainty over Income Tax Treatments" published

On 7 June 2017, the IASB published IFRIC 23 "Uncertainty over Income Tax Treatments" developed by the IFRS Interpretations Committee.

The background to the development of the interpretation was that the Committee found deviations in practice in relation to the recognition and measurement of current income taxes, deferred tax assets and liabilities, as defined in IAS 12.5.

The interpretation provides guidance on taxable profits and losses, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 "Income Taxes".

Note: IFRIC 23 is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

EU Endorsement

EU Endorsement Status Report

The following table contains standards and interpretations that have not yet been adopted by the EU and those that have been adopted since the last edition of novus IFRS (endorsement). These are based on the EU Endorsement Status Report issued by EFRAG on **6 July 2017.**

	IASB entry into force	EU endorsement
Standards		Expected
IFRS 14: Regulatory Deferral Accounts (30 January 2014)	1 January 2016	No endorsement
IFRS 16: Leases (13 January 2016)	1 January 2019	Q4/2017
IFRS 17: Insurance Contracts (18 May 2017)	1 January 2021	Pending
Amendments to standards		
IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (11 September 2014)	Postponed infinitely	Postponed
IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (19 January 2016)	1 January 2017	Q4/2017
IAS 7: Disclosure Initiative (29 January 2016)	1 January 2017	Q4/2017
IFRS 15: Clarification of Revenue from Contracts with Customers (12 April 2016)	1 January 2018	Q4/2017
IFRS 2: Clarification of Classification and Measurement of Share-based Payment Transactions (20 June 2016)	1 January 2018	Q4/2017
IFRS 4: Application of IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts (12 September 2016)	1 January 2018	Q4/2017
Annual Improvements to IFRSs (2014-2016 Cycle): Amendments to IFRS 1, IFRS 12 and IAS 28 (8 December 2016)	1 January 2018 1 January 2017	Q4/2017
IFRIC 22: Foreign Currency Transactions and Advance Consideration (8 December 2016)	1 January 2018	Q4/2017
IAS 40: Classification of Property Under Construction (8 December 2016)	1 January 2018	Q4/2017
IFRIC 23: Uncertainty over Income Tax Treatments (7 June 2017)	1 January 2019	2018

ESMA

ESMA issues report on the application of IFRS 13 "Fair Value Measurement"

On 12 July 2017, ESMA issued the report "Review of Fair Value Measurement in the IFRS financial statements". The report presents the result of reviewing 78 IFRS financial statements in terms of their application of IFRS 13 "Fair Value Measurement" and the corresponding disclosures necessary for European issuers.

The review was based on a sample of IFRS financial statements and focused on the following four topics:
- Fair value measurement disclosures
- Application of the unit of account
- Level of market activity and fair value
- Valuation adjustments for derivatives.

Based on the findings of the review by ESMA, IFRS 13 was generally applied appropriately in the financial statements of the issuers. At the same time, the report highlights the potential for improvement in the application of IFRS 13 and in the comparability thus sought.

The findings from the report are to contribute to the post-implementation review (PIR) of IFRS 13.

ESMA issues Q & A on the Guidelines on Alternative Performance Measures

On 27 January 2017, ESMA (European Securities and Markets Authority) published Questions and Answers (Q & A) on the Guidelines on Alternative Performance Measures issued in June 2015. Listed companies must observe these Guidelines in their financial reporting, in ad hoc notices and/or in prospectuses.

Examples of alternative performance measures are EBIT, EBITDA and ROCE.

The purpose of the newly published Q & A is to promote uniform regulatory approaches and practice in the implementation of these Guidelines.

Note: The Q & A are available on the ESMA website.

ESMA – Enforcement decisions published

The national European enforcers audit the financial statements of companies with securities traded on a regulated market in Europe or in the process of admission to the market. The financial statements are prepared in accordance with the International Financial Reporting Standards (IFRSs) and reviewed to determine the extent to which they comply with the IFRSs and other applicable reporting requirements, including the authoritative national legal requirements

The European Securities and Markets Authority (ESMA) has developed a confidential database of implementation decisions made by the individual European enforcers as a source of information in order to promote the appropriate application of IFRSs and thus provide companies using IFRS and their auditors with insights into the decision-making process of the European enforcers.

The following overview shows the most recent publications (the twentieth so far). The publications are available on the ESMA website.

Standard affected	Overview of matter	Source
IFRS 7	Qualitative disclosures of the risks arising from financial instruments	Decision ref EECS/0216-01
IFRS 12	Disclosure of significant judgements and assumptions in determining the existence of significant influence	Decision ref EECS/0216-02
IAS 36	Disclosures relating to determination of value in use	Decision ref EECS/0216-03
IAS 39	Recognition of losses on loans upon conversion to shares	Decision ref EECS/0216-04
IAS 1	Presentation of equal and opposite gains and losses in the statement of profit or loss and other comprehensive income for the period	Decision ref EECS/0216-05
IAS 8	Reclassification of capitalized milestone payments by a pharmaceutical company to the statement of profit or loss	Decision ref EECS/0216-06
IFRS 10	Legal requirements that prevent a shareholder from exercising its rights	Decision ref EECS/0216-07
IFRS 10	Determining whether an entity is an investment entity	Decision ref EECS/0216-08
IAS16	Depreciation of vessels in the oil and gas industry	Decision ref EECS/0216-09
IAS 8, 36	Application of value in use methodology in impairment testing	Decision ref EECS/0216-10
IAS 36, 37	Recognition of onerous contract provisions	Decision ref EECS/0216-11
IAS 36	Identification of cash-generating units	Decision ref EECS/0216-12
IAS 8, 17, 32, IFRIC 4	Purchase of a car fleet with an agreed buy-back agreement	Decision ref EECS/0216-13
IAS 12	Recognition of deferred tax assets for unused tax losses	Decision ref EECS/0216-14

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
W nexia.com