IFRS Core Tools

IFRS Update of standards and interpretations in issue at 31 March 2017
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>2</td>
</tr>
<tr>
<td><strong>Section 1: New pronouncements issued as at 31 March 2017</strong></td>
<td>4</td>
</tr>
<tr>
<td>Table of mandatory application</td>
<td>4</td>
</tr>
<tr>
<td>IFRS 9 Financial Instruments</td>
<td>5</td>
</tr>
<tr>
<td>IFRS 15 Revenue from Contracts with Customers</td>
<td>6</td>
</tr>
<tr>
<td>IFRS 16 Leases</td>
<td>8</td>
</tr>
<tr>
<td>IAS 7 Disclosure Initiative - Amendments to IAS 7</td>
<td>9</td>
</tr>
<tr>
<td>IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12</td>
<td>9</td>
</tr>
<tr>
<td>IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2</td>
<td>10</td>
</tr>
<tr>
<td>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4</td>
<td>11</td>
</tr>
<tr>
<td>Transfers of Investment Property (Amendments to IAS 40)</td>
<td>12</td>
</tr>
<tr>
<td>IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration</td>
<td>12</td>
</tr>
<tr>
<td>IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28</td>
<td>13</td>
</tr>
<tr>
<td>Improvements to International Financial Reporting Standards</td>
<td>14</td>
</tr>
<tr>
<td><strong>Section 2: Items not taken onto the IFRS Interpretations Committee's agenda in Q1 2017</strong></td>
<td>15</td>
</tr>
<tr>
<td><strong>Section 3: Active IASB projects</strong></td>
<td>20</td>
</tr>
</tbody>
</table>
Companies reporting under International Financial Reporting Standards (IFRS) continue to face a steady flow of new standards and interpretations. The resulting changes range from significant amendments of fundamental principles to some minor changes from the annual improvements process (AIP). They will affect different areas of accounting, such as recognition, measurement, presentation and disclosure.

Some of the changes have implications that go beyond matters of accounting, potentially also impacting the information systems of many entities. Furthermore, the changes may impact business decisions, such as the creation of joint arrangements or the structuring of particular transactions.

The challenge for preparers is to gain an understanding of what lies ahead.

**Purpose of this publication**
This publication provides an overview of the upcoming changes in standards and interpretations (pronouncements). It also provides an update on selected active projects. It does not attempt to provide an in-depth analysis or discussion of the topics. Rather, the objective is to highlight key aspects of these changes. Reference should be made to the text of the pronouncements before taking any decisions or actions.

This publication consists of three sections:

Section 1 provides a high-level overview of the key requirements of each pronouncement issued by the International Accounting Standards Board (IASB or the Board) and the IFRS Interpretations Committee (IFRS IC) as at 31 March 2017 that will be effective for the first-time for reporting periods ended at that date or thereafter. This overview provides a summary of the transitional requirements and a brief discussion of the potential impact that the changes may have on an entity’s financial statements.

A table comparing mandatory application for different year ends is presented at the beginning of Section 1. In the table, the pronouncements are presented in order of their effective dates. Note that many pronouncements contain provisions that would allow entities to adopt in earlier periods.

Following the table, the discussion of the pronouncements follows the order in which the related standards are presented in the IFRS bound volume (Red Book), except for the AIP which are discussed at the end of Section 1.

When a standard or interpretation has been issued, but has yet to be applied by an entity, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors requires the entity to disclose any known (or reasonably estimable) information relevant to understanding the possible impact that the new pronouncement will have on the financial statements, or indicate the reason for not doing so. The table at the beginning of Section 1 is helpful in identifying the pronouncements that fall within the scope of this disclosure requirement.

Section 2 provides a summary of the agenda decisions (rejection notices) published in the IFRIC Update\(^1\) since 1 January 2017. For rejection notices published before 1 January 2017, please refer to previous editions of IFRS Update. In some rejection notices, the IFRS IC refers to the existing pronouncements that provide adequate guidance. These rejection notices provide a view on the application of the pronouncements and fall within ‘other accounting literature and accepted industry practices’ in paragraph 12 of IAS 8.

Section 3 summarises the key features of selected active projects of the IASB. The ‘Key projects’ addressed are those initiated with the objective of issuing new standards and those involving overarching considerations across a number of standards. ‘Other projects’ include proposed amendments with narrower applicability. Generally, only those projects that have reached the exposure draft stage are included, but, in selected cases, significant projects that have not yet reached the exposure draft stage are also highlighted.

---

1 The IFRIC Update is available on the IASB’s website at [http://www.ifrs.org/Updates/IFRIC+Updates/IFRIC+Updates.htm](http://www.ifrs.org/Updates/IFRIC+Updates/IFRIC+Updates.htm).
IFRS Core Tools

EY’s IFRS Core Tools\(^2\) provide the starting point for assessing the impact of changes to IFRS. Our IFRS Core Tools include a number of practical building blocks that can help the user to navigate the changing landscape of IFRS. In addition to IFRS Update, EY’s IFRS Core Tools include the publications described below.

\textbf{International GAAP\textsuperscript{®} Disclosure Checklist}

Our 2017 edition of International GAAP\textsuperscript{®} Disclosure Checklist captures disclosure requirements applicable to periods ended 30 June 2017 or thereafter, and disclosures that are permitted to be adopted early. These disclosure requirements are for all pronouncements issued as at 28 February 2017. This tool assists preparers to comply with the presentation and disclosure requirements of IFRS in their interim and year-end IFRS financial statements. Previous editions of this tool for earlier period-ends are available on EY’s IFRS Core Tools webpage.

\textbf{Good Group (International) Limited}

Good Group (International) Limited is a set of illustrative financial statements, incorporating presentation and disclosure requirements that are in issue as at 31 August 2016 and effective for the year ended 31 December 2016. Good Group (International) Limited – Illustrative interim condensed financial statements for the period ended 30 June 2017, based on IFRS in issue as 28 February 2017, supplements Good Group (International) Limited – Illustrative financial statements. Among other things, these illustrative financial statements can assist in understanding the impact accounting changes may have on the financial statements.

Good Group (International) Limited is supplemented by illustrative financial statements that are aimed at specific sectors, industries and circumstances. These include:

\begin{itemize}
  \item Good Group (International) Limited – Alternative Format
  \item Good First-time Adopter (International) Limited
  \item Good Investment Fund Limited (Equity)
  \item Good Investment Fund Limited (Liability)
  \item Good Real Estate Group (International) Limited
  \item Good Mining (International) Limited
  \item Good Petroleum (International) Limited
  \item Good Insurance (International) Limited
  \item Good Bank (International) Limited
  \item Good Insurance (International) Limited
\end{itemize}

\textbf{Also available from EY:}

\textbf{Other EY publications}

References to other EY publications that contain further details and discussion on these topics are included throughout the IFRS Update, all of which can be downloaded from our website.\(^3\)

\textbf{International GAAP\textsuperscript{®} 2017}\(^4\)

Our International GAAP\textsuperscript{®} 2017 is a comprehensive guide to interpreting and implementing IFRS.\(^5\) It includes pronouncements mentioned in this publication that were issued prior to September 2016, and it provides examples that illustrate how the requirements of those pronouncements are applied.

---


\(^3\) These publications are available on [http://www.ey.com/ifrs](http://www.ey.com/ifrs).

\(^4\) International GAAP\textsuperscript{®} is a registered trademark of Ernst & Young LLP (UK).

**Section 1: New pronouncements issued as at 31 March 2017**

**Table of mandatory application**

<table>
<thead>
<tr>
<th>New pronouncement</th>
<th>Page</th>
<th>Effective Date*</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28</td>
<td>13</td>
<td>Note 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

AIP: Annual IFRS Improvements Process. *Effective for annual periods beginning on or after this date. ** Assuming that an entity has not early adopted the pronouncement according to specific provisions in the standard. *** In April 2016, the IASB issued amendments to IFRS 15 Clarifications to IFRS 15 Revenue from Contracts with Customers. The amendments have the same effective date as IFRS 15, which is 1 January 2018.

Note 1: In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.
**IFRS 9 Financial Instruments**

Effective for annual periods beginning on or after 1 January 2018.

**Key requirements**

Classification and measurement of financial assets
Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held.

There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch.

Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.

Classification and measurement of financial liabilities
For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability’s credit risk would create or enlarge an accounting mismatch in profit or loss.

All other IAS 39 Financial Instruments: Recognition and Measurement classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

Impairment
The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model. The ECL model applies to debt instruments accounted for at amortised cost or at FVOCI, most loan commitments, financial guarantee contracts, contract assets under IFRS 15 Revenue from Contracts with Customers and lease receivables under IAS 17 Leases or IFRS 16 Leases.

Entities are generally required to recognise 12-month ECL on initial recognition (or when the commitment or guarantee was entered into) and thereafter as long as there is no significant deterioration in credit risk. However, if there has been a significant increase in credit risk on an individual or collective basis, then entities are required to recognise lifetime ECL. For trade receivables, a simplified approach may be applied whereby the lifetime ECL are always recognised.

Hedge accounting
Hedge effectiveness testing is prospective, without the 80% to 125% bright line test in IAS 39, and, depending on the hedge complexity, will often be qualitative.

A risk component of a financial or non-financial instrument may be designated as the hedged item if the risk component is separately identifiable and reliably measurable.

The time value of an option, any forward element of a forward contract and any foreign currency basis spread can be excluded from the hedging instrument designation and can be accounted for as costs of hedging.

More designations of groups of items as the hedged item are possible, including layer designations and some net positions.

**Transition**

Early application is permitted for reporting periods beginning after the issue of IFRS 9 on 24 July 2014 by applying all of the requirements in this standard at the same time. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard.

**Impact**

The application of IFRS 9 may change the measurement and presentation of many financial instruments, depending on their contractual cash flows and the business model under which they are held. The impairment requirements will generally result in earlier recognition of credit losses. The new hedging model may lead to more economic hedging strategies meeting the requirements for hedge accounting. It will be important for entities to monitor the discussions of the IFRS Transition Resource Group for Impairment of Financial Instruments (ITG).
Other EY publications
Applying IFRS: IFRS 9 for non-financial entities (March 2016) EYG no. AU3724
The Basel Committee Guidance on credit risk and accounting for expected credit losses (January 2016) EYG no. AU3670
Applying IFRS: ITG discusses IFRS 9 impairment issues at December 2015 ITG meeting (December 2015) EYG no. AU3662
Applying IFRS: Classification of financial instruments under IFRS 9 (May 2015) EYG no. AU3134
Applying IFRS: Impairment of financial instruments under IFRS 9 (December 2014) EYG no. AU2827
Applying IFRS: Hedge accounting under IFRS 9 (February 2014) EYG no. AU2185
IFRS Developments Issue 112: ITG discusses IFRS 9 impairment issues (September 2015)
IFRS Developments Issue 109: Next steps for the accounting for dynamic risk management project (May 2015) EYG no. AU3187
IFRS Developments Issue 105: The ITG discusses IFRS 9 impairment implementation issues (April 2015) EYG no. AU3106
IFRS Developments Issue 100: Basel Committee proposes guidance on accounting for expected credit losses (February 2015) EYG no. AU2891
IFRS Developments Issue 87: IASB issues IFRS 9 Financial Instruments – expected credit losses (July 2014) EYG no. AU2537
IFRS Developments Issue 86: IASB issues IFRS 9 Financial Instruments – classification and measurement (July 2014) EYG no. AU2536

IFRS 15 Revenue from Contracts with Customers
Effective for annual periods beginning on or after 1 January 2018.

Key requirements
IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17 (or IFRS 16 Leases, once applied). Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible assets.

The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 must be applied using a five-step model:
1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation

The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Application guidance is provided in IFRS 15 to assist entities in applying its requirements to certain common arrangements, including licences of intellectual property, warranties, rights of return, principal-versus-agent considerations, options for additional goods or services and breakage.
Clarifications to IFRS 15

In April 2016, the IASB issued amendments to IFRS 15 to address several implementation issues discussed by the Joint Transition Resource Group for Revenue Recognition. As such, the amendments:

- Clarify when a promised good or service is distinct within the context of the contract
- Clarify how to apply the principal versus agent application guidance, including the unit of account for the assessment, how to apply the control principle in service transactions and reframe the indicators
- Clarify when an entity’s activities significantly affect the intellectual property (IP) to which the customer has rights, which is a factor in determining whether the entity recognises revenue for licences over time or at a point in time
- Clarify the scope of the exception for sales-based and usage-based royalties related to licences of IP (the royalty constraint) when there are other promised goods or services in the contract
- Add two practical expedients to the transition requirements of IFRS 15 for: (a) completed contracts under the full retrospective transition approach; and (b) contract modifications at transition

The amendments have an effective date of 1 January 2018, which is the effective date of IFRS 15. Entities are required to apply these amendments retrospectively. The amendments are intended to clarify the requirements in IFRS 15, not to change the standard.

Transition

Entities can choose to apply the standard using either a full retrospective approach or a modified retrospective approach, with some limited relief provided under either approach. Early application is permitted and must be disclosed.

Impact

IFRS 15 is more prescriptive than the current IFRS requirements for revenue recognition and provides more application guidance. The disclosure requirements are also more extensive. The standard will affect entities across all industries. Adoption will be a significant undertaking for most entities with potential changes to their current accounting, systems and processes. Therefore, a successful implementation will require an assessment of and a plan for managing the change.

Other EY publications

Applying IFRS: A closer look at the new revenue recognition standard (Updated September 2016) EYG no. 03083-163Gbl
Applying IFRS: Joint Transition Resource Group for Revenue Recognition items of general agreement (Updated December 2016) EYG No. 04453-163Gbl
Applying IFRS: The new revenue standard affects more than just revenue (February 2015) EYG no. AU2881
IFRS Developments Issue 119: IASB issues clarifications to IFRS 15 (April 2016) EYG No. 00479-163Gbl

Sector publications are also available on ey.com/ifrs covering the following:

- Asset management
- Automotive
- Engineering and construction
- Insurance
- Life sciences
- Mining and metals
- Oil and gas
- Power and utilities
- Real estate
- Retail and consumer products
- Technology
- Software and cloud services
- Telecommunications

---

6 In January 2016, the IASB indicated it did not plan to schedule further meetings of the IFRS constituents of the TRG. The FASB TRG had its last scheduled meeting in November 2016. However, further FASB TRG meetings could be scheduled if the FASB receives enough broadly applicable questions.
IFRS 16 Leases
Effective for annual periods beginning on or after 1 January 2019.

Key requirements
The scope of IFRS 16 includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from today’s accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

Transition
A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard’s transition provisions permit certain reliefs. Early application is permitted, but not before an entity applies IFRS 15.

Impact
The lease expense recognition pattern for lessees will generally be accelerated as compared to today. Key balance sheet metrics such as leverage and finance ratios, debt covenants and income statement metrics, such as earnings before interest, taxes, depreciation and amortisation (EBITDA), could be impacted. Also, the cash flow statement for lessees could be affected as payments for the principal portion of the lease liability will be presented within financing activities. Lessor accounting will result in little change compared to today’s lessor accounting.

The standard requires lessees and lessors to make more extensive disclosures than under IAS 17.

Given the significant accounting implications, lessees will have to carefully consider the contracts they enter into to identify any that are, or contain, leases. This evaluation will also be important for lessors to determine which contracts (or portions of contracts) are subject to the new revenue recognition standard.

Other EY publications
Applying IFRS: A closer look at the new leases standard (August 2016) EYG No. 02173-163Gbl
IFRS Developments Issue 117: IASB issues new leases standard (January 2016) EYG No. AU3676
IFRS Practical Matters: Leases make their way onto the balance sheet - Navigating the journey for a smooth landing (February 2016) EYG No. AU3725

Sector publications are also available on ey.com/ifrs covering the following:

- Consumer products and retail
- Telecommunications
- Financial services
- Real estate
- Mining and metals
- Engineering and construction
- Oilfield services
- Oil and gas
- Tank terminals
IAS 7 Disclosure Initiative – Amendments to IAS 7
Effective for annual periods beginning on or after 1 January 2017.

Key requirements
The amendments to IAS 7 Statement of Cash Flows are part of the IASB’s Disclosure Initiative and help users of financial statements better understand changes in an entity’s debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

Transition
On initial application of the amendment, entities are not required to provide comparative information for preceding periods. Early application is permitted.

Impact
The amendments are intended to provide information to help investors better understand changes in an entity’s debt.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12
Effective for annual periods beginning on or after 1 January 2017.

Key requirements
The IASB issued the amendments to IAS 12 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Transition
Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

Early application is permitted. If an entity applies the amendments for an earlier period, it must disclose that fact.

Impact
The amendments are intended to remove existing divergence in practice in recognising deferred tax assets for unrealised losses.
IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

Effective for annual periods beginning on or after 1 January 2018.

Key requirements
The IASB issued amendments to IFRS 2 Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas:

• The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments.

• The classification of a share-based payment transaction with net settlement features for withholding tax obligations. This amendment adds an exception to address the narrow situation where the net settlement arrangement is designed to meet an entity's obligation under tax laws or regulations to withhold a certain amount in order to meet the employee's tax obligation associated with the share-based payment. This amount is then transferred, normally in cash, to the tax authorities on the employee's behalf. To fulfil this obligation, the terms of the share-based payment arrangement may permit or require the entity to withhold the number of equity instruments that are equal to the monetary value of the employee's tax obligation from the total number of equity instruments that otherwise would have been issued to the employee upon exercise (or vesting) of the share-based payment ('net share settlement feature'). Where transactions meet the criteria, they are not divided into two components but are classified in their entirety as equity-settled share-based payment transactions, if they would have been so classified in the absence of the net share settlement feature.

• The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendment clarifies that, if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. Any difference (whether a debit or a credit) between the carrying amount of the liability derecognised and the amount recognised in equity on the modification date is recognised immediately in profit or loss.

Transition
On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted.

Impact
The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement.

Other EY publications
IFRS Developments Issue 121: IASB issues amendments to IFRS 2 (June 2016) EYG no. 01519-163Gb1
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4

Effective for annual periods beginning on or after 1 January 2018.

**Key requirements**

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

**Temporary exemption from IFRS 9**

The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 Financial Instruments: Recognition and Measurement while they defer the application of IFRS 9 until 1 January 2021 at the latest.

Predominance must be initially assessed at the annual reporting date that immediately precedes 1 April 2016 and before IFRS 9 is implemented. Also the evaluation of predominance can only be reassessed in rare cases. Entities applying the temporary exemption will be required to make additional disclosures.

**The overlay approach**

The overlay approach is an option for entities that adopt IFRS 9 and issue insurance contracts, to adjust profit or loss for eligible financial assets; effectively resulting in IAS 39 accounting for those designated financial assets. The adjustment eliminates accounting volatility that may arise from applying IFRS 9 without the new insurance contracts standard. Under this approach, an entity is permitted to reclassify amounts between profit or loss and other comprehensive income for designated financial assets. An entity must present a separate line item for the amount of the overlay adjustment in profit or loss, as well as a separate line item for the corresponding adjustment in OCI.

**Transition**

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018.

An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9.

**Impact**

The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4.

When using the temporary exemption, entities must still provide the extensive disclosures required in other aspects of IFRS 9.

**Other EY publications**

Insurance Accounting Alert (September 2016) EYG no. 02745-163G6
Transfers of Investment Property (Amendments to IAS 40)

Effective for annual periods beginning on or after 1 January 2018.

Key requirements
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use.

Transition
Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date.

Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight.

Early application of the amendments is permitted and must be disclosed.

Impact
The amendments will eliminate diversity in practice.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

Effective for annual periods beginning on or after 1 January 2018.

Key requirements
The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Transition
Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:
(i) The beginning of the reporting period in which the entity first applies the interpretation
Or
(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Early application of interpretation is permitted and must be disclosed.

First-time adopters of IFRS are also permitted to apply the interpretation prospectively to all assets, expenses and income initially recognised on or after the date of transition to IFRS.

Impact
The amendments are intended to eliminate diversity in practice, when recognising the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration received or paid in foreign currency.
IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. Early application of the amendments is still permitted.

Key requirements

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

Transition

The amendments must be applied prospectively. Early application is permitted and must be disclosed.

Impact

The amendments are intended to eliminate diversity in practice and give preparers a consistent set of principles to apply for such transactions. However, the application of the definition of a business is judgemental and entities need to consider the definition carefully in such transactions.
### Improvements to International Financial Reporting Standards

#### Key requirements

The IASB’s annual improvements process deals with non-urgent, but necessary, clarifications and amendments to IFRS.

#### 2014-2016 cycle (issued in December 2016)

Following is a summary of the amendments from the 2014-2016 annual improvements cycle.

<table>
<thead>
<tr>
<th>Standard</th>
<th>Description</th>
</tr>
</thead>
</table>
| **IFRS 1 First-time Adoption of International Financial Reporting Standards** | Deletion of short-term exemptions for first-time adopters  
- Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose.  
- The amendment is effective from 1 January 2018. |
| **IAS 28 Investments in Associates and Joint Ventures** | Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice  
- The amendments clarify that:  
  - An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.  
  - If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate’s or joint venture’s interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.  
- The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. |
| **IFRS 12 Disclosure of Interests in Other Entities** | Clarification of the scope of the disclosure requirements in IFRS 12  
- The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity’s interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.  
- The amendments are effective from 1 January 2017 and must be applied retrospectively. |
Section 2: Items not taken onto the IFRS Interpretations Committee’s agenda in Q1 2017

Certain items deliberated by the IFRS IC are published within the ‘Interpretations Committee agenda decisions’ section of the IASB’s IFRIC Update. Agenda decisions (also referred to as rejection notices) are issues that the IFRS IC decides not to add to its agenda and include the reasons for not doing so. For some of these items, the IFRS IC includes further information about how the standards should be applied. This guidance does not constitute an interpretation, but rather, provides additional information on the issues raised and the IFRS IC’s views on how the standards and current interpretations are to be applied.

The table below summarises topics that the IFRS IC decided not to take onto its agenda for the period from 1 January 2017 (since our previous edition of IFRS Update) to 31 March 2017 and contains highlights from the agenda decisions. For agenda decisions published before 1 January 2017, please refer to previous editions of IFRS Update. All items considered by the IFRS IC during its meetings, as well as the full text of its conclusions, can be found in the IFRIC Update on the IASB’s website.7

<table>
<thead>
<tr>
<th>Final date considered</th>
<th>Issue</th>
<th>Summary of reasons given for not adding the issue to the IFRS IC’s agenda</th>
</tr>
</thead>
</table>
| March 2017            | IFRS 10 Consolidated Financial Statements—Investment entities and subsidiaries | The IFRS IC received a request regarding the investment entity requirements in IFRS 10, including how an entity applies the requirements in paragraphs 27 and 28 of IFRS 10, and how an investment entity assesses whether it consolidates a subsidiary applying paragraph 32 of IFRS 10 in specified circumstances. The IFRS IC discussed the following questions:  
   a. Does an entity qualify as an investment entity if it possesses all three elements described in paragraph 27 of IFRS 10, but does not have one or more of the typical characteristics of an investment entity listed in paragraph 28 of IFRS 10? (Question a)  
   b. Does an entity provide investment management services to investors (as specified in paragraph 27(a) of IFRS 10) if it outsources the performance of these services to a third party? (Question b)  
   c. To what extent can an investment entity provide investment-related services itself, or through a subsidiary, to third parties? (Question c)  
   d. Does a subsidiary provide services that relate to its parent investment entity’s investment activities (as specified in paragraph 32 of IFRS 10) by holding an investment portfolio as beneficial owner? (Question d)  

---

7 The IFRIC Update is available at http://www.ifrs.org/Updates/IFRIC+Updates/IFRIC+Updates.htm.
Final date considered Issue Summary of reasons given for not adding the issue to the IFRS IC’s agenda

**Question b**
Paragraph 27(a) of IFRS 10 requires an investment entity to provide investors with investment management services. IFRS 10 does not specify how the investment entity must provide these services, and does not preclude it from outsourcing the performance of these services to a third party.

Accordingly, the IFRS IC concluded that an investment entity responsible for providing investment management services to its investors can engage another party to perform some or all of these services on its behalf (i.e., it can outsource the performance of some or all of these services).

**Question c**
Paragraph 27(b) of IFRS 10 requires that the business purpose of an investment entity is to invest solely for capital appreciation, investment income, or both. Paragraph B85C of IFRS 10 says that an investment entity may provide investment-related services, either directly or through a subsidiary, to third parties as well as to its investors (even if those activities are substantial to the entity), subject to the entity continuing to meet the definition of an investment entity.

Accordingly, the IFRS IC concluded that an investment entity may provide investment-related services to third parties, either directly or through a subsidiary, as long as those services are ancillary to its core investing activities and thus do not change the business purpose of the investment entity.

The IFRS IC observed that an investment entity assesses whether the investment management services provided by a subsidiary, including those provided to third parties, relate to the investment entity’s investment activities. If so, the investment entity includes these services when assessing whether the investment entity itself possesses the element of the investment entity definition in paragraph 27(b) of IFRS 10.

The IFRS IC also noted that, applying paragraph 32 of IFRS 10, an investment entity consolidates any non-investment entity subsidiaries whose main purpose and activities are to provide services that are related to the investment entity’s investment activities.

**Question d**
The IFRS IC observed that it had previously discussed a question similar to Question d. At its meeting in March 2014, the IFRS IC issued an agenda decision noting its conclusion that a subsidiary does not provide investment-related services or activities if the subsidiary holds investments for tax optimisation purposes and there is no activity within the subsidiary.

Similarly, the IFRS IC concluded that an investment entity does not consider the holding of investments by a subsidiary as beneficial owner (and recognised in the subsidiary’s financial statements) to be a service that relates to the parent investment entity’s investment activities (as specified in paragraph 32 of IFRS 10).

For all four questions, the IFRS IC concluded that the principles and requirements in IFRS standards provide an adequate basis for an entity to determine the appropriate accounting in each of the specified circumstances.
<table>
<thead>
<tr>
<th>Final date considered</th>
<th>Issue</th>
<th>Summary of reasons given for not adding the issue to the IFRS IC’s agenda</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2017</td>
<td>IAS 12 Income Taxes – Recognition of deferred taxes when acquiring a</td>
<td>The IFRS IC received a submission questioning how, in its consolidated financial</td>
</tr>
<tr>
<td></td>
<td>single-asset entity that is not a business</td>
<td>statements, an entity accounts for a transaction in which it acquires all the</td>
</tr>
<tr>
<td></td>
<td></td>
<td>shares of another entity that has an investment property as its only asset. In</td>
</tr>
<tr>
<td></td>
<td></td>
<td>the fact pattern submitted, the acquiree had recognised in its statement of</td>
</tr>
<tr>
<td></td>
<td></td>
<td>financial position a deferred tax liability arising from measuring the investment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>property at fair value. The amount paid for the shares is less than the fair value</td>
</tr>
<tr>
<td></td>
<td></td>
<td>of the investment property because of the associated deferred tax liability.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The transaction described in the submission does not meet the definition of</td>
</tr>
<tr>
<td></td>
<td></td>
<td>a business combination in IFRS 3 Business Combinations because the acquired</td>
</tr>
<tr>
<td></td>
<td></td>
<td>entity is not a business. The acquirer applies the fair value model in IAS 40.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The submitter asked whether the requirements in paragraph 15(b) of IAS 12</td>
</tr>
<tr>
<td></td>
<td></td>
<td>permit the acquiring entity to recognise a deferred tax liability on initial</td>
</tr>
<tr>
<td></td>
<td></td>
<td>recognition of the transaction. If this is not the case, the submitter asked the</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IFRS IC to consider whether the requirements in paragraph 15(b) of IAS 12</td>
</tr>
<tr>
<td></td>
<td></td>
<td>should be amended so that, in these circumstances, the acquiring entity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>would not recognise a gain on measuring the investment property at fair value</td>
</tr>
<tr>
<td></td>
<td></td>
<td>immediately after initial recognition of the transaction. The Committee noted that:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Because the transaction is not a business combination, paragraph 2(b)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>of IFRS 3 Business Combinations requires the acquiring entity, in its</td>
</tr>
<tr>
<td></td>
<td></td>
<td>consolidated financial statements, to allocate the purchase price to</td>
</tr>
<tr>
<td></td>
<td></td>
<td>the assets acquired and liabilities assumed And</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Paragraph 15(b) of IAS 12 says that an entity does not recognise</td>
</tr>
<tr>
<td></td>
<td></td>
<td>a deferred tax liability for taxable temporary differences that arise from</td>
</tr>
<tr>
<td></td>
<td></td>
<td>the initial recognition of an asset or liability in a transaction that is not</td>
</tr>
<tr>
<td></td>
<td></td>
<td>a business combination and that, at the time of the transaction, affects</td>
</tr>
<tr>
<td></td>
<td></td>
<td>neither accounting profit or loss nor taxable profit (tax loss).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Accordingly, on acquisition, the acquiring entity recognises only the investment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>property and not a deferred tax liability in its consolidated financial statements.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The acquiring entity therefore allocates the entire purchase price to the</td>
</tr>
<tr>
<td></td>
<td></td>
<td>investment property. The IFRS IC concluded that the requirements in IFRS standards provide an</td>
</tr>
<tr>
<td></td>
<td></td>
<td>adequate basis for an entity to determine how to account for the transaction.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The IFRS IC also concluded that any reconsideration of the initial recognition</td>
</tr>
<tr>
<td></td>
<td></td>
<td>exception in paragraph 15(b) of IAS 12 is something that would require a Board-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>level project. Consequently, the IFRS IC decided not to add this matter to its</td>
</tr>
<tr>
<td></td>
<td></td>
<td>standard-setting agenda.</td>
</tr>
<tr>
<td>March 2017</td>
<td>IAS 28 Investments in Associates and Joint Ventures —Fund manager's</td>
<td>The IFRS IC received a request to clarify whether a fund manager assesses</td>
</tr>
<tr>
<td></td>
<td>assessment of significant influence</td>
<td>significant influence over a fund that it manages and in which it has an</td>
</tr>
<tr>
<td></td>
<td></td>
<td>investment, and, if so, how it makes this assessment. In the scenario described</td>
</tr>
<tr>
<td></td>
<td></td>
<td>in the submission, the fund manager applies IFRS 10 and determines that it</td>
</tr>
<tr>
<td></td>
<td></td>
<td>is an agent and thus does not control the fund. The fund manager has also</td>
</tr>
<tr>
<td></td>
<td></td>
<td>concluded that it does not have joint control of the fund. The IFRS IC</td>
</tr>
<tr>
<td></td>
<td></td>
<td>observed that a fund manager assesses whether it has control, joint control</td>
</tr>
<tr>
<td></td>
<td></td>
<td>or significant influence over a fund that it manages applying the relevant</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IFRS standard, which in the case of significant influence is IAS 28.</td>
</tr>
</tbody>
</table>
The IFRS IC noted that, unlike IFRS 10, in the assessment of control, IAS 28 does not address the decision-making authority held in the capacity of an agent in the assessment of significant influence. When it issued IFRS 10, the Board did not change the definition of significant influence, nor any requirements on how to assess significant influence in IAS 28. The IFRS IC concluded that requirements relating to decision-making authority held in the capacity of an agent could not be developed separately from a comprehensive review of the definition of significant influence in IAS 28.

In addition, the IFRS IC observed that paragraph 7(b) of IFRS 12 requires an entity to disclose information about significant judgements and assumptions it has made in determining that it has significant influence over another entity. The examples in paragraph 9 of IFRS 12 clarify that the requirement in paragraph 7(b) of IFRS 12 applies both when an entity has determined that it has significant influence over another entity and when it has determined that it does not.

The IFRS IC concluded that it would be unable to resolve the question asked efficiently within the confines of existing IFRS standards. Consequently, it decided not to add this matter to its standard-setting agenda.

The IFRS IC received a request on how to account for a commodity loan transaction. Specifically, the transaction is one in which a bank borrows gold from a third party (Contract 1) and then lends that gold to a different third party for the same term and for a higher fee (Contract 2). The bank enters into the two contracts in contemplation of each other, but the contracts are not linked, i.e., the bank negotiates the contracts independently of each other. In each contract, the borrower obtains legal title to the gold at inception and has an obligation to return, at the end of the contract, gold of the same quality and quantity as that received. In exchange for the loan of gold, each borrower pays a fee to the respective lender over the term of the contract but there are no cash flows at inception of the contract.

The IFRS IC was asked whether, for the term of the two contracts, the bank that borrows and then lends the gold recognises:

- An asset representing the gold (or the right to receive gold)
- A liability representing the obligation to deliver gold

The IFRS IC observed that the particular transaction in the submission might not be clearly captured within the scope of any IFRS standard. The IFRS IC observed, however, that particular IFRS standards would apply to other transactions involving commodities (e.g., the purchase of commodities for use in an entity’s production process, or the sale of commodities to customers). In the absence of a standard that specifically applies to a transaction, an entity applies paragraphs 10 and 11 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in developing and applying an accounting policy to the transaction. In doing so, paragraph 11 of IAS 8 requires an entity to consider:

- Whether there are requirements in IFRS standards dealing with similar and related issues; and, if not
- How to account for the transaction applying the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Conceptual Framework.
The IFRS IC noted that, applying paragraph 10 of IAS 8, the accounting policy developed must result in information that is (i) relevant to the economic decision-making needs of users of financial statements; and (ii) reliable, i.e., represents faithfully the financial position, financial performance and cash flows of the entity; reflects the economic substance; and is neutral, prudent and complete in all material respects. The IFRS IC observed that, in considering the requirements that deal with similar and related issues, an entity considers all the requirements dealing with those similar and related issues, including relevant disclosure requirements.

The IFRS IC also observed that the requirements in paragraph 112(c) of IAS 1 Presentation of Financial Statements are relevant if an entity develops an accounting policy applying paragraphs 10 and 11 of IAS 8 for a commodity loan transaction such as that described in the submission. In applying these requirements, an entity considers whether additional disclosures are needed to provide information relevant to an understanding of the accounting for, and risks associated with, such commodity loan transactions.

The IFRS IC concluded that it would be unable to resolve the question asked efficiently within the confines of existing IFRS standards. The wide range of transactions involving commodities means that any narrow-scope standard-setting activity would be of limited benefit to entities and would have a high risk of unintended consequences. Consequently, the IFRS IC decided not to add this matter to its standard-setting agenda.
Key projects

Insurance Contracts

Key developments to date

Background

The IASB completed redeliberating its second ED Insurance contracts, issued in June 2013, on a comprehensive method of accounting for insurance contracts. The IASB staff is currently working on the balloting process, and the standard is expected to be issued in the second half of May 2017.

Scope

The standard would apply to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issued them, as well as certain guarantees and financial instrument contracts with discretionary participation features. A few scope exceptions would apply.

Key features

The proposed approach for the measurement of the insurance contract liability is based on the following building blocks approach (also called the general measurement model):

- Expected present value of future cash flows
- A risk adjustment related to the expected present value of cash flows
- A contractual service margin (CSM) that would eliminate any gain at inception of the contract. The CSM would be adjusted subsequently for certain changes in estimates of future cash flows and the risk adjustment
- A discount rate that would be updated at the end of each reporting period. This rate would be based on the principle that the rate must reflect the characteristics of the liability

Insurance contracts are aggregated into groups on the basis of certain criteria. Specifically, contracts issued more than one year apart are included in different groups.

An accounting policy choice would be permitted at a portfolio level to recognise the effect of changes in discount rates in either other comprehensive income or profit or loss.

Certain contracts with participating features would be required to follow a modification of the proposed general measurement model (i.e., the building blocks approach that applies to all other insurance contracts), which is referred to as the variable fee approach. Changes in the estimate of the variable fee, which includes the entity’s share in the investment performance of specified items, are adjusted to the CSM.

Revenue would be reported in the statement of profit or loss through earned premiums representing the insurer’s performance under the contracts in the period for all types of insurance contracts.

The CSM is recognised in profit or loss on the basis of the passage of time.

A simplified approach based on a premium allocation could be applied to the liability for the remaining coverage if contracts meet certain eligibility criteria.

Transition and effective date

The IASB has tentatively decided that the effective date will be 1 January 2021. During redeliberations, the Board decided on a retrospective approach to transition, subject to certain practical reliefs.

Impact

The Board’s tentative decision to make the use of OCI optional is a compromise necessary to complete the insurance contracts project. This will allow entities to reflect the differences that exist in how they run their businesses to fulfil their obligations under their insurance contracts.

Even though the IASB made OCI optional and introduced a variable fee model, the proposed model is expected to have a significant impact on key performance indicators and may still result in increased volatility in equity and profit or loss compared to today’s accounting model.
FASB insurance project
The FASB also published its proposals in June 2013. Subsequently, however, the FASB decided not to issue a new insurance contracts standard. In September 2016, it issued an ED proposing targeted improvements to the accounting for long-duration contracts. The FASB is currently evaluating comments received on these proposals.

Other EY publications
Our Insurance Accounting Alerts provide timely updates on the IASB’s discussion of the project.9

Conceptual Framework

Key developments to date

Background
The objective of the Conceptual Framework project is to improve financial reporting by providing a more complete, clear and updated set of concepts.

To achieve this, the IASB is building on the existing Conceptual Framework, while updating it, improving it and filling in the gaps, instead of fundamentally reconsidering all aspects of the Conceptual Framework.

Scope and key features
The Exposure Draft (ED) that was issued in May 2015 proposes to:

- Revise the definitions of elements in the financial statements
- Include new guidance on the recognition criteria and derecognition principles
- Describe the various measurement bases and factors to consider when selecting an appropriate measurement basis
- Include the principles for when items of income and expense are reported in OCI or profit or loss
- Describe high-level concepts for presentation and disclosure of information

The comment period for the ED ended on 25 November 2015.

The Board is currently deliberating the comments received on the ED. In November 2016, the IASB issued a staff paper, Effect of Board Redeliberations on the Exposure Draft Conceptual Framework for Financial Reporting, that compares the proposals in the ED with the results of the Board’s deliberations up to 15 November 2016. The final version of the Conceptual Framework is expected to be issued in the second half of 2017.

Impact
The proposed changes to the Conceptual Framework may impact the application of IFRS in situations in which no standard applies to a particular transaction or event, or when a standard allows a choice of accounting policies.

Other EY publications
Applying IFRS: IASB issues the Conceptual Framework exposure draft (June 2015) EYG no. AU3242

Disclosure Initiative

Key developments to date

Background
The IASB is undertaking a broad-based initiative to explore how disclosures in IFRS financial reporting can be improved. The Disclosure Initiative is made up of a number of implementation and research projects. In December 2014 and January 2016, amendments to IAS 1 and IAS 7 were issued respectively. The amendments to IAS 7 are summarised in Section 1 of this publication. The other projects forming part of the Disclosure Initiative are described below.

Materiality
The objective of this project is to consider ways to improve the application of the materiality concept. The IASB plans to:

- Provide guidance on making materiality judgements when preparing general purpose financial statements, which will take the form of a non-mandatory Practice Statement
- Publish refinements to the definition of materiality in a separate exposure draft

The ED of a proposed Practice Statement was issued in October 2015. The PS is expected to include guidance in the following areas:

- General characteristics of materiality
- How to make materiality judgements when preparing the financial statements
- Specific topics such as interim reporting, errors, covenants, and prior period information

The IASB is considering the comments received. Both the final Practice Statement and the exposure draft clarifying the definition of materiality are expected to be published in Q2 2017.

Principles of disclosure
The objective of this project is to identify and develop a possible set of principles for disclosure in IFRS that could form the basis of a standard-level project. The research phase focuses on a review of the general requirements in IAS 1 and consider parts of the standard that might be revised or replaced. Topics such as components of financial statements, content of a general disclosure standard, disclosure of accounting policies, and disclosure of non-IFRS information are being explored. The Discussion Paper (DP) was published in March 2017, with comments due by 2 October 2017.

Standards-level review of disclosures
The IASB is planning to carry out a review of existing standards to identify and eliminate redundancies, conflicts, and duplications.

Impact
At this stage of the Disclosure Initiative, the impact of the different projects is unknown. However, the objective is to improve disclosure effectiveness by providing guidance on how to enhance the structure of financial statements, make disclosures entity-specific, and apply the materiality concept.

The amendments to IAS 1 issued in December 2014 generally only clarify existing requirements. However, these clarifications can be effective in steering practice away from making disclosures that contribute to the observed disclosure ineffectiveness. The amendments to IAS 7 issued in January 2016 came as a response to requests from investors for information that helps them better understand changes in an entity’s debt. Similarly, the other projects have the potential to contribute to more tailored and effective disclosures.

Other EY publications
Applying IFRS: Enhancing communication effectiveness (February 2017) EYG no. 000662-173Gbl
IFRS Developments Issue 115: Disclosure Initiative – proposed guidance on materiality (October 2015) EYG no. AU3581
Other projects

The IASB has a number of projects on its work plan to amend existing standards and interpretations for specific matters. Following is a brief summary of selected projects. Refer to the IASB’s website for its work plan, which includes the current status of all projects.

<table>
<thead>
<tr>
<th>Other projects</th>
<th>Status/next steps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Instruments – Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging</td>
<td>• DP issued in April 2014; re-deliberations are ongoing; second discussion paper is expected after Q3 2017</td>
</tr>
<tr>
<td></td>
<td>• The objective of this project is to address the specific accounting for risk management strategies relating to open portfolios rather than individual contracts. The hedge accounting requirements in IAS 39 and IFRS 9 do not provide specific solutions to the issues associated with macro hedging</td>
</tr>
<tr>
<td></td>
<td>• The IASB is focusing initially on the information constituents believe should be required to better reflect entities’ dynamic risk management activities</td>
</tr>
<tr>
<td></td>
<td>• The IASB is expected to consider how constituents’ information needs could be addressed through disclosures before considering the areas that need to be addressed through recognition and measurement. The objective is not to be a disclosure only project</td>
</tr>
<tr>
<td>Classification of Liabilities (Proposed amendments to IAS 1)</td>
<td>• ED issued in Q1 2015; amendments are expected after Q3 2017</td>
</tr>
<tr>
<td></td>
<td>• The proposed amendments to IAS 1 aim to improve presentation in financial statements by clarifying the criteria for the classification of a liability as either current or non-current. The ED proposes to:</td>
</tr>
<tr>
<td></td>
<td>• Clarify that the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period</td>
</tr>
<tr>
<td></td>
<td>• Clarify the link between the settlement of the liability and the outflow of resources from the entity</td>
</tr>
<tr>
<td>Plan Amendment, Curtailment or Settlement/Availability of a Refund (Amendments to IAS 19 and IFRIC 14)</td>
<td>• ED issued in Q2 2015; amendments are expected after Q3 2017</td>
</tr>
<tr>
<td></td>
<td>• The proposed amendments to IAS 19 specify that, in the event of a plan amendment, curtailment or settlement during a reporting period, an entity is required to use updated information to determine current service cost and net interest for the period following such an event</td>
</tr>
<tr>
<td></td>
<td>• The proposed amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction address whether the powers of other parties affect an entity’s right to a refund of a surplus from the plan</td>
</tr>
</tbody>
</table>
**Other projects**

<table>
<thead>
<tr>
<th>Definition of a Business / Previously Held Interests in a Joint Operation (Proposed amendments to IFRS 3 and IFRS 11)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Status/next steps</strong></td>
</tr>
<tr>
<td>- The proposed amendments aim to address issues related to the application of the definition of a business, and also to eliminate diversity in practice in the accounting for previously held interests in the assets and liabilities of a joint operation (JO) in transactions in which an entity obtains control or joint control of a JO that meets the definition of a business. In summary, the ED proposes the following clarifications to the definition of a business:</td>
</tr>
<tr>
<td>- To clarify that to be considered a business, an acquired set of activities and assets (a set) must include, at a minimum, an input and a substantive process that together have the ability to contribute to the creation of outputs</td>
</tr>
<tr>
<td>- To remove the statement that a set of activities and assets is a business if market participants can replace the missing elements and continue to produce outputs</td>
</tr>
<tr>
<td>- To revise the definition of outputs to focus on goods and services provided to customers and to remove the reference to the ability to reduce costs</td>
</tr>
<tr>
<td>- To consider a set of activities and assets not to be a business if, at the transaction date, substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets</td>
</tr>
<tr>
<td>- To add guidance to help determine whether a substantive process has been acquired</td>
</tr>
<tr>
<td>- The ED also proposes to clarify that, when an entity obtains control of a business that is a JO, the entity applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the JO to fair value. However, if an entity obtains joint control of a business that is a JO, or if it increases its interest in a JO over which it already has joint control, then previously held interests in the assets and liabilities of the JO are not remeasured</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Improvements to IFRS 8 Operating Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>- The proposed amendments, which follow on from a Post-implementation Review (PIR) of IFRS 8, include amendments to:</td>
</tr>
<tr>
<td>- Clarify and emphasise the criteria that must be met before two operating segments may be aggregated</td>
</tr>
<tr>
<td>- Require companies to disclose the title and role of the person or group that performs the function of the chief operating decision maker</td>
</tr>
<tr>
<td>- Require companies to provide information in the notes to the financial statements if segments in the financial statements differ from segments reported elsewhere in the annual report and in accompanying materials</td>
</tr>
</tbody>
</table>

**Other projects**

<table>
<thead>
<tr>
<th>Status/next steps</th>
</tr>
</thead>
<tbody>
<tr>
<td>- ED issued in Q2 2016; comments were due by 31 October 2016; a decision on the project’s direction is expected in Q2 2017</td>
</tr>
<tr>
<td>- ED was issued in March 2017; comments are due by 31 July 2017</td>
</tr>
</tbody>
</table>
### Other projects

<table>
<thead>
<tr>
<th>Status/next steps</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The Board has also proposed to amend IAS 34 Interim Financial Reporting to require companies that change their segments to provide restated segment information for prior interim periods earlier than they currently do.</td>
</tr>
</tbody>
</table>

### Annual Improvements to IFRS Standards 2015-2017 Cycle

<table>
<thead>
<tr>
<th>Status/next steps</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The Board issued an exposure draft that contains proposed amendments to IAS 12 Income Taxes, IAS 23 Borrowing Costs and IAS 28 Investments in Associates and Joint Ventures.</td>
</tr>
<tr>
<td>• The proposed amendments to IAS 12 clarify that the requirements of paragraph 52B apply not just to the circumstances described in paragraph 52A, but to all income tax consequences of dividends.</td>
</tr>
<tr>
<td>• The proposed amendments to IAS 23 clarify which borrowing costs are eligible for capitalisation as part of the cost of an asset in particular circumstances.</td>
</tr>
<tr>
<td>• The proposed amendments to IAS 28 clarify that an entity should apply IFRS 9 to long-term interests in an associate or joint venture to which it does not apply the equity method.</td>
</tr>
</tbody>
</table>

* ED was issued in January 2017; comments are due by 12 April 2017; a decision on the project’s direction is expected in Q3 2017
The table below sets out the estimated timeline for the remaining projects on the IASB’s active agenda as at 23 March 2017.

<table>
<thead>
<tr>
<th>IASB projects</th>
<th>Q2 2017</th>
<th>Q3 2017</th>
<th>After Q3 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research projects</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary Financial Statements</td>
<td></td>
<td></td>
<td>Publish discussion paper or exposure draft</td>
</tr>
<tr>
<td>Business Combinations under Common Control</td>
<td></td>
<td></td>
<td>Publish discussion paper</td>
</tr>
<tr>
<td>Financial Instruments with Characteristics of Equity</td>
<td></td>
<td></td>
<td>Publish discussion paper</td>
</tr>
<tr>
<td>Goodwill and Impairment</td>
<td></td>
<td></td>
<td>Decide project direction</td>
</tr>
<tr>
<td>Discount Rates</td>
<td></td>
<td>Publish research summary</td>
<td></td>
</tr>
<tr>
<td>Share-based Payment</td>
<td></td>
<td>Publish research summary</td>
<td></td>
</tr>
<tr>
<td>Standard-setting and related projects</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate-regulated Activities</td>
<td></td>
<td></td>
<td>Publish discussion paper</td>
</tr>
<tr>
<td>Narrow-scope amendments and IFRIC Interpretations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8)</td>
<td></td>
<td>Publish exposure draft</td>
<td></td>
</tr>
<tr>
<td>Property, Plant and Equipment: Proceeds before Intended Use (Proposed amendments to IAS 16)</td>
<td></td>
<td>Publish exposure draft</td>
<td></td>
</tr>
<tr>
<td>Uncertainty over Income Tax Treatments (IFRIC Interpretation)</td>
<td>Issue IFRIC Interpretation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepayment Features with Negative Compensation (Proposed amendments to IFRS 9) (Previously called Symmetric Prepayment Options)</td>
<td></td>
<td>Publish exposure draft</td>
<td></td>
</tr>
<tr>
<td>Post-implementation Reviews</td>
<td>Post-implementation Review of IFRS 13 Fair Value Measurement (Phase 2)</td>
<td>Publish request for information</td>
<td></td>
</tr>
<tr>
<td>Post-implementation Review of IFRSs 10-12 relating to consolidated financial statements and joint arrangements</td>
<td>Initiate post-implementation review</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

This news release has been issued by EYGM Limited, a member of the global EY organization that also does not provide any services to clients.

About EY's International Financial Reporting Standards Group
A global set of accounting standards provides the global economy with one measure to assess and compare the performance of companies. For companies applying or transitioning to International Financial Reporting Standards (IFRS), authoritative and timely guidance is essential as the standards continue to change. The impact stretches beyond accounting and reporting, to key business decisions you make. We have developed extensive global resources – people and knowledge – to support our clients applying IFRS and to help our client teams. Because we understand that you need a tailored service as much as consistent methodologies, we work to give you the benefit of our deep subject matter knowledge, our broad sector experience and the latest insights from our work worldwide.

© 2017 EYGM Limited.
All Rights Reserved.

EYG No. 01609-173Gbl
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com