IFRS Core Tools

IFRS Update of standards and interpretations in issue at 31 December 2017
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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, also potentially 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 December 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 is 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 published in the IFRIC Update1 since 1 October 2017. For agenda decisions published before 1 October 2017, please refer to previous editions of IFRS Update. In some agenda decisions, the IFRS IC refers to the existing pronouncements that provide adequate guidance. These agenda decisions 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.

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IFRS Core Tools

EY’s IFRS Core Tools² 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.

International GAAP® Disclosure Checklist

Our 2017 edition of International GAAP® Disclosure Checklist captures disclosure requirements applicable to periods ended 31 December 2017 or thereafter, and disclosures that are permitted to be adopted early. These disclosure requirements are for all pronouncements issued as at 31 August 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.

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 2017 and effective for the year ended 31 December 2017. Good Group (International) Limited – Illustrative interim condensed financial statements for the period ended 30 June 2017, based on IFRS in issue at 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:

- Good Group (International) Limited – Alternative Format
- Good First-time Adopter (International) Limited
- Good Investment Fund Limited (Equity)
- Good Investment Fund Limited (Liability)
- Good Real Estate Group (International) Limited
- Good Mining (International) Limited
- Good Petroleum (International) Limited
- Good Insurance (International) Limited
- Good Bank (International) Limited
- Good Bank (International) Limited - Illustrative disclosures for IFRS 9 - impairment and transition (New)

Also available from EY:

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

International GAAP® 2018⁴

Our International GAAP® 2018 is a comprehensive guide to interpreting and implementing IFRS.⁵ It includes pronouncements mentioned in this publication that were issued prior to September 2017, and it provides examples that illustrate how the requirements of those pronouncements are applied.

³ These publications are available on http://www.ey.com/ifs.
⁴ International GAAP® is a registered trademark of Ernst & Young LLP (UK).
⁵ http://www.gaap.info.
### Table of mandatory application

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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.

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 measureable.

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).
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 Leases (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 judgement, 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.

In addition, it is important that entities monitor the discussions of the IASB, the US Financial Accounting Standards Board (FASB) and the TRG (including separate discussions of the US GAAP constituents of the TRG).

Other EY publications

Applying IFRS: A closer look at the new revenue recognition standard (Updated October 2017) EYG No. 5860-173 Gbl
Applying IFRS: Presentation and disclosure requirements of IFRS 15 (October 2017) EYG No. 05832-173Gbl
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 126: Are you ready to quantify the effect of adopting IFRS 15? (May 2017) EYG no. 03036-173Gbl

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:

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- Telecommunications
- Financial services
- Real estate
- Mining and metals
- Engineering and construction
- Oilfield services
- Oil and gas
- Tank terminals
IFRS 17 Insurance Contracts
Effective for annual periods beginning on or after 1 January 2021.

Background
In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. In September 2017, the Board established a Transition Resource Group (TRG) for IFRS 17 that will be tasked with analysing implementation-related questions on IFRS 17.

Scope
IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

Key requirements
The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers.

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts

Transition
IFRS 17 is effective for reporting periods starting on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Board decided on a retrospective approach for estimating the CSM on the transition date. However, if full retrospective application, as defined by IAS 8 for a group of insurance contracts, is impracticable, an entity is required to choose one of the following two alternatives:

- Modified retrospective approach - based on reasonable and supportable information available without undue cost and effort to the entity, certain modifications are applied to the extent full retrospective application is not possible, but still with the objective to achieve the closest possible outcome to retrospective application
- Fair value approach - the CSM is determined as the positive difference between the fair value determined in accordance with IFRS 13 Fair Value Measurement and the fulfilment cash flows (any negative difference would be recognised in retained earnings at the transition date)

Both the modified retrospective approach and the fair value approach provide transitional reliefs for determining the grouping of contracts. If an entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it is required to apply the fair value approach.

Impact
IFRS 17, together with IFRS 9, will result in a profound change to the accounting in IFRS financial statements for insurance companies. This will have a significant impact on data, systems and processes used to produce information for financial reporting purposes. The new model is likely to have a significant impact on the profit and total equity of some insurance entities, resulting in increased volatility compared to today’s models. Key performance indicators will also likely be affected.

Other EY publications
Insurance Accounting Alert (May 2017) EYG no. 3253-173Gbl
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 a foreign currency.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments
Effective for annual periods beginning on or after 1 January 2019.

In June 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments which clarifies application of the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments.

**Scope**
The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

**Key requirements**
The interpretation specifically addresses the following:
- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

**Effective date and transition**
The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.

**Impact**
Applying the interpretation could be challenging for entities, particularly those that operate in more complex multinational tax environments. Entities may also need to evaluate whether they have established appropriate processes and procedures to obtain information on a timely basis that is necessary to apply the requirements in the interpretation and make the required disclosures.

**Other EY publications**
Applying IFRS: Uncertainty over income tax treatments (November 2017), EYG no. 06358-173Gbl
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. 01519-163Gbl
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 IFRS 17 Insurance Contracts, which replaces 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 other comprehensive income.

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 applying the temporary exemption, entities must still provide extensive disclosure 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.

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 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures 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.
Prepayment Features with Negative Compensation - Amendments to IFRS 9

Effective for annual periods beginning on or after 1 January 2019.

**Key requirements**

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The basis for conclusions to the amendments clarified that the early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract.

**Transition**

The amendments must be applied retrospectively; earlier application is permitted. The amendment provides specific transition provisions if it is only applied in 2019 rather than in 2018 with the remainder of IFRS 9.

**Impact**

The amendments are intended to apply where the prepayment amount approximates to unpaid amounts of principal and interest plus or minus an amount that reflects the change in a benchmark interest rate. This implies that prepayments at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instrument, will normally satisfy the SPPI criterion only if other elements of the change in fair value, such as the effects of credit risk or liquidity, are small. Most likely, the costs to terminate a ‘plain vanilla’ interest rate swap that is collateralised, so as to minimise the credit risks for the parties to the swap, will meet this requirement.

**Modification or exchange of a financial liability that does not result in derecognition**

In the basis for conclusions to the amendments, the IASB also clarified that the requirements in IFRS 9 for adjusting the amortised cost of a financial liability, when a modification (or exchange) does not result in derecognition, are consistent with those applied to the modification of a financial asset that does not result in derecognition.

This means that the gain or loss arising on modification of a financial liability that does not result in derecognition, calculated by discounting the change in contractual cash flows at the original effective interest rate, is immediately recognised in profit or loss.

The IASB made this comment in the basis for conclusions to the amendments as it believes that the existing requirements in IFRS 9 provided an adequate basis for entities to account for modifications and exchanges of financial liabilities and that no formal amendment to IFRS 9 was needed in respect of this issue.

**Other EY publications**

IFRS Developments Issue 130: IASB issues an Amendment to IFRS 9 (October 2017) EYG no. 05831-173Gbl
Long-term interests in associates and joint ventures - Amendments to IAS 28

Effective for annual periods beginning on or after 1 January 2019.

Key requirements
The amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The Board also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

To illustrate how entities apply the requirements in IAS 28 and IFRS 9 with respect to long-term interests, the Board also published an illustrative example when it issued the amendments.

Transition
Entities must apply the amendments retrospectively, with certain exceptions. Early application of the amendments is permitted and must be disclosed.

Impact
The amendments will eliminate ambiguity in the wording of the standard.

IFRS Practice Statement 2: Making Materiality Judgements
Companies are permitted to apply the guidance in the Practice Statement (PS) to financial statements prepared any time after 14 September 2017.

Purpose
The PS contains non-mandatory guidance to help entities making materiality judgements when preparing general purpose IFRS financial statements. The PS may also help users of financial statements to understand how an entity makes materiality judgements in preparing such financial statements.

Key provisions
The PS comprises guidance in three main areas:

- General characteristics of materiality
- A four-step process that may be applied in making materiality judgements when preparing financial statements. This process describes how an entity could assess whether information is material for the purposes of recognition, measurement, presentation and disclosure.
- How to make materiality judgements in specific circumstances, namely, prior period information, errors and covenants and in the context of interim reporting.

Furthermore, the PS discusses the interaction between the materiality judgements an entity is required to make and local laws and regulations.

The PS includes examples illustrating how an entity might apply the guidance.

Impact
Since the PS is a non-mandatory document, it does not change or introduce any requirements in IFRS. However, the PS provides helpful guidance for entities making materiality judgements and thus may improve the communication effectiveness of financial statements.

Other EY publications
IFRS Developments Issue 129: Disclosure Initiative – updates on the Materiality Project (September 2017) EYG no. 05342-173Gbl
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>IFRS 1 First-time Adoption of International Financial Reporting Standards</th>
<th>Deletion of short-term exemptions for first-time adopters</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose.</td>
</tr>
<tr>
<td></td>
<td>- The amendment is effective from 1 January 2018.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IAS 28 Investments in Associates and Joint Ventures</th>
<th>Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- The amendments clarify that:</td>
</tr>
<tr>
<td></td>
<td>  - 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.</td>
</tr>
<tr>
<td></td>
<td>  - 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.</td>
</tr>
<tr>
<td></td>
<td>  - 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.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IFRS 12 Disclosure of Interests in Other Entities</th>
<th>Clarification of the scope of the disclosure requirements in IFRS 12</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- 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.</td>
</tr>
<tr>
<td></td>
<td>- The amendments are effective from 1 January 2017 and must be applied retrospectively.</td>
</tr>
</tbody>
</table>
IFRS Update of standards and interpretations in issue at 31 December 2017

2015-2017 cycle (issued in December 2017)

Following is a summary of the amendments from the 2015-2017 annual improvements cycle:

<table>
<thead>
<tr>
<th>IFRS 3 Business Combinations</th>
<th>Previously held Interests in a joint operation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value.</td>
</tr>
<tr>
<td></td>
<td>- In doing so, the acquirer remeasures its entire previously held interest in the joint operation.</td>
</tr>
<tr>
<td></td>
<td>- An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IFRS 11 Joint Arrangements</th>
<th>Previously held Interests in a joint operation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.</td>
</tr>
<tr>
<td></td>
<td>- An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IAS 12 Income Taxes</th>
<th>Income tax consequences of payments on financial instruments classified as equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.</td>
</tr>
<tr>
<td></td>
<td>- An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.</td>
</tr>
</tbody>
</table>

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<thead>
<tr>
<th>IAS 23 Borrowing Costs</th>
<th>Borrowing costs eligible for capitalisation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.</td>
</tr>
<tr>
<td></td>
<td>- An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.</td>
</tr>
<tr>
<td></td>
<td>- An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.</td>
</tr>
</tbody>
</table>
Section 2: Items not taken onto the IFRS Interpretations Committee’s agenda in Q4 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 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 October 2017 (since our previous edition of IFRS Update) to 31 December 2017 and contains highlights from the agenda decisions. For agenda decisions published before 1 October 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>
| November 2017         | IFRS 3 Business Combinations - Acquisition of a Group of Assets     | The IFRS IC received a request asking how an entity accounts for the acquisition of a group of assets that does not constitute a business (the group). More specifically, the submitter asked how to allocate the transaction price to the identifiable assets acquired and liabilities assumed when:  
  • The sum of the individual fair values of the identifiable assets and liabilities is different from the transaction price  
  • The group includes identifiable assets and liabilities initially measured both at cost and at an amount other than cost  
Paragraph 2(b) of IFRS 3 requires an entity to do the following on acquisition of a group of assets:  
  • Identify and recognise the individual identifiable assets acquired and liabilities assumed  
  • Allocate the cost of the group to the individual identifiable assets and liabilities based on their relative fair values at the date of the acquisition  
Other IFRS standards include initial measurement requirements for particular assets and liabilities (for example, IFRS 9 Financial Instruments for financial instruments).  
The IFRS IC observed that if an entity initially considers that there might be a difference between the transaction price for the group and the sum of the individual fair values of the identifiable assets and liabilities, the entity first reviews the procedures it has used to determine those individual fair values to assess whether such a difference truly exists before allocating the transaction price.  
The IFRS IC then considered two possible ways of accounting for the acquisition of the group.  
Applying the first approach, an entity accounts for the acquisition of the group, as follows:  
  • Identify the individual identifiable assets acquired and liabilities assumed that it recognises at the date of the acquisition  
  • Determine the individual transaction price for each identifiable asset and liability by allocating the cost of the group based on the relative fair values of those assets and liabilities at the date of the acquisition  

<table>
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<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>
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<tbody>
<tr>
<td></td>
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<td>• Apply the initial measurement requirements in applicable standards to</td>
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<td>each identifiable asset acquired and liability assumed. The entity accounts</td>
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<td>for any difference between the amount at which the asset or liability is</td>
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<td>initially measured and its individual transaction price applying the relevant</td>
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<td></td>
<td>requirements.</td>
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<td></td>
<td>Applying the second approach, for any identifiable asset or liability initially</td>
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<td>measured at an amount other than cost, an entity initially measures that asset</td>
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<td></td>
<td></td>
<td>or liability at the amount specified in the applicable IFRS standard. The entity</td>
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<td>deducts from the transaction price of the group the amounts allocated to the</td>
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<td>assets and liabilities initially measured at an amount other than cost, and then</td>
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<td>allocates the residual transaction price to the remaining identifiable assets and</td>
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<td></td>
<td>liabilities based on their relative fair values at the date of the acquisition.</td>
</tr>
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<td></td>
<td>The IFRS IC concluded that a reasonable reading of the requirements in paragraph 2(b) of IFRS 3 on the acquisition of a group of assets that does not constitute a business results in one of the two approaches outlined in the agenda decision. The IFRS IC observed that an entity would apply its reading of the requirements consistently to all acquisitions of a group of assets that does not constitute a business. An entity would also disclose the selected approach applying paragraphs 117–124 of IAS 1 Presentation of Financial Statements if that disclosure would assist users of financial statements in understanding how those transactions are reflected in reported financial performance and financial position.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The IFRS IC observed that the forthcoming amendment to the definition of a business in IFRS 3 (see page 25) is likely to increase the population of transactions that constitute the acquisition of a group of assets. Accordingly, this matter will be monitored after the forthcoming amendments to IFRS 3 become effective.</td>
</tr>
</tbody>
</table>
The ability to stay current on the IASB’s standard-setting activities is critical in a sea of change. The following pages summarise key features of selected active projects of the IASB, along with potential implications of the proposed standards. The ‘Key projects’ are those initiated with the objective of issuing new standards or that involve 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, projects that have not yet reached the exposure draft stage are also commented on.

**Key projects**

**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 March 2018.

**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.
Better communication in financial reporting

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 Board has identified implementation and research projects that will support better communication.

In December 2014 and January 2016, amendments to IAS 1 and IAS 7 were issued respectively. Furthermore, the IASB released the IFRS Practice Statement 2: Making Materiality Judgement (PS) in September 2017. For further details regarding the PS, please refer to page 17 in Section 1: New pronouncements issued as at 31 December 2017.

In addition, the Better Communication in Financial Reporting initiative comprises the following projects:

Primary financial statements
The project aims to improve the structure and content of the primary financial statements, with a focus on the statement(s) of financial performance.

The Board will continue its discussions and publish either a discussion paper or an exposure draft in the Q2 2018.

Definition of material
In the ED Definition of Material, the IASB proposes amendments to IAS 1 and IAS 8 to clarify the definition of material. The proposed amendments intend to improve the understanding of the existing requirements rather than to significantly impact an entity’s materiality judgements.

Any changes made to the definition of material in IAS 1 and IAS 8 as a result of the proposals in the ED will result in consequential amendments to Practice Statement 2: Making Materiality Judgements and the forthcoming revised Conceptual Framework. Comments are due by 15 January 2018. Exposure Draft Feedback is expected in March 2018.

Principles of disclosure
The objective of this project is to identify and better understand disclosure issues and either develop a set of new disclosure principles, or clarify the existing principles.

The IASB published a Discussion Paper (DP) in March 2017 which focuses on the general disclosure requirements in IAS 1 and concepts being developed in the project to revise the existing Conceptual Framework.

Some specific suggestions in the Discussion Paper include:

- Seven principles of effective communication, which could be included in a general disclosure standard or described in non-mandatory guidance
- Possible approaches to improve disclosure objectives and requirements in IFRS standards
- Principles of fair presentation and disclosure of performance measures and non-IFRS information in financial statements, to ensure that such information is not misleading.

Discussion Paper Feedback is expected in March 2018.

IFRS taxonomy
The Better Communication in Financial Reporting initiative will also consider the IFRS Taxonomy. The Taxonomy enables tagging of electronic financial information and allows computers to identify, read and extract the information. This facilitates analysis and comparison. Users may create tailored reports to meet their information needs.

Impact
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. These projects have the potential to provide clarifications and guidance to help entities prepare more tailored and effective disclosures.

Other EY publications
Applying IFRS: Enhancing communication effectiveness (February 2017) EYG no. 000662-173Gbl
IFRS Developments Issue 129: Disclosure Initiative – Updates on the Materiality Project (September 2017) EYG no. 05342-173Gbl
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><strong>Financial Instruments – Accounting for Dynamic Risk Management</strong></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>• The IASB intends to develop the accounting model for dynamic risk management (DRM) using cash flow hedge mechanics as a starting point in the following two phases:</td>
<td>• The first phase will focus on developing the ‘core areas’ that are central to the model that are comprised of: (i) target profile; (ii) asset profile; (iii) DRM derivative instruments; and (iv) performance assessment and recycling, to shape the fundamentals of the DRM accounting model.</td>
</tr>
<tr>
<td>• The second phase will address non-core areas that are extensions of concepts developed during the first phase.</td>
<td>• The IASB intends to gather external feedback when a core model developed in the first phase before progressing on to the second phase.</td>
</tr>
<tr>
<td><strong>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) and Availability of a Refund (Amendments to IFRIC 14)</strong></td>
<td>• The ED was issued in June 2015.</td>
</tr>
<tr>
<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>
<td>• At the September 2017 meeting, the Board tentatively decided to finalise the amendments to IAS 19 separately from the amendments to IFRIC 14.</td>
</tr>
<tr>
<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>
<td>• The amendments to IAS 19 are expected in January 2018 and the Board tentatively decided to require entities to apply these amendments to annual periods beginning on or after 1 January 2019, with earlier application permitted.</td>
</tr>
<tr>
<td>• In respect of the amendments to IFRIC 14, the Board tentatively decided to perform further work to assess whether it can establish a more principles-based approach for an entity to assess the availability of a refund of a surplus.</td>
<td>• In respect of the amendments to IFRIC 14, the Board tentatively decided to perform further work to assess whether it can establish a more principles-based approach for an entity to assess the availability of a refund of a surplus.</td>
</tr>
<tr>
<td>• The amendments to IFRIC 14 are expected in Q2 2018.</td>
<td>• The amendments to IFRIC 14 are expected in Q2 2018.</td>
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<tr>
<td>Other projects</td>
<td>Status/next steps</td>
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| **Classification of Liabilities (Proposed amendments to IAS 1)** | • The ED was issued in Q1 2015  
• Amendments are expected in H2 2018 |
| • 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:  
  • 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  
  • Clarify the link between the settlement of the liability and the outflow of resources from the entity | |
| **Definition of a Business (Proposed amendments to IFRS 3)** | • The ED was issued in Q2 2016; comments were due by 31 October 2016  
• At its October 2017 meeting; the Board tentatively decided to:  
  • Clarify the description of the screening test as follows:  
    • An entity is permitted, but not required, to carry out the screening test  
    • If the screening test identifies an asset purchase, no further assessment is needed (although the entity is not prohibited from carrying out such further assessment)  
    • If the screening test does not identify an asset purchase, the entity must carry out a further assessment (if the entity elected not to apply the screening test, it must carry out that same assessment)  
  • Remove the proposed Illustrative Example J Acquisition of oil and gas operations  
  • Specify that the gross assets considered in the screening test exclude cash and cash equivalents acquired, and confirm the Board’s tentative decision in April 2017 that those gross assets also exclude:  
    • Goodwill resulting from the effects of deferred tax liabilities  
    • Deferred tax assets  
  • Confirm all the other tentative decisions made at its April and June 2017 meetings. | |
<table>
<thead>
<tr>
<th>Other projects</th>
<th>Status/next steps</th>
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</thead>
</table>
| **Improvements to IFRS 8 Operating Segments (Amendments to IFRS 8 and IAS 34)** | • The proposed amendments, which follow on from a Post-implementation Review (PIR) of IFRS 8, include amendments to:  
  - Clarify and emphasise the criteria that must be met before two operating segments may be aggregated  
  - Require entities to disclose the title and role of the person or group that performs the function of the chief operating decision maker  
  - Require entities 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  
  • The Board has also proposed to amend IAS 34 Interim Financial Reporting to require entities that change their segments to provide restated segment information for prior interim periods earlier than they currently do. |
| **Property, Plant and Equipment—Proceeds before Intended Use (Proposed amendments to IAS 16)** | • The proposed amendments aim to prohibit deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity would recognise the proceeds from selling such items, and the costs of producing those items, in profit or loss. |
| **Post-implementation Review IFRS 13 Fair Value Measurement**                   | • The Board is conducting a Post-implementation Review of IFRS 13 Fair Value Measurement to assess the effect of the standard on financial reporting. The purpose of a post-implementation review is to evaluate whether the standard is working as the Board intended. |
| • The Board also tentatively decided:                                           | • Not to re-expose the amendments to IFRS 3  
  • That the amendments to IFRS 3 should apply for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning or after 1 January 2020, with earlier application permitted  
  • Amendments to IFRS 3 are expected in Q2 2018  
  • The Board discussed a summary of comments on the ED and will decide on the project’s direction at a future meeting  
  • Expected date of decision is January 2018  
  • ED was issued in June 2017; comments were due by 22 September 2017  
  • At its December 2017 meeting, the Board discussed a summary of the feedback  
  • Request for Information (RFI) was issued in June 2017; submissions were due by 22 September 2017  
  • RFI Feedback is expected in January 2018 |
Other projects

<table>
<thead>
<tr>
<th>Status/next steps</th>
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<tr>
<td>The Board has issued a Request for Information that focuses on disclosures about fair value measurements; prioritising Level 1 inputs or the unit of account; application of the concept of the highest and best use when measuring the fair value of non-financial assets; and application of judgement in specific areas. In addition, this RFI also explores whether there is a need for further guidance, such as education material, on measuring the fair value of biological assets and unquoted equity instruments.</td>
</tr>
<tr>
<td>The ED was issued in September 2017; comments are due by 15 January 2018</td>
</tr>
<tr>
<td>ED Feedback is expected in March 2018</td>
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</tbody>
</table>

Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8)

- The IASB issued an exposure draft proposing narrow-scope amendments to IAS 8 that are intended to help companies distinguish accounting policies from accounting estimates.
- This distinction is relevant because IAS 8 contains different requirements for changes in accounting policies and for changes in accounting estimates.
- The proposed amendments explain that an accounting policy is the overall objective and the accounting estimates are inputs used in achieving that objective. Furthermore, the proposed amendments include a definition of accounting estimate and clarify that selecting an estimation technique or valuation technique when an item in the financial statements cannot be measured with precision, constitutes selecting an accounting estimate whereas selecting a cost formula (i.e., first-in, first-out (FIFO) or weighted average cost) in applying IAS 2 Inventories constitutes selecting an accounting policy.
The table below sets out the estimated timeline for the remaining projects on the IASB’s agenda as at the end of December 2017.

<table>
<thead>
<tr>
<th>IASB projects</th>
<th>Next milestone</th>
<th>Expected date</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Research projects</strong></td>
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<tr>
<td>Business Combinations under Common Control</td>
<td>Discussion paper</td>
<td>H2 2018</td>
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<tr>
<td>Financial Instruments with Characteristics of Equity</td>
<td>Discussion paper</td>
<td>Q2 2018</td>
</tr>
<tr>
<td>Goodwill and Impairment</td>
<td>Discussion paper or exposure draft</td>
<td>Q2 2018</td>
</tr>
<tr>
<td>Discount Rates</td>
<td>Research summary</td>
<td>Q2 2018</td>
</tr>
<tr>
<td>Share-based Payment</td>
<td>Research summary</td>
<td>Q2 2018</td>
</tr>
<tr>
<td><strong>Standard-setting and related projects</strong></td>
<td></td>
<td></td>
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<tr>
<td>Rate-regulated Activities</td>
<td>Discussion paper or exposure draft</td>
<td>2019</td>
</tr>
<tr>
<td>Management Commentary</td>
<td>Exposure draft (update of the Management Commentary Practice Statement)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Maintenance projects</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting Policy Changes (Amendments to IAS 8)</td>
<td>Exposure draft</td>
<td>March 2018</td>
</tr>
<tr>
<td>Fees in the ‘10 Per Cent’ Test for Derecognition (Amendments to IFRS 9)</td>
<td>Exposure Draft</td>
<td>-*</td>
</tr>
</tbody>
</table>

*The timing of publication of the proposed amendments depends on the identification of other matters for inclusion in the annual improvements process.
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