IFRS Core Tools

IFRS Update of standards and interpretations in issue at 31 March 2018
Contents

Introduction 2

Section 1: New pronouncements issued as at 31 March 2018 4
Table of mandatory application 4
IFRS 9 Financial Instruments 6
IFRS 15 Revenue from Contracts with Customers 7
IFRS 16 Leases 9
IFRS 17 Insurance Contracts 10
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration 11
IFRIC Interpretation 23 Uncertainty over Income Tax Treatments 11
Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2 12
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 13
Transfers of Investment Property - Amendments to IAS 40 14
Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 14
Prepayment Features with Negative Compensation - Amendments to IFRS 9 15
Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 16
Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 17
IFRS Practice Statement 2: Making Materiality Judgements 17
Conceptual Framework for Financial Reporting 18
Improvements to International Financial Reporting Standards 19

Section 2: Items not taken onto the IFRS Interpretations Committee’s agenda in Q1 2018 21

Section 3: Active IASB projects 34
Introduction

Entities 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 March 2018 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.

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 Update\(^1\) since 1 January 2018. For agenda decisions published before 1 January 2018, 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.

---

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 2018 edition of International GAAP® Disclosure Checklist captures disclosure requirements applicable to periods ended 30 June 2018, and disclosures that are permitted to be adopted early. These disclosure requirements are for all pronouncements issued as at 28 February 2018. 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 2018, based on IFRS in issue at 28 February 2018, 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

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/ifrs.
⁴ International GAAP® is a registered trademark of Ernst & Young LLP (UK).
⁵ http://www.igaap.info.
# Section 1: New pronouncements issued as at 31 March 2018

## 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>New pronouncement</td>
<td>Page</td>
<td>Effective date*</td>
<td>Jan</td>
<td>Feb</td>
<td>Mar</td>
<td>Apr</td>
<td>May</td>
<td>Jun</td>
<td>Jul</td>
<td>Aug</td>
<td>Sep</td>
<td>Oct</td>
<td>Nov</td>
<td>Dec</td>
</tr>
<tr>
<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>-----</td>
<td>-----</td>
<td>-----</td>
</tr>
<tr>
<td>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28</td>
<td>14</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.

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).
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 130: IASB issues an amendment to IFRS 9 (October 2017) EYG No. 05831-173Gbl

IFRS Developments Issue 112: ITG discusses IFRS 9 impairment issues (September 2015) EYG no. AU3429

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 previous 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 are effective for annual periods beginning on or after 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 previous 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). 6

**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:

- Consumer products and retail
- Telecommunications
- Financial services
- Real estate
- Mining and metals
- Engineering and construction
- Oilfield services
- Oil and gas
- Tank terminals

A podcast series covering the determination of discount rates by lessees under IFRS 16 is available on ey.com/ifrs (see Thought center webcasts - Podcasts).
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, 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. 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 relief 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. 3253-173Gb1
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 transaction 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:

- The beginning of the reporting period in which the entity first applies the interpretation
- Or
- 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
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 withheld 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, 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.

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.

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 rest 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
Plan Amendment, Curtailment or Settlement  
- Amendments to IAS 19

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

Key requirements
The amendments to IAS 19 Employee Benefits address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period.

Determining the current service cost and net interest
When accounting for defined benefit plans under IAS 19, the standard generally requires entities to measure the current service cost using actuarial assumptions determined at the start of the annual reporting period. Similarly, the net interest is generally calculated by multiplying the net defined benefit liability (asset) by the discount rate, both as determined at the start of the annual reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

Effect on asset ceiling requirements
A plan amendment, curtailment or settlement may reduce or eliminate a surplus in a defined benefit plan, which may cause the effect of the asset ceiling to change.

The amendments clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

This clarification provides that entities might have to recognise a past service cost, or a gain or loss on settlement, that reduces a surplus that was not recognised before. Changes in the effect of the asset ceiling are not netted with such amounts.

Transition
The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Early application is permitted and should be disclosed.

Impact
As the amendments apply prospectively to plan amendments, curtailments or settlements that occur on or after the date of first application, most entities will likely not be affected by these amendments on transition. However, entities considering a plan amendment, curtailment or settlement after first applying the amendments might be affected.

Other EY publications
IFRS Developments Issue 134: IASB issues amendments to IAS 19 Employee Benefits (February 2018) EYG no. 00183-183Gbl
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
Conceptual Framework for Financial Reporting

Effective immediately for the IASB and the IFRS IC. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

Purpose

The revised Conceptual Framework for Financial Reporting (the Conceptual Framework) is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist the Board in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

Key provisions

The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards.

The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:

- Chapter 1 – The objective of financial reporting
- Chapter 2 – Qualitative characteristics of useful financial information
- Chapter 3 – Financial statements and the reporting entity
- Chapter 4 – The elements of financial statements
- Chapter 5 – Recognition and derecognition
- Chapter 6 – Measurement
- Chapter 7 – Presentation and disclosure
- Chapter 8 – Concepts of capital and capital maintenance

The Conceptual Framework is accompanied by a Basis for Conclusions. The Board has also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the Conceptual Framework. In most cases, the standard references are updated to refer to the Conceptual Framework. There are exemptions in developing accounting policies for regulatory account balances for two standards, namely, IFRS 3 Business Combinations and for those applying IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Impact

The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event.

Other EY publications

Applying IFRS: IASB issues the Conceptual Framework exposure draft (June 2015) EYG no. AU3242
# 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 retroactively 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>
### 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>

<table>
<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 Q1 2018

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 January 2018 (since our previous edition of IFRS Update) to 31 March 2018 and contains highlights from the agenda decisions. For agenda decisions published before 1 January 2018, 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>
| January 2018          | IAS 28 Investments in Associates and Joint Ventures · Contributing property, plant and equipment to an associate | The IFRS IC received a request about how an entity accounts for a transaction in which it contributes property, plant and equipment (PPE) to a newly formed associate in exchange for shares in the associate.
  
In the fact pattern described in the request:
  
  > Three entities, collectively referred to as investors, set up a new entity. The investors are all controlled by the same government, i.e., they are under common control.
  > The investors each contribute items of PPE to the new entity in exchange for shares in that entity. The PPE contributed by the investors is not a business (as defined in IFRS 3).
  > Each investor has significant influence over the new entity. Accordingly, the new entity is an associate of each of the investors. The investors do not have control, or joint control, of the entity.
  > The transaction is carried out on terms equivalent to those that would prevail in an orderly transaction between market participants.
  
The request asked:
  
  > The application of IFRS standards to transactions involving entities under common control (common control transactions), i.e., whether IFRS standards provide a general exception or exemption from applying the requirements in a particular standard to common control transactions (Question A).
  > Whether an investor recognises any gain or loss on contributing PPE to the associate to the extent of other investors’ interests in the associate (Question B).
  > How an investor determines the gain or loss on contributing PPE to the associate and the cost of its investment in the associate. In particular, the request asked whether the cost of each investor’s investment in the associate is based on the fair value of the PPE contributed or the fair value of the acquired interest in the associate (Question C).
  
In analysing the request, the IFRS IC assumed the contribution of PPE to the associate has commercial substance, as described in paragraph 25 of IAS 16 Property, Plant and Equipment.
  
**Question A**
  
Paragraph 7 of IAS 8 requires an entity to apply an IFRS standard to a transaction when that standard applies specifically to the transaction. The IFRS IC observed, therefore, that unless a standard specifically excludes common

---

control transactions from its scope, an entity applies the applicable requirements in the standard to common control transactions.

**Question B**

Paragraph 28 of IAS 28 requires an entity to recognise gains and losses resulting from upstream and downstream transactions with an associate only to the extent of unrelated investors' interests in the associate. Paragraph 28 includes as an example of a downstream transaction, the contribution of assets from an entity to its associate.

The IFRS IC observed that the term ‘unrelated investors’ in paragraph 28 of IAS 28 refers to investors other than the entity (including its consolidated subsidiaries), i.e., the word ‘unrelated’ does not mean the opposite of ‘related’ as it is used in the definition of a related party in IAS 24 Related Party Disclosures. This is consistent with the premise that financial statements are prepared from the perspective of the reporting entity, which in the fact pattern described in the request, is each of the investors.

Accordingly, the IFRS IC concluded that an entity recognises any gain or loss on contributing PPE to an associate to the extent of other investors’ interests in the associate.

**Question C**

This question has an effect only if the fair value of the PPE contributed differs from the fair value of the equity interest in the associate received in exchange for that PPE. The IFRS IC observed that, in the fact pattern described in the request, it would generally expect the fair value of PPE contributed to be the same as the fair value of the equity interest in the associate that an entity receives in exchange. If there is initially any indication that the fair value of the PPE contributed might differ from the fair value of the acquired equity interest, the investor first assesses the reasons for this difference and reviews the procedures and assumptions it has used to determine fair value.

The IFRS IC observed that, applying the requirements in IFRS standards, an entity recognises a gain or loss on contributing PPE and a carrying amount for the investment in the associate that reflects the determination of those amounts based on the fair value of the PPE contributed, unless the transaction provides objective evidence that the entity’s interest in the associate might be impaired. If this is the case, the investor also considers the impairment requirements in IAS 36 Impairment of Assets.

If, having reviewed the procedures and assumptions used to determine fair value, the fair value of the PPE is more than the fair value of the acquired interest in the associate, this would provide objective evidence that the entity’s interest in the associate might be impaired.

For all three questions, the IFRS IC concluded that the principles and requirements in IFRS standards provide an adequate basis for an entity to account for the contribution of PPE to an associate in the fact pattern described in the request.
The IFRS IC received a request about the effect of the consequential amendment that IFRS 9 made to paragraph 82(a) of IAS 1. That consequential amendment requires an entity to present separately, in the profit or loss section of the statement of comprehensive income, or in the statement of profit or loss, interest revenue calculated using the effective interest method. The request asked whether that requirement affects the presentation of fair value gains and losses on derivative instruments that are not part of a designated and effective hedging relationship (applying the hedge accounting requirements in IFRS 9 or IAS 39 Financial Instruments: Recognition and Measurement).

Appendix A to IFRS 9 defines the term ‘effective interest method’ and other related terms. Those interrelated terms pertain to the requirements in IFRS 9 for amortised cost measurement and the expected credit loss impairment model. In relation to financial assets, the IFRS IC observed that the effective interest method is a measurement technique whose purpose is to calculate amortised cost and allocate interest revenue over the relevant time period. The IFRS IC also observed that the expected credit loss impairment model in IFRS 9 is part of, and interlinked with, amortised cost accounting.

The IFRS IC noted that amortised cost accounting, including interest revenue calculated using the effective interest method and credit losses calculated using the expected credit loss impairment model, is applied only to financial assets that are subsequently measured at amortised cost or fair value through other comprehensive income. In contrast, amortised cost accounting is not applied to financial assets that are subsequently measured at fair value through profit or loss.

Consequently, the IFRS IC concluded that the requirement in paragraph 82(a) of IAS 1 to present separately an interest revenue line item calculated using the effective interest method applies only to those assets that are subsequently measured at amortised cost or fair value through other comprehensive income (subject to any effect of a qualifying hedging relationship applying the hedge accounting requirements in IFRS 9 or IAS 39).

The IFRS IC did not consider any other presentation requirements in IAS 1 or broader matters related to the presentation of other ‘interest’ amounts in the statement of comprehensive income. This is because the consequential amendment that IFRS 9 made to paragraph 82(a) of IAS 1 did not affect those matters. More specifically, the IFRS IC did not consider whether an entity could present other interest amounts in the statement of comprehensive income, in addition to presenting the interest revenue line item required by paragraph 82(a) of IAS 1.

The IFRS IC concluded that the principles and requirements in IFRS standards provide an adequate basis for an entity to apply paragraph 82(a) of IAS 1 and present separately, in the profit or loss section of the statement of comprehensive income or in the statement of profit or loss, interest revenue calculated using the effective interest method.
<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 2018            | IFRS 15 Revenue from Contracts with Customers - Revenue recognition in a real estate contract | The IFRS IC received a request about revenue recognition in a contract for the sale of a unit in a residential multi-unit complex. Specifically, the request asked about the application of paragraph 35 of IFRS 15, which specifies when an entity recognises revenue over time.  

**Identifying the contract**

An entity accounts for contracts within the scope of IFRS 15 only when all the criteria in paragraph 9 are met. One of the criteria is that it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. Accordingly, an entity applies the requirements in paragraphs 22-30 and paragraphs 35-37 discussed in this agenda decision only to contracts for which the criteria in paragraph 9 are met.

**Identifying performance obligations in the contract**

Before applying paragraph 35, an entity applies paragraphs 22-30 in identifying as a performance obligation, each promise to transfer to the customer a good or service that is distinct. The IFRS IC has included explanatory information about the application of paragraphs 22-30 to real estate contracts in its agenda decision ‘Revenue Recognition in a Real Estate Contract that Includes the Transfer of Land’ published in March 2018 (refer to page 28).

**Applying paragraph 35 of IFRS 15**

Paragraph 35 specifies that an entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if any one (or more) of the three criteria in paragraph 35 is met. Paragraph 32 states that if an entity does not satisfy a performance obligation over time, it satisfies the performance obligation at a point in time. Accordingly, the IFRS IC observed that, at contract inception for each performance obligation, an entity applies the criteria in paragraph 35 to determine whether it recognises revenue over time.

**Paragraph 35(a)**

Applying paragraph 35(a), an entity recognises revenue over time if the customer simultaneously receives and consumes the benefits provided by the entity’s performance as the entity performs. In a contract for the sale of real estate that the entity constructs, the IFRS IC observed that paragraph 35(a) is not applicable, because the entity’s performance creates an asset, i.e., the real estate is not consumed immediately.

**Paragraph 35(b)**

Applying paragraph 35(b), an entity recognises revenue over time if the customer controls the asset an entity’s performance creates or enhances as the asset is created or enhanced. Control refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

Paragraph BC129 explains that the Board included the criterion in paragraph 35(b) to ‘address situations in which an entity’s performance creates or enhances an asset that a customer clearly controls as the asset is created or enhanced’. Accordingly, the IFRS IC observed that, in applying paragraph 35(b), an entity assesses whether there is evidence that the customer clearly controls the asset that is being created or enhanced (for example, the part-constructed real estate) as it is created or enhanced. An entity considers all relevant factors in making this assessment. No single factor is determinative.
In applying paragraph 35(b), it is important to apply the requirements for control to the asset that the entity’s performance creates or enhances. In a contract for the sale of real estate that the entity constructs, the asset created is the real estate itself. It is not, for example, the right to obtain the real estate in the future. The right to sell or pledge a right to obtain real estate in the future is not evidence of control of the real estate itself.

**Paragraph 35(c)**

Paragraph BC131 explains that the Board developed a third criterion in paragraph 35(c) for recognising revenue over time because it observed that, in some cases, it may be unclear whether the asset that is created or enhanced is controlled by the customer. The underlying objective of the criterion in paragraph 35(c) is to determine whether the entity transfers control of goods or services to the customer as an asset is being created for that customer (paragraph BC143).

Applying paragraph 35(c), an entity recognises revenue over time if:

- The asset created by the entity’s performance does not have an alternative use to the entity

And

- The entity has an enforceable right to payment for performance completed to date

Paragraph 36 specifies that the asset created does not have an alternative use to an entity if the entity is restricted contractually from readily directing the asset for another use during the creation of that asset or limited practically from readily directing the asset in its completed state for another use.

Paragraph 37 states that, to have an enforceable right to payment, at all times throughout the duration of the contract, the entity must be entitled to an amount that at least compensates the entity for performance completed to date if the contract is terminated by the customer or another party for reasons other than the entity’s failure to perform as promised. Paragraph B12 states that, in assessing whether an entity has an enforceable right to payment, the entity considers the contractual terms, as well as any legislation or legal precedent that could supplement or override those contractual terms. This would include an assessment of whether relevant legal precedent indicates that similar rights to payment for performance completed to date in similar contracts have no binding legal effect.

The IFRS IC observed that, although an entity need not undertake an exhaustive search for evidence, it would be inappropriate for an entity to either ignore evidence of relevant legal precedent available to it or anticipate evidence that may or may not become available in the future.

The IFRS IC also observed that the assessment of enforceable rights, as described in paragraph 35(c), is focused on the existence of the right and its enforceability. The likelihood that the entity would exercise the right is not relevant to this assessment. Similarly, if a customer has the right to terminate the contract, the likelihood that the customer would terminate the contract is not relevant to this assessment.
Application of paragraph 35 to the fact pattern in the request

The assessment of whether to recognise revenue over time or at a point in time requires an assessment of the particular facts and circumstances of the contract, taking into account the legal environment within which the contract is enforceable. Accordingly, the outcome of an entity’s assessment depends on the particular facts and circumstances.

In the fact pattern described in the request, the contract includes the following features:

- The real estate developer (entity) and the customer enter into a contract for the sale of a real estate unit in a residential multi-unit complex before the entity constructs the complex.
- The entity’s obligation under the contract is to construct and deliver the real estate unit as specified in the contract – it cannot change or substitute the specified unit. The entity retains legal title to the real estate unit (and any land attributed to it) until the customer has paid the purchase price after construction is complete.
- The customer pays a portion of the purchase price for the real estate unit as the unit is being constructed, and pays the remainder (a majority) after construction is complete.
- The contract gives the customer the right to an undivided interest in the land and the multi-unit complex under construction. The customer cannot cancel the contract, except as noted in ii below, nor can it change the structural design of the complex or the individual unit. The customer can resell or pledge its right to the undivided interest in the land and the complex as the complex is being constructed, subject to the entity performing a credit risk analysis of the new buyer of the right.
- The customer, and the other customers who have agreed to buy real estate units in the multi-unit complex, have the right to together decide to change the structural design of the complex and negotiate such change with the entity.

The request also notes the following:

i. If the entity is in breach of its obligations under the contract, the customer and the other customers have the right to together decide to replace the entity or otherwise stop the construction of the complex.

ii. Although the contract is irrevocable, courts have accepted requests to cancel contracts in particular circumstances, for example, when it has been proven that the customer is not financially able to fulfill the terms of the contract (if, for example, the customer becomes unemployed or has a major illness that affects the customer’s ability to work). In these situations, the contract has been cancelled and the customer has received most, but not all, of the payments it has already made to the entity. The entity has retained the remainder as a termination penalty.

The courts’ acceptance of requests for cancellation provides evidence of legal precedent. This legal precedent is relevant to the assessment of the entity’s enforceable right to payment as described in paragraph 35(c). It is assumed that the evidence of legal precedent is assessed as sufficient to indicate that the entity is not entitled to an amount that at least compensates it for performance completed to date in the event of cancellation for reasons other than the entity’s failure to perform as promised.
<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>

It is also assumed that all the criteria in paragraph 9 are met and that the entity identifies a single performance obligation applying paragraphs 22–30.

The criterion in paragraph 35(a) is not met because the entity’s performance creates an asset that is not consumed immediately.

**Paragraph 35(b)**

The entity’s performance creates the real estate unit under construction. Accordingly, in applying paragraph 35(b) the entity assesses whether, as the unit is being constructed, the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the part-constructed real estate unit. The IFRS IC observed the following:

- Although the customer can resell or pledge its contractual right to the undivided interest in the land and multi-unit complex as the real estate unit is being constructed, it is unable to sell or pledge the part-constructed real estate unit itself before construction is complete.
- The customer has no ability to change the structural design of the real estate unit as the unit is being constructed, nor can it use the part-constructed real estate unit itself in any other way. The customer’s right, together with the other customers, to decide to change the structural design of the complex does not provide the customer with the ability to direct the use of the real estate unit – this is because the customer requires the agreement of the other customers to negotiate changes to the structural design, and thus the customer does not have the ability to make those changes.
- The customer’s right together with the other customers to replace the entity or stop the construction of the complex, only in the event of the entity’s failure to perform as promised, is protective in nature and is not indicative of control.
- The customer’s exposure to changes in the market value of the real estate unit may indicate that the customer has the ability to obtain substantially all of the remaining benefits from the unit. However, it does not give the customer the ability to direct the use of the unit as it is being constructed.

The IFRS IC observed that there is no evidence that the customer has the ability to direct the use of the real estate unit as it is being constructed, and thus the customer does not control the part-constructed unit. Consequently, the criterion in paragraph 35(b) is not met.

In the agenda decision ‘Revenue recognition in a real estate contract that includes the transfer of land’ published in March 2018, the IFRS IC discusses a fact pattern involving the construction of real estate, for which it concludes the criterion in paragraph 35(b) is met.

**Paragraph 35(c)**

The entity cannot change or substitute the real estate unit specified in the contract with the customer and thus, the customer could enforce its rights to the unit if the entity sought to direct the asset for another use. Accordingly, the contractual restriction is substantive and the real estate unit does not have an alternative use to the entity as described in paragraph 35(c).

The entity, however, does not have an enforceable right to payment for performance completed to date as described in paragraph 35(c). This is because, in the fact pattern described in the request, there is relevant legal
<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 2018            | IFRS 15 Revenue from Contracts with Customers · Revenue recognition in a real estate contract that includes the transfer of land | The IFRS IC received a request about revenue recognition in a contract for the sale of land and a building to be constructed on the land. Specifically, the request asked about: (a) the identification of performance obligations in the contract; and (b) for each performance obligation identified, whether the real estate developer (entity) recognises revenue over time or at a point in time. 

**Identifying performance obligations in the contract**

Applying paragraphs 22-30, an entity identifies as a performance obligation each promise to transfer to the customer a good or service (or a bundle of goods or services) that is distinct, or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Paragraph 27 specifies that a good or service promised to a customer is distinct if:

- The customer can benefit from the good or service on its own or together with other resources readily available to the customer (i.e., the good or service is capable of being distinct)

And

- The entity's promise to transfer the good or service is separately identifiable from other promises in the contract (i.e., the promise to transfer the good or service is distinct within the context of the contract)

The assessment of the criteria in paragraph 27 requires judgement.

Paragraph BC100 notes that an entity assesses the criterion in paragraph 27(a) based on the characteristics of the goods or services themselves. Accordingly, an entity disregards any contractual limitations that might preclude the customer from obtaining readily available resources from a source other than the entity.

Paragraph 29 explains that the objective underlying the criterion in paragraph 27(b) is to determine whether the nature of the promise, within the context of the contract, is to transfer each of the promised goods or services individually or, instead, to transfer a combined item to which those goods or services are inputs. Paragraph 29 also specifies some factors that indicate that two or more promises to transfer goods or services are not separately identifiable.
Paragraphs BC105, BC116J and BC116K note that the notion of ‘separately identifiable’ in paragraph 27(b) is influenced by the notion of separable risks (i.e., whether the risk an entity assumes to fulfil its obligation to transfer one of those promised goods or services to the customer is a risk that is inseparable from the risk relating to the transfer of the other promised goods or services). The evaluation of whether an entity’s promise is separately identifiable considers the relationship between the various goods or services within the contract in the context of the process of fulfilling the contract. Therefore, an entity considers the level of integration, interrelation or interdependence among the promises to transfer goods or services. Rather than considering whether one item, by its nature, depends on the other (i.e., whether two items have a functional relationship), an entity evaluates whether there is a transformative relationship between the two items in the process of fulfilling the contract.

**A real estate contract for the transfer of land and a building**

The following paragraphs outline factors an entity considers in assessing whether, for a contract that involves the transfer of land and a building that the entity constructs on the land, the promise to transfer land is a separate performance obligation. The land represents all of the area on which the building will be constructed and the contract is for the entire building. Those paragraphs do not consider whether the entity identifies one or more performance obligations in relation to the transfer of the building.

When assessing the criterion in paragraph 27(a), the entity assesses whether the customer could benefit from the land on its own or together with other resources readily available to it. For example, could the customer hire another developer to construct a building on the land? Similarly, the entity assesses whether the customer could benefit from the construction of the building on its own or together with other resources readily available to it. For example, could the customer obtain the construction services from the entity or another developer without any transfer of land? In a contract for the transfer of an area of land and of an entire building to be constructed on the land, the IFRS IC concluded that the land and the building are each capable of being distinct.

The entity then assesses the criterion in paragraph 27(b) and its underlying objective explained in paragraph 29 (i.e., determining whether the nature of the promise, within the context of the contract, is to transfer the land and the building individually or, instead, to transfer a combined item to which the land and building are inputs).

In assessing the criterion in paragraph 27(b), the IFRS IC observed that the entity considers, among other factors, the following:

- Whether the entity provides a significant service of integrating the land and the building into a combined output, as described in paragraph 29(a) - for example, is there a transformative relationship between the transfer of the land and the construction of the building in the process of fulfilling the contract? Would the entity’s performance in constructing the building be any different if it did not also transfer the land and vice versa? There is a functional relationship between the land and the building - the building cannot exist without the land; its foundations will be built into the land. However, this does not necessarily mean that the risks the entity assumes in transferring the land to the customer are inseparable from the risks it assumes in constructing the building.
Final date considered | Issue | Summary of reasons given for not adding the issue to the IFRS IC’s agenda
--- | --- | ---

- Whether the land and the building are highly interdependent or highly interrelated, as described in paragraph 29(c), for example, would the entity be able to fulfil its promise to transfer the land even if it did not construct the building, and would it be able to fulfil its promise to construct the building even if it did not transfer the land?

The IFRS IC concluded that the promise to transfer the land would be separately identifiable from the promise to construct the building on that land if the entity concluded that: (a) its performance in constructing the building would be the same regardless of whether it also transferred the land; and (b) it would be able to fulfil its promise to construct the building even if it did not also transfer the land and would be able to fulfil its promise to transfer the land even if it did not also construct the building.

In assessing the criterion in paragraph 27(b), paragraph BC116N notes that the factors in paragraph 29 are not intended to be criteria that an entity evaluates independently of the ‘separately identifiable’ principle in paragraph 27(b). In some instances, one or more of the factors may be less relevant to the evaluation of that principle.

**Applying paragraph 35 of IFRS 15**

Paragraph 35 specifies that an entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if any one (or more) of the three criteria in paragraph 35 is met. Paragraph 32 states that if an entity does not satisfy a performance obligation over time, it satisfies the performance obligation at a point in time. Accordingly, the IFRS IC observed that, at contract inception for each performance obligation, an entity applies the criteria in paragraph 35 to determine whether it recognises revenue over time.

The IFRS IC has included explanatory information about the application of paragraph 35 to real estate contracts in its agenda decision, ‘Revenue Recognition in a Real Estate Contract’, published in March 2018 (see page 24 above).

**Application of paragraph 35 to the fact pattern in the request**

The assessment of whether to recognise revenue over time or at a point in time requires an assessment of the particular facts and circumstances of the contract, taking into account the legal environment within which the contract is enforceable. Accordingly, the outcome of an entity’s assessment depends on those particular facts and circumstances.

In the fact pattern described in the request, the contract includes the following features:

- The entity and the customer enter into a non-cancellable contract for the sale of a building yet to be constructed by the entity that will comprise residential units. The contract is for the sale of the entire building.
- At contract inception, the entity irrevocably transfers to the customer legal title to the land on which the entity will construct the building. The contract specifies a price for the land, which the customer pays on signing the contract.
- The entity and the customer agree upon the structural design and specification of the building before the contract is signed. As the building is being constructed:
<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></td>
<td></td>
<td>- If the customer requests changes to the structural design or specification, the entity prices the proposed changes based on a methodology specified in the contract. The customer then decides whether to proceed with the changes. The entity can reject the customer’s request for changes for only a limited number of reasons, such as if the change would breach planning permission.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- The entity can request changes to the structural design or specification only if not doing so would lead to an unreasonable increase in costs or delay to construction. The customer must approve those changes.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- The customer is required to make milestone payments throughout the construction period. However, these payments do not necessarily correspond to the amount of work completed to date.</td>
</tr>
</tbody>
</table>

It is assumed that: (i) all the criteria in paragraph 9 are met; and (ii) the entity identifies two performance obligations applying paragraphs 22-30, a promise to transfer the land to the customer and a promise to construct the building on that land.

**Application of paragraph 35 to the promise to transfer land**

The entity's performance transfers the land to the customer. The land is not consumed immediately and, thus, the criterion in paragraph 35(a) is not met. Nor does the entity’s performance create or enhance the land and, thus, the criteria in paragraphs 35(b) and 35(c) are not met.

Consequently, the entity recognises revenue for the transfer of the land to the customer at a point in time applying paragraph 38 of IFRS 15.

**Application of paragraph 35 to the promise to construct the building**

The criterion in paragraph 35(a) is not met because the entity’s performance creates an asset that is not consumed immediately.

**Paragraph 35(b)**

In assessing the criterion in paragraph 35(b), the entity assesses whether, as the building is being constructed, the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the part-constructed building.

The customer controls the part-constructed building as it is being constructed because the customer has the following:

- The ability to direct the use of the building as it is being constructed. The customer has this ability through its control of the land, and by being able to change the structural design and specification of the building as it is being constructed. The contract also enables the customer to prevent the entity or others from directing the use of the building.
- The ability to obtain substantially all of the remaining economic benefits from the building. The entity cannot redirect the building for another use or to another entity. Accordingly, on signing the contract, the customer has the ability to obtain substantially all of the remaining benefits from the building. The contract also enables the customer to prevent the entity or others from obtaining the benefits from the building.

Accordingly, the criterion in paragraph 35(b) is met. The Board observed in paragraph BC129 that, ‘in the case of a construction contract in which the
entity is building on the customer’s land, the customer generally controls any work in progress arising from the entity’s performance’.

The IFRS IC concluded that the principles and requirements in IFRS 15 provide an adequate basis for an entity to recognise revenue in the fact pattern described in the request.

<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 2018            | IFRS 15 Revenue from Contracts with Customers - Right to payment for performance completed to date | The IFRS IC received a request about whether to recognise revenue over time or at a point in time in relation to a contract for the sale of a unit in a residential multi-unit complex (real estate unit). Specifically, the request asked whether, in the fact pattern described in the request, the real estate developer (entity) has an enforceable right to payment for performance completed to date as described in paragraph 35(c) of IFRS 15.

Applying paragraph 35(c), an entity recognises revenue over time if:
(i) the asset created by an entity’s performance does not have an alternative use to the entity; and (ii) the entity has an enforceable right to payment for performance completed to date. The underlying objective of the criterion in paragraph 35(c) is to determine whether the entity transfers control of goods or services to the customer as an asset is being created for that customer (paragraph BC143).

Paragraph 37 states that, to have an enforceable right to payment, at all times throughout the duration of the contract, the entity must be entitled to an amount that at least compensates the entity for performance completed to date if the contract is terminated by the customer or another party for reasons other than the entity’s failure to perform as promised.

Paragraph B9 states that an amount that would compensate an entity for performance completed to date would be an amount that approximates the selling price of the goods or services transferred to date, rather than compensation for only the entity’s potential loss of profit if the contract were to be terminated.

The IFRS IC observed that it is the payment the entity is entitled to receive under the contract with the customer relating to performance under that contract that is relevant in determining whether the entity has an enforceable right to payment for performance completed to date.

The IFRS IC has also included explanatory information about the application of paragraph 35(c) to real estate contracts in its agenda decision, ‘Revenue Recognition in a Real Estate Contract’, published in March 2018 (see page 24 above).

**Application of paragraph 35(c) to the fact pattern in the request**

The assessment of whether an entity has an enforceable right to payment for performance completed to date requires an entity to consider the risks and obligations created by the contract, taking into account the legal environment within which the contract is enforceable. Accordingly, the IFRS IC observed that the outcome of an entity’s assessment depends on the particular facts and circumstances of the contract.

In the fact pattern described in the request, the contract includes the following features:

- The entity and the customer enter into a contract for the sale of a real estate unit in a residential multi-unit complex before the entity constructs the unit. The entity’s obligation under the contract is to construct and...
Final date considered | Issue | Summary of reasons given for not adding the issue to the IFRS IC’s agenda
---|---|---
deliver the real estate unit as specified in the contract. The entity retains legal title to the real estate unit (and any land attributed to it) until the customer has paid the purchase price after construction is complete.

- The customer pays 10% of the purchase price for the real estate unit at contract inception, and pays the remainder after construction is complete.
- The customer has the right to cancel the contract at any time before construction is complete. If the customer cancels the contract, the entity is legally required to make reasonable efforts to resell the real estate unit to a third party. On resale, the entity enters into a new contract with the third party, i.e., the original contract is not novated to the third party. If the resale price to be obtained from the third party is less than the original purchase price (plus selling costs), the customer is legally obliged to pay the difference to the entity.

It is assumed that the entity identifies a single performance obligation applying paragraphs 22-30. It is also assumed that: (i) the entity has determined that the contract does not meet the criteria in paragraphs 35(a) and 35(b); and (ii) the contract meets the first part of the criterion in paragraph 35(c), because the entity’s performance does not create an asset with an alternative use to the entity.

The IFRS IC observed that the principle in paragraph 31 of IFRS 15 for the recognition of revenue requires the customer to have obtained control of a promised good or service. Accordingly as noted above, the underlying objective of the criterion in paragraph 35(c) is to determine whether the entity is transferring control of goods or services to the customer as an asset is being created for that customer. In line with this objective, it is the payment the entity is entitled to receive under the existing contract with the customer relating to performance under that contract that is relevant in determining whether the entity has an enforceable right to payment for performance completed to date. The consideration received by the entity from the third party in the resale contract is consideration relating to that resale contract. It is not payment for performance under the existing contract with the customer.

In the fact pattern described in the request, the payment to which the entity has a right under the existing contract with the customer is a payment for the difference between the resale price of the unit, if any, and its original purchase price (plus selling costs). That payment does not, at all times throughout the duration of the contract, entitle the entity to an amount that at least approximates the selling price of the part-constructed real estate unit and, thus, it does not compensate the entity for performance completed to date. Accordingly, the entity does not have an enforceable right to payment for performance completed to date as described in paragraph 35(c) of IFRS 15.

Based on the fact pattern described in the request, the IFRS IC concluded that none of the criteria in paragraph 35 of IFRS 15 are met. Accordingly, the entity would recognise revenue at a point in time applying paragraph 38 of IFRS 15.

The IFRS IC concluded that the principles and requirements in IFRS 15 provide an adequate basis for an entity to determine whether it has an enforceable right to payment for performance completed to date.
Section 3: Active IASB projects

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

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, respectively, were issued. Furthermore, the IASB released the IFRS Practice Statement 2: Making Materiality Judgement (the PS) in September 2017. For further details regarding the PS, please refer to page 17 in Section 1: New pronouncements issued as at 31 March 2018.

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 H1 2019.

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 are intended 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 revised Conceptual Framework for Financial Reporting. Comments were due by 15 January 2018. The Exposure Draft Feedback is expected in April 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 (see page 18 above). Some specific suggestions in the DP 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.

Based on the feedback received on the DP, the IASB assessed the relative priority of topics raised in the DP and is currently determining the next steps.

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 currently unknown. However, the objective is to improve disclosure effectiveness by:
- providing guidance on how to enhance the structure of financial statements; making disclosures entity-specific; and applying 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 DP was issued in April 2014; re-deliberations are ongoing; a second discussion paper is expected in 2019.</td>
</tr>
<tr>
<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>
<td></td>
</tr>
<tr>
<td>‣ The second phase will address non-core areas that are extensions of concepts developed during the first phase.</td>
<td></td>
</tr>
<tr>
<td>‣ The IASB intends to gather external feedback on the core model developed in the first phase before progressing on to the second phase.</td>
<td></td>
</tr>
<tr>
<td><strong>Availability of a Refund (Amendments to IFRIC 14)</strong></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>
<tr>
<td>The ED was issued in June 2015.</td>
<td>In September 2017, 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><strong>Classification of Liabilities (Proposed amendments to IAS 1)</strong></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.</td>
</tr>
<tr>
<td>The ED proposes to:</td>
<td>The ED was issued in March 2015.</td>
</tr>
<tr>
<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>
<td>The amendments are expected in H2 2018.</td>
</tr>
<tr>
<td>‣ Clarify the link between the settlement of the liability and the outflow of resources from the entity</td>
<td></td>
</tr>
</tbody>
</table>
Other projects

**Definition of a Business (Proposed amendments to IFRS 3)**

The proposed amendments aim to address issues related to the application of the definition of a business. In summary, the ED proposes the following clarifications to the definition of a business:

- 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.
- 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.
- 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.
- 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 ('screening test').
- To add guidance to help determine whether a substantive process has been acquired.

Status/next steps

- The ED was issued in June 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.
- The Board also tentatively decided:
  - Not to re-expose the amendments to IFRS 3.
  - That the amendments to IFRS 3 should apply 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 2020, with earlier application permitted.
- The amendments to IFRS 3 are expected in June 2018.
**Other projects**

**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 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.

**Status/next steps**
- The ED was issued in March 2017.
- In March 2018, the Board decided that, when taken in aggregate, the proposals would not result in sufficient improvements in information to investors to justify the costs that stakeholders would incur if it were to amend IFRS 8. Consequently, the Board decided not to amend IFRS 8. The Board is monitoring the developments of the Financial Accounting Standards Board project on segment reporting.
- The ED was issued in June 2017.
- At its December 2017 meeting, the Board discussed a summary of the feedback on the ED.
- RFI was issued in June 2017.
- In March 2018, the Board met to:
  - Assess, based on the feedback received, whether IFRS 13 is working as intended
  - Decide whether, as a result of the PIR, it wants to consider performing any follow up work
  - The Board concluded that IFRS 13 is working as intended.
  - The Board also decided to:
    - Feed the PIR findings regarding the usefulness of disclosures into the work on Better Communications in Financial Reporting, in particular, the projects on Principles of Disclosure and Primary Financial Statements.
### Other projects

<table>
<thead>
<tr>
<th>Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8)</th>
<th>Status/next steps</th>
</tr>
</thead>
<tbody>
<tr>
<td>The IASB issued an exposure draft proposing narrow-scope amendments to IAS 8 that are intended to help entities distinguish accounting policies from accounting estimates.</td>
<td>Continue liaising with the valuation profession, monitor new developments in practice and promote knowledge development and sharing. Conduct no other follow-up activities as a result of findings from the PIR (e.g., not to perform any work in the area of prioritising the unit of account or Level 1 inputs because the costs of such work would exceed its benefits). The IASB staff will prepare a Report and Feedback Statement on the PIR.</td>
</tr>
<tr>
<td>This distinction is relevant because IAS 8 contains different requirements for changes in accounting policies and for changes in accounting estimates.</td>
<td></td>
</tr>
<tr>
<td>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.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accounting Policy Changes (Amendments to IAS 8)</th>
<th>Status/next steps</th>
</tr>
</thead>
<tbody>
<tr>
<td>The IASB proposed amendments to IAS 8 to lower the impracticability threshold for retrospective application of voluntary changes in accounting policies that result from agenda decisions. The proposed threshold would include a consideration of the costs and benefits of applying such changes retrospectively.</td>
<td>The ED was issued in September 2017. In March 2018, the Board discussed a summary of comments received and will decide on the project’s direction at a future meeting.</td>
</tr>
<tr>
<td>The proposed amendments aim to promote greater consistency in the application of IFRS standards, reduce the burden on entities when they change an accounting policy as a result of an agenda decision and, thus, improve the overall quality of financial reporting.</td>
<td>The ED was issued in March 2018 and comments are due by 27 July 2018.</td>
</tr>
</tbody>
</table>
The table below sets out the estimated timeline for the remaining projects on the IASB’s agenda as at the end of March 2018.

<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>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Combinations under Common Control</td>
<td>Discussion paper</td>
<td>H1 2019</td>
</tr>
<tr>
<td>Financial Instruments with Characteristics of Equity</td>
<td>Discussion paper</td>
<td>June 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>
</tr>
<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>Fees in the ‘10 Per Cent’ Test for Derecognition (Amendments to IFRS 9)</td>
<td>Exposure Draft</td>
<td>-*</td>
</tr>
<tr>
<td>Subsidiary as a First-time Adopter (IFRS 1)</td>
<td>Exposure Draft</td>
<td>-*</td>
</tr>
<tr>
<td>Taxation in Fair Value Measurements (IAS 1)</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.*
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.

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 the 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.

© 2018 EYGM Limited.
All Rights Reserved.

EYG No. 01857-183Gbl
EY-00060578.indd (UK) 04/18.
Artwork by Creative Services Group London.
ED None

In line with EY’s commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

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