IFRS Core Tools

IFRS Update of standards and interpretations in issue at 30 September 2018
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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 30 September 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 since 1 July 2018. For agenda decisions published before 1 July 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.

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IFRS Core Tools

EY’s IFRS Core Tools² provide the starting point for assessing the impact of changes to IFRS. Our IFRS Core Tools include a number of practical building blocks that can help the user to navigate the changing landscape of IFRS. In addition to IFRS Update, EY’s IFRS Core Tools include the publications described below.

International GAAP® Disclosure Checklist

Our 2018 edition of International GAAP® Disclosure Checklist captures disclosure requirements applicable to periods ended 31 December 2018, and disclosures that are permitted to be adopted early. These disclosure requirements are for all pronouncements issued as at 31 August 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 30 June 2018 and effective for the year ended 31 December 2018. 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.

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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 30 September 2018

### Table of mandatory application

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AIP: Annual IFRS Improvements Process. *Effective for annual periods beginning on or after this date. ** Assuming that an entity has not early adopted the pronouncement according to specific provisions in the standard.

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

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

**Key requirements**

**Classification and measurement of financial assets**

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

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

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

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

**Classification and measurement of financial liabilities**

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

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

**Impairment**

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

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

**Hedge accounting**

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

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

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

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

**Transition**

An entity may choose to continue to apply the hedge accounting requirements of IAS 39. However, even an entity that chooses to apply the IAS 39 hedge accounting model should follow the disclosure requirements for hedging in IFRS 7 that were introduced by IFRS 9.

**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.
Other EY publications

Applying IFRS: Impairment of financial instruments under IFRS 9 (April 2018) EYG no. 01858-183Gbl
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: 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, once effective). 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.

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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: Presentation and disclosure requirements of IFRS 15 (Updated July 2018) EYG No. 010188-18Gbl
Applying IFRS: A closer look at the new revenue recognition standard (Updated October 2017) EYG No. 5860-173Gbl
Applying IFRS: Joint Transition Resource Group for Revenue Recognition items of general agreement (Updated December 2016) EYG No. 04453-163Gbl

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, 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. The TRG met in February, May and September 2018.

Scope

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

Key requirements

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

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

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

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

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

Transition

IFRS 17 is effective for reporting periods starting on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The Board decided on a retrospective approach for estimating the CSM on the transition date. However, if full retrospective application, as defined by IAS 8 for a group of insurance contracts, is impracticable, an entity is required to choose one of the following two alternatives:

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

Both the modified retrospective approach and the fair value approach provide transitional reliefs for determining the grouping of contracts. If an entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it is required to apply the fair value approach.
Impact
IFRS 17, together with IFRS 9, will result in a profound change to the accounting in IFRS financial statements for insurance companies. This will have a significant impact on data, systems and processes used to produce information for financial reporting purposes. The new model is likely to have a significant impact on the profit and total equity of some insurance entities, resulting in increased volatility compared to today’s models. Key performance indicators will also likely be affected.

Other EY publications
Applying IFRS 17: A closer look at the new Insurance Contracts Standard (May 2018) EYG no. 01859-183Gbl
Second technical discussion of the IASB’s IFRS 17 Transition Resource Group (May 2018) EYG no. 02735-183Gbl
First technical discussion of the IASB’s IFRS 17 Transition Resource Group (February 2018) EYG no. 00865-183Gbl
Insurance Accounting Alert (June 2018) EYG no. 03848-183Gbl
Insurance Accounting Alert (May 2017) EYG no. 3253-173Gbl

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
Effective for annual periods beginning on or after 1 January 2018.

Key requirements
The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the 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 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 withhold a certain amount in order to meet the employee's tax obligation associated with the share-based payment. This amount is then transferred, normally in cash, to the tax authorities on the employee's behalf. To fulfil this obligation, the terms of the share-based payment arrangement may permit or require the entity to withhold the number of equity instruments that are equal to the monetary value of the employee's tax obligation from the total number of equity instruments that otherwise would have been issued to the employee upon exercise (or vesting) of the share-based payment ('net share settlement feature'). Where transactions meet the criteria, they are not divided into two components but are classified in their entirety as equity-settled share-based payment transactions, if they would have been so classified in the absence of the net share settlement feature.

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

Transition

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

Impact

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

Other EY publications

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

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

Key requirements
The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17, 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 while they defer the application of IFRS 9 until 1 January 2021 at the latest.

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

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

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

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

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

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

Other EY publications
Insurance Accounting Alert (September 2016) EYG no. 02745-163G6
**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 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, recognised as adjustments to 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.

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**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. 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.
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.

The 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

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

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

Key provisions
The PS comprises guidance in three main areas:

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

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

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

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

Other EY publications
IFRS Developments Issue 129: Disclosure Initiative – updates on the Materiality Project (September 2017) EYG no. 05342-173Gbl
## Improvements to International Financial Reporting Standards

### Key requirements

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

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

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

<table>
<thead>
<tr>
<th>IFRS 1 First-time Adoption of International Financial Reporting Standards</th>
<th>Deletion of short-term exemptions for first-time adopters</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>▶ Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose.</td>
</tr>
<tr>
<td></td>
<td>▶ The amendment is effective from 1 January 2018.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IAS 28 Investments in Associates and Joint Ventures</th>
<th>Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>▶ The amendments clarify that:</td>
</tr>
<tr>
<td></td>
<td>▶ An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.</td>
</tr>
<tr>
<td></td>
<td>▶ If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.</td>
</tr>
<tr>
<td></td>
<td>▶ The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact.</td>
</tr>
</tbody>
</table>
## 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>Standard</th>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 3 Business Combinations</td>
<td>Previously held interests in a joint operation</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. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. 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>
<tr>
<td>IFRS 11 Joint Arrangements</td>
<td>Previously held interests in a joint operation</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. 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>
<tr>
<td>IAS 12 Income Taxes</td>
<td>Income tax consequences of payments on financial instruments classified as equity</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. 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>
<tr>
<td>IAS 23 Borrowing Costs</td>
<td>Borrowing costs eligible for capitalisation</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. 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. 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 Q3 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 July 2018 (since our previous edition of IFRS Update) to 30 September 2018 and contains highlights from the agenda decisions. For agenda decisions published before 1 July 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>
| September 2018        | IAS 23 Borrowing Costs - Expenditures on qualifying asset | The IFRS IC received a request about the amount of borrowing costs eligible for capitalisation when an entity uses general borrowings to obtain a qualifying asset. In the fact pattern described in the request:  
  ▶ An entity constructs a qualifying asset  
  ▶ The entity has no borrowings at the start of the construction of the qualifying asset. Partway through construction, it borrows funds generally and uses them to finance the construction of the qualifying asset  
  ▶ The entity incurs expenditures on the qualifying asset both before and after it incurs borrowing costs on the general borrowings  
  The request asked whether an entity includes expenditures on a qualifying asset incurred before obtaining general borrowings in determining the amount of borrowing costs eligible for capitalisation. The IFRS IC observed that an entity applies paragraph 17 of IAS 23 to determine the commencement date for capitalising borrowing costs. The paragraph requires an entity to begin capitalising borrowing costs when it meets all of the following conditions:  
  ▶ It incurs expenditures for the asset  
  ▶ It incurs borrowing costs  
  ▶ It undertakes activities that are necessary to prepare the asset for its intended use or sale  
  Applying paragraph 17 of IAS 23 to the fact pattern described in the request, the entity would not begin capitalising borrowing costs until it incurs borrowing costs. Once the entity incurs borrowing costs and therefore satisfies all three conditions in paragraph 17 of IAS 23, it then applies paragraph 14 of IAS 23 to determine the expenditures on the qualifying asset to which it applies the capitalisation rate. The IFRS IC observed that in doing so, the entity does not disregard expenditures on the qualifying asset incurred before it obtains the general borrowings. The IFRS IC concluded that the principles and requirements in IFRS standards provide an adequate basis for an entity to determine the amount of borrowing costs eligible for capitalisation in the fact pattern described in the request. |

### September 2018

**Issue**

**IAS 23 Borrowing Costs**
- Borrowing costs on land

**Summary of reasons given for not adding the issue to the IFRS IC’s agenda**

The IFRS IC received a request about when an entity ceases capitalising borrowing costs on land.

In the fact pattern described in the request:

- An entity acquires and develops land and thereafter constructs a building on that land – the land represents the area on which the building will be constructed.
- Both the land and the building meet the definition of a qualifying asset.
- The entity uses general borrowings to fund the expenditures on the land and construction of the building.

The request asked whether the entity ceases capitalising borrowing costs incurred in respect of expenditures on the land (land expenditures) once it starts constructing the building or whether it continues to capitalise borrowing costs incurred in respect of land expenditures while it constructs the building.

The IFRS IC observed that in applying IAS 23 to determine when to cease capitalising borrowing costs incurred on land expenditures:

- An entity considers the intended use of the land. Land and buildings are used for owner-occupation (recognised as property, plant and equipment applying IAS 16 Property, Plant and Equipment); rent or capital appreciation (recognised as investment property applying IAS 40 Investment Property); or for sale (recognised as inventory applying IAS 2 Inventories). The intended use of the land is not simply for the construction of a building on the land, but rather for one of the three purposes listed above.
- Applying paragraph 24 of IAS 23, an entity considers whether the land is capable of being used for its intended purpose while construction continues on the building. If the land is not capable of being used for its intended purpose while construction continues on the building, the entity considers the land and building together to assess when to cease capitalising borrowing costs on the land expenditures. In this situation, the land would not be ready for its intended use or sale until substantially all the activities necessary to prepare both the land and building for that intended use or sale are complete.

The IFRS IC concluded that the principles and requirements in IFRS standards provide an adequate basis for an entity to determine when to cease capitalising borrowing costs on land expenditures.

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### September 2018

**Issue**

**IAS 21 The Effects of Changes in Exchange Rates**
- Determination of the exchange rate when there is a long-term lack of exchangeability

**Summary of reasons given for not adding the issue to the IFRS IC’s agenda**

The IFRS IC considered the determination of the exchange rate an entity uses to translate the results and financial position of a foreign operation into its presentation currency applying IAS 21. The IFRS IC considered this matter in the following circumstances:

a) The exchangeability of the foreign operation’s functional currency with other currencies is administered by jurisdictional authorities. This exchange mechanism incorporates the use of an exchange rate(s) set by the authorities (official exchange rate(s)).

b) The foreign operation’s functional currency is subject to a long-term lack of exchangeability with other currencies, i.e., the exchangeability is not temporarily lacking as described in paragraph 26 of IAS 21; it has not been restored after the end of the reporting period.
c) The lack of exchangeability with other currencies has resulted in the foreign operation being unable to access foreign currencies using the exchange mechanism described in (a) above.

The IFRS IC observed that those circumstances currently exist in Venezuela. The IFRS IC discussed whether, in those circumstances, an entity is required to use an official exchange rate in applying IAS 21.

The IFRS IC observed that an entity translates the results and financial position of a foreign operation into its presentation currency applying the requirements in paragraphs 39 and 42 of IAS 21. These paragraphs require an entity to translate:

- The assets and liabilities of the foreign operation at the closing rate
- Income and expenses of the foreign operation at the exchange rates at the dates of the transactions if the functional currency of the foreign operation is not the currency of a hyperinflationary economy, or otherwise at the closing rate

**The closing rate and the rates at the dates of the transactions**

Paragraph 8 of IAS 21 defines: (a) the 'closing rate' as the spot exchange rate at the end of the reporting period; and (b) the 'spot exchange rate' as the exchange rate for immediate delivery. In the light of those definitions, the IFRS IC concluded that the closing rate is the rate to which an entity would have access at the end of the reporting period through a legal exchange mechanism.

Accordingly, the IFRS IC observed that, in the circumstances described above, an entity assesses whether the official exchange rate(s) meets the definition of the closing rate, i.e., is it the rate to which the entity would have access at the end of the reporting period? Similarly, if the foreign operation’s functional currency is not the currency of a hyperinflationary economy, the entity also assesses whether the official exchange rate(s) represents the exchange rates at the dates of the transactions in applying paragraph 39(b) of IAS 21.

**Continuous assessment of facts and circumstances**

In the circumstances described above, economic conditions are, in general, constantly evolving. Therefore, the IFRS IC highlighted the importance of reassessing at each reporting date whether the official exchange rate(s) meets the definition of the closing rate and, if applicable, the exchange rates at the dates of the transactions.

**Disclosure requirements**

An entity is required to provide information that is relevant to an understanding of an entity’s financial statements (paragraph 112 of IAS 1 *Presentation of Financial Statements*). The IFRS IC highlighted the importance of disclosing relevant information in the circumstances described above. In particular, the IFRS IC observed that the following disclosure requirements may be relevant to an understanding of an entity’s financial statements:

- Significant accounting policies, and judgements made in applying those policies that have the most significant effect on the amounts recognised in the financial statements (paragraphs 117–124 of IAS 1)
<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>September 2018</td>
<td>IFRS 9 Financial Instruments – Classification of a particular type of dual currency bond</td>
<td>The IFRS IC received a request about how a holder would classify a particular financial asset applying IFRS 9. The submitter described a ‘dual currency bond’ with a par amount denominated in one currency and fixed interest coupon payments denominated in another currency. The fixed interest payments are paid annually and the par amount is repaid at a stated maturity date. The submitter asked whether such a financial instrument has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding applying paragraphs 4.1.2(b) and 4.1.2A(b) of IFRS 9. On the basis of the responses to outreach performed on the request and those received in comment letters, the IFRS IC observed that the financial instrument described in the request is not common. Therefore, the IFRS IC has not obtained evidence that the matter has widespread effect.</td>
</tr>
</tbody>
</table>

- Sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, which may include sensitivity analysis (paragraphs 125–133 of IAS 1)

- The nature and extent of significant restrictions on an entity’s ability to access or use assets and settle liabilities of the group, or in relation to its joint ventures or associates (paragraphs 10, 13, 20 and 22 of IFRS 12 Disclosures of Interests in Other Entities)

The IFRS IC concluded that the principles and requirements in IFRS standards provide an adequate basis for an entity to assess whether, in the circumstances described above, it uses the official exchange rate(s) to translate into its presentation currency the results and financial position of a foreign operation.
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 19 in Section 1: *New pronouncements issued as at 30 June 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 Exposure Draft (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 the PS and the revised *Conceptual Framework for Financial Reporting*. The final amendments are expected to be issued in November 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 for Financial Reporting* (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.

The IASB is considering the feedback received on the DP. It has tentatively decided to consider the feedback received on topics relating to presentation, roles of primary financial statements and management performance measures within the primary financial statements project. It has also tentatively decided not to pursue the topics about formatting and location of accounting policy disclosures and has asked the staff to perform further analysis on the remaining topics. The IASB staff is also exploring whether and how to consider the effect of technology and digital reporting.

**Targeted standards-level review of disclosures**

The IASB has added a separate project to develop guidance to help improve the way the Board drafts disclosure requirements in IFRS standards and perform a targeted standards-level review of disclosure requirements.
**Accounting policies**
The IASB is developing guidance and examples to help entities apply materiality judgements to accounting policy disclosures. This guidance is being developed for inclusion in the Practice Statement.

**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>Financial Instruments – Accounting for Dynamic Risk Management</td>
<td>▶ As of September 2018, re-deliberations are ongoing. A discussion paper is expected in 2019.</td>
</tr>
<tr>
<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>
<td>▶ Key aspects of core DRM model that the IASB has tentatively decided as of September 2018 are:</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 model applies to the asset profile and target profile that meet the qualifying criteria on a portfolio (or percentage of portfolio) basis, consistently with the entity’s risk management policies and procedures.</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 (liability side); (ii) asset profile; (iii) DRM derivative instruments; and (iv) performance assessment and recycling, to shape the fundamentals of the DRM accounting model.</td>
<td>▶ Core demand deposits could be included in the target profile, with certain conditions. Highly probable forecast transactions could also be eligible for inclusion in the asset profile and target profile (e.g., refinancing).</td>
</tr>
<tr>
<td>▶ The second phase will address non-core areas that are extensions of concepts developed during the first phase.</td>
<td>▶ Designation and formal documentation will be required.</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>▶ Changes to designated portfolios resulting in updates to the asset profile or target profile should not represent a designation or a de-designation event, but, instead, a continuation of the existing relationship.</td>
</tr>
<tr>
<td>▶ Entities should measure imperfect alignment on an on-going basis. Imperfect alignment may result in volatility in the profit or loss.</td>
<td></td>
</tr>
</tbody>
</table>

Availability of a Refund (Amendments to IFRIC 14)
▶ 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.
▶ The ED was issued in June 2015.
▶ 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.
▶ In June 2018, the Board received an update on the work performed on the proposed amendments to IFRIC 14 and discussed the next steps for the project.
<table>
<thead>
<tr>
<th>Other projects</th>
<th>Status/next steps</th>
</tr>
</thead>
</table>
| **Classification of Liabilities (Proposed amendments to IAS 1)** | ▶ The ED was issued in March 2015.  
▶ In September 2018, the Board resumed discussions on the proposed amendments. The Board will continue its discussions at a future meeting. |
<p>| ▶ The proposed amendments to IAS 1 aim to improve presentation in financial statements by clarifying the criteria for the classification of a liability as either current or non-current. | |
| ▶ The ED proposes to: | |
| ▶ Clarify that the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period | |
| ▶ Clarify the link between the settlement of the liability and the outflow of resources from the entity | |
| <strong>Definition of a Business (Proposed amendments to IFRS 3)</strong> | |
| ▶ 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 | |
| ▶ The ED was issued in June 2016. | |
| ▶ In October 2017, 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 | |</p>
<table>
<thead>
<tr>
<th>Other projects</th>
<th>Status/next steps</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Other projects</strong></td>
<td>▶ The Board also tentatively decided:</td>
</tr>
<tr>
<td></td>
<td>▶ Not to re-expose the amendments to IFRS 3</td>
</tr>
<tr>
<td></td>
<td>▶ 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</td>
</tr>
<tr>
<td></td>
<td>▶ The amendments to IFRS 3 are expected in October 2018.</td>
</tr>
</tbody>
</table>

*Improvements to IFRS 8 Operating Segments (Amendments to IFRS 8 and IAS 34)*

- The proposed amendments, which follow on from a Post-implementation Review (PIR) of IFRS 8, include amendments to:
  - Clarify and emphasise the criteria that must be met before two operating segments may be aggregated
  - Require entities to disclose the title and role of the person or group that performs the function of the chief operating decision maker
  - Require entities to provide information in the notes to the financial statements if segments in the financial statements differ from segments reported elsewhere in the annual report and in accompanying materials
- The Board has also proposed to amend IAS 34 *Interim Financial Reporting* to require entities that change their segments to provide restated segment information for prior interim periods earlier than they currently do.

- 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 IASB staff will prepare a summary of the feedback and the Board’s response in December 2018.

*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.

- The ED was issued in June 2017.
- In December 2017, the Board discussed a summary of the feedback on the ED.
- In June 2018, the IFRS IC provided advice on the staff’s analysis of feedback on, and the next steps for, the ED.
**Other projects**

### 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 (RFI) 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.

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

- The IASB issued an ED proposing narrow-scope amendments to IAS 8 that are intended to help entities distinguish accounting policies from accounting estimates.
- This distinction is relevant because IAS 8 contains different requirements for changes in accounting policies and for changes in accounting estimates.
- The proposed amendments explain that an accounting policy is the overall objective and the accounting estimates are inputs used in achieving that objective. Furthermore, the proposed amendments include a definition of accounting estimates 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.

### Status/next steps

- 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 wanted 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 the Better Communications in Financial Reporting project, in particular, the projects on Principles of Disclosure and Primary Financial Statements.
  - 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 in December 2018.
- The ED was issued in September 2017.
- In March 2018, the Board discussed a summary of comments received on the ED.
- In September 2018, the IFRS IC provided advice on the staff’s analysis of feedback on, and next steps for, the ED.
- The Board will decide on the project direction in October 2018.
<table>
<thead>
<tr>
<th>Other projects</th>
<th>Status/next steps</th>
</tr>
</thead>
</table>
| **Accounting Policy Changes (Amendments to IAS 8)** | ▶ The ED was issued in March 2018.  
▶ The Board will discuss the summary of the feedback received in December 2018. |
| ▶ 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.  
▶ 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. | |
| **Financial Instruments with Characteristics of Equity** | ▶ The DP was issued in June 2018 and is open for comment until 7 January 2019. |
| ▶ The objective of the project is to improve the information that entities provide in their financial statements about financial instruments they have issued and also to address challenges with applying IAS 32 *Financial Instruments: Presentation* in practice.  
▶ The focus of the project is on the classification of financial liabilities and equity instruments from the perspective of the issuer (entity). The requirements in IFRS 9 for the accounting by the holder of financial assets are therefore outside the scope of the project.  
▶ The IASB issued a Discussion Paper *Financial Instruments with Characteristics of Equity* that sets out principles for the classification of financial instruments as either financial liabilities or equity instruments with a clear rationale, but without fundamentally changing the existing classification outcomes of IAS 32. It is designed to improve the consistency, completeness and clarity of the requirements for classification, while also enhancing the information provided through presentation and disclosure about features of financial liabilities and equity instruments that are not captured by classification alone. | |
The table below sets out the estimated timeline for the remaining projects on the IASB’s agenda as at the end of September 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>H2 2019</td>
</tr>
<tr>
<td>Discount Rates</td>
<td>Project Summary</td>
<td>December 2018</td>
</tr>
<tr>
<td>Extractive Activities</td>
<td>Review Research</td>
<td>-</td>
</tr>
<tr>
<td>Goodwill and Impairment</td>
<td>Discussion Paper or Exposure Draft</td>
<td>-</td>
</tr>
<tr>
<td>IBOR Reform and the Effects on Financial Reporting</td>
<td>Decide Project Direction</td>
<td>December 2018</td>
</tr>
<tr>
<td>Pension Benefits that Depend on Asset Returns</td>
<td>Review Research</td>
<td>H2 2019</td>
</tr>
<tr>
<td>Share-based Payment</td>
<td>Research Summary</td>
<td>October 2018</td>
</tr>
<tr>
<td><strong>Standard-setting and related projects</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management Commentary</td>
<td>Exposure draft (update of IFRS Practice Statement 1 Management Commentary)</td>
<td>H1 2020</td>
</tr>
<tr>
<td>Rate-regulated Activities</td>
<td>Discussion Paper or Exposure Draft</td>
<td>H2 2019</td>
</tr>
<tr>
<td><strong>Maintenance projects</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costs Considered in Assessing whether a Contract is Onerous (Amendments to IAS 37)</td>
<td>Exposure Draft</td>
<td>December 2018</td>
</tr>
<tr>
<td>Fees in the ‘10 Per Cent’ Test for Derecognition (Amendments to IFRS 9)</td>
<td>Exposure Draft</td>
<td>-*</td>
</tr>
<tr>
<td>Lease Incentives (Amendments to Illustrative Example 13 accompanying IFRS 16)</td>
<td>Exposure Draft</td>
<td>-*</td>
</tr>
<tr>
<td>Subsidiary as a First-time Adopter (Amendments to IFRS 1)</td>
<td>Exposure Draft</td>
<td>-*</td>
</tr>
<tr>
<td>Taxation in Fair Value Measurements (Amendments to IAS 41)</td>
<td>Exposure Draft</td>
<td>-*</td>
</tr>
<tr>
<td>Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)</td>
<td>Decide Project Direction</td>
<td>November 2018</td>
</tr>
<tr>
<td><strong>Other projects</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFRS Taxonomy Update – 2018 General Improvements</td>
<td>Proposed Update</td>
<td>Q4 2018</td>
</tr>
<tr>
<td>IFRS Taxonomy Update – Common Practice (IFRS 13)</td>
<td>Analyse Feedback</td>
<td>Q1 2019</td>
</tr>
</tbody>
</table>

*The timing of publication of the proposed amendments depends on the identification of other matters for inclusion in the annual improvements process.*
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ED None

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