IFRS Update of standards and interpretations in issue at 31 March 2016

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Introduction

Companies reporting under International Financial Reporting Standards (IFRS) continue to face a steady flow of new standards and interpretations. The resulting changes range from significant amendments of fundamental principles to some minor changes from the annual improvements process (AIP). They will affect different areas of accounting, such as recognition, measurement, presentation and disclosure.

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

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

Purpose of this publication

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

This publication consists of three sections:

Section 1 provides a high-level overview of the key requirements of each pronouncement issued by the International Accounting Standards Board (IASB or the Board) and the IFRS Interpretations Committee (IFRS IC) as at 31 March 2016 that is applicable for the first time for annual periods ended March 2016 and thereafter. This overview provides a summary of the transitional requirements and a brief discussion of the potential impact that the changes may have on an entity's financial statements.

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

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

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

Section 2 provides a summary of the agenda decisions (rejection notices) published in the *IFRIC Update*[1] since 1 January 2016. For rejection notices published before 1 January 2016, please refer to previous editions of *IFRS Update*. In some rejection notices, the IFRS IC refers to the existing pronouncements that provide adequate guidance. These rejection notices provide a view on the application of the pronouncements and fall within 'other accounting literature and accepted industry practices' in paragraph 12 of IAS 8.

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

[1] The *IFRIC Update* is available on the IASB's website at http://www.ifrs.org/Updates/IFRIC+Updates/IFRIC+Updates.htm.

IFRS Core Tools

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

International GAAP® Disclosure Checklist

Our 2016 edition of *International GAAP® Disclosure Checklist* captures disclosure requirements applicable to periods ended 30 June 2016 or thereafter, and disclosures that are permitted to be adopted early. These disclosure requirements are for all pronouncements issued as at 29 February 2016. This tool assists preparers to comply with the presentation and disclosure requirements of IFRS in their interim and year-end IFRS financial statements. Previous editions of this tool for earlier period-ends are available on EY's *IFRS Core Tools* webpage.

Good Group (International) Limited

Good Group (International) Limited is a set of illustrative financial statements, incorporating presentation and disclosure requirements that are in issue as at 31 August 2015 and effective for the year ended 31 December 2015. *Good Group (International) Limited – Illustrative interim condensed financial statements* for the period ended 30 June 2016, based on IFRS in issue at 29 February 2016, 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

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® 2015[4]

Our *International GAAP® 2016* is a comprehensive guide to interpreting and implementing IFRS.[5] It includes pronouncements mentioned in this publication that were issued prior to September 2015, and it provides examples that illustrate how the requirements of those pronouncements are applied.

[2] EY's Core Tools are available on http://www.ey.com/GL/en/Issues/IFRS/Issues_GL_IFRS_NAV_Core-tools-library.

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

[4] International GAAP® is a registered trademark of Ernst & Young LLP (UK).

[5] International GAAP is available on http://www.igaap.info.

Section 1: New pronouncements issued as at 31 March 2016

Table of mandatory application

			First time applied in annual periods ending on the last day of these months**											
New pronouncement	**Page**	**Effective Date***	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
IAS 19 *Defined Benefit Plans: Employee Contributions - Amendments to IAS 19*	13	1 Jul 2014	2016	2016	2016	2016	2016	2015	2015	2015	2015	2015	2015	2015
AIP IFRS 2 *Share-based Payment - Definitions of vesting conditions*	14	1 Jul 2014	2016	2016	2016	2016	2016	2015	2015	2015	2015	2015	2015	2015
AIP IFRS 3 *Business Combinations - Accounting for contingent consideration in a business combination*	14	1 Jul 2014	2016	2016	2016	2016	2016	2015	2015	2015	2015	2015	2015	2015
AIP IFRS 8 *Operating Segments - Aggregation of operating segments*	14	1 Jul 2014	2016	2016	2016	2016	2016	2015	2015	2015	2015	2015	2015	2015
AIP IFRS 8 *Operating Segments - Reconciliation of the total of the reportable segments' assets to the entity's assets*	14	1 Jul 2014	2016	2016	2016	2016	2016	2015	2015	2015	2015	2015	2015	2015
AIP IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets - Revaluation method - proportionate restatement of accumulated depreciation/amortisation*	15	1 Jul 2014	2016	2016	2016	2016	2016	2015	2015	2015	2015	2015	2015	2015
AIP IAS 24 *Related Party Disclosures - Key management personnel*	15	1 Jul 2014	2016	2016	2016	2016	2016	2015	2015	2015	2015	2015	2015	2015
AIP IFRS 3 *Business Combinations - Scope exceptions for joint ventures*	15	1 Jul 2014	2016	2016	2016	2016	2016	2015	2015	2015	2015	2015	2015	2015
AIP IFRS 13 *Fair Value Measurement - Scope of paragraph 52 (portfolio exception)*	15	1 Jul 2014	2016	2016	2016	2016	2016	2015	2015	2015	2015	2015	2015	2015
AIP IAS 40 *Investment Property - Interrelationship between IFRS 3 and IAS 40 (ancillary services)*	15	1 Jul 2014	2016	2016	2016	2016	2016	2015	2015	2015	2015	2015	2015	2015
IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception - Amendments to IFRS 10, IFRS 12 and IAS 28*	6	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28*	7	Note 1												
IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11*	7	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
IFRS 14 *Regulatory Deferral Accounts*	8	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
IAS 1 *Disclosure Initiative - Amendments to IAS 1*	10	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
IAS 16 and IAS 38 - *Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38*	12	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
IAS 16 and IAS 41 *Agriculture - Bearer Plants - Amendments to IAS 16 and IAS 41*	12	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
IAS 27 - *Equity Method in Separate Financial Statements - Amendments to IAS 27*	13	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
AIP IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal*	16	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
AIP IFRS 7 *Financial Instruments: Disclosures - Servicing contracts*	16	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
AIP IFRS 7 *Financial Instruments: Disclosures - Applicability of the offsetting disclosures to condensed interim financial statements*	16	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
AIP IAS 19 *Employee Benefits - Discount rate: regional market issue*	16	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
AIP IAS 34 *Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report'*	16	1 Jan 2016	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2017	2016
IAS 7 *Disclosure Initiative* - Amendments to IAS 7	11	1 Jan 2017	2018	2018	2018	2018	2018	2018	2018	2018	2018	2018	2018	2017
IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* - Amendments to IAS 12	11	1 Jan 2017	2018	2018	2018	2018	2018	2018	2018	2018	2018	2018	2018	2017
IFRS 15 *Revenue from Contracts with Customers*	8	1 Jan 2018	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2018
IFRS 9 *Financial Instruments*	5	1 Jan 2018	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2018
IFRS 16 *Leases*	9	1 Jan 2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2019

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.

Standards already effective for entities with these year-ends.

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

All financial assets are measured at fair value on initial recognition, adjusted for transaction costs, if the instrument is not accounted for at fair value through profit or loss (FVTPL).

Debt instruments are subsequently measured at 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*.

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

Hedge accounting

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

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

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

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

Transition

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

Impact

The application of IFRS 9 may change the measurement and presentation of many financial instruments, depending on their contractual cash flows and the business model under which they are held. The impairment requirements will generally result in earlier recognition of credit losses. The new hedging model may lead to more economic hedging strategies meeting the requirements for hedge accounting. It will be important for entities to monitor the discussions of the IFRS Transition Resource Group for Impairment of Financial Instruments (ITG).

Other EY publications

Applying IFRS: IFRS 9 for non-financial entities (March 2016) EYG no. AU3724

Applying IFRS: ITG discusses IFRS 9 impairment issues at December 2015 ITG meeting (December 2015) EYG no. AU3662

Applying IFRS: Classification of financial instruments under IFRS 9 (May 2015) EYG no. AU3134

Applying IFRS: Impairment of financial instruments under IFRS 9 (December 2014) EYG no. AU2827

Applying IFRS: Hedge accounting under IFRS 9 (February 2014) EYG no. AU2185

IFRS Developments Issue 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 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception - Amendments to IFRS 10, IFRS 12 and IAS 28*

Effective for annual periods beginning on or after 1 January 2016.

Key requirements

The amendments address three issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*.

The amendments to IFRS 10 clarify that the exemption in paragraph 4 of IFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value.

The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

Transition

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

Impact

The amendments to IFRS 10 and IAS 28 provide helpful clarifications that will assist preparers in applying the standards more consistently. However, it may still be difficult to identify investment entities in practice when they are part of a multi-layered group structure.

Other EY publications

IFRS Developments Issue 97: IASB issues amendments to the investment entities consolidation exception (December 2014) EYG no. AU2833

IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28*

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

Key requirements

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

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

Transition

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

Impact

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

IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11*

Effective for annual periods beginning on or after 1 January 2016.

Key requirements

The amendments require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3 and other IFRSs that do not conflict with the requirements of IFRS 11 *Joint Arrangements*. Furthermore, entities are required to disclose the information required by IFRS 3 and other IFRSs for business combinations.

The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by one of the parties to the joint operation on its formation.

Furthermore, the amendments clarify that, for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be remeasured if the joint operator retains joint control.

Transition

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

Impact

The amendments to IFRS 11 increase the scope of transactions that would need to be assessed to determine whether they represent the acquisition of a business or of an asset, which would require judgement. Entities need to consider the definition of a business carefully and select the appropriate accounting method based on the specific facts and circumstances of the transaction.

Other EY publications

Applying IFRS in the Oil & Gas Sector: Potential implications of the amendments to IFRS 11 Joint Arrangements (November 2014) EYG no. AU2749

Applying IFRS: Challenges in adopting and applying IFRS 11 (June 2014) EYG no. AU2512

IFRS 14 *Regulatory Deferral Accounts*

Effective for annual periods beginning on or after 1 January 2016.

Key requirements

IFRS 14 allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. The standard does not apply to existing IFRS preparers. Also, an entity whose current GAAP does not allow the recognition of rate-regulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognise them on first-time application of IFRS.

Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income.

The standard requires disclosure of the nature of, and risks associated with, the entity's rate regulation and the effects of that rate regulation on its financial statements.

Transition

Early application is permitted and must be disclosed.

Impact

IFRS 14 provides first-time adopters of IFRS with relief from derecognising rate-regulated assets and liabilities until a comprehensive project on accounting for such assets and liabilities is completed by the IASB. The comprehensive rate-regulated activities project is on the IASB's active agenda.

Other EY publications

Applying IFRS for IFRS 14 Regulatory Deferral Accounts (November 2014) EYG no. AU2640

IFRS Developments Issue 72: The IASB issues IFRS 14 – interim standard on regulatory deferral accounts (February 2014) EYG no. AU2146

IFRS 15 *Revenue from Contracts with Customers*

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

Key requirements

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

Transition

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

Impact

IFRS 15 is more prescriptive than the current IFRS requirements for revenue recognition and provides more application guidance. The disclosure requirements are also more extensive. The standard will affect entities across all industries. Adoption will be a significant undertaking for most entities with potential changes to their current accounting, systems and processes. Therefore, a successful implementation will require an assessment of and a plan for managing the change. In addition, it is important that entities monitor the discussions of the IASB, the US Financial Accounting Standards Board (FASB) and the Joint Transition Resource Group for Revenue Recognition (TRG). See Section 3 *Active IASB projects* for more details.

Other EY publications

Applying IFRS: Joint Transition Resource Group for Revenue Recognition items of general agreement (Updated December 2015) EYG no. AU3632

Applying IFRS: TRG addresses more revenue implementation issues (November 2015) EYG no. AU3612

Applying IFRS: A closer look at the new revenue recognition standard (Updated October 2015) EYG no. AU3568

Applying IFRS: The new revenue standard affects more than just revenue (February 2015) EYG no. AU2881

IFRS Developments Issue 118: IASB completes redeliberations on proposed amendments to IFRS 15 (January 2016) EYG no. AU3709

IFRS Developments Issue 116: IASB redeliberates clarifications to IFRS 15 (December 2015) EYG no. AU3658

IFRS Developments Issue 113: IASB discusses the definition of completed revenue contracts (September 2015) EYG no. AU3434

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

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 transition 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

IFRS Developments Issue 117: IASB issues new leases standard (January 2016) EYG no. AU3676

IAS 1 *Disclosure Initiative – Amendments to IAS 1*

Effective for annual periods beginning on or after 1 January 2016.

Key requirements

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, the existing IAS 1 requirements.

The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

Transition

Early application is permitted and entities do not need to disclose that fact because the Board considers these amendments to be clarifications that do not affect an entity's accounting policies or accounting estimates.

Impact

These amendments are intended to assist entities in applying judgement when meeting the presentation and disclosure requirements in IFRS, and do not affect recognition and measurement. Although these amendments clarify existing requirements of IAS 1, the clarifications may facilitate enhanced disclosure effectiveness.

Other EY publications

IFRS Developments Issue 98: IASB makes progress on the Disclosure Initiative (December 2014) EYG no. AU2836

IAS 7 *Disclosure Initiative – Amendments to IAS 7*

Effective for annual periods beginning on or after 1 January 2017.

Key requirements

The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Transition

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

Impact

The amendments are intended to provide information to help investors better understand changes in a company's debt.

IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12*

Effective for annual periods beginning on or after 1 January 2017.

Key requirements

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

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

Transition

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

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

Impact

The amendments are intended to remove existing divergence in practice in recognising deferred tax assets for unrealised losses.

IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38*

Effective for annual periods beginning on or after 1 January 2016.

Key requirements

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

Transition

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

Impact

Entities currently using revenue-based amortisation methods for property, plant and equipment will need to change their approach to an acceptable method, such as the diminishing balance method, which would recognise increased amortisation in the early part of the asset's useful life.

Other EY publications

IFRS Developments Issue 78: IASB prohibits revenue-based depreciation (May 2014) EYG no. AU2353

IAS 16 and IAS 41 *Agriculture: Bearer Plants – Amendments to IAS 16 and IAS 41*

Effective for annual periods beginning on or after 1 January 2016.

Key requirements

The amendments to IAS 16 and IAS 41 *Agriculture* change the scope of IAS 16 to include biological assets that meet the definition of bearer plants (e.g., fruit trees). Agricultural produce growing on bearer plants (e.g., fruit growing on a tree) will remain within the scope of IAS 41. As a result of the amendments, bearer plants will be subject to all the recognition and measurement requirements in IAS 16, including the choice between the cost model and revaluation model for subsequent measurement.

In addition, government grants relating to bearer plants will be accounted for in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, instead of IAS 41.

Transition

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may choose to measure a bearer plant at its fair value at the beginning of the earliest period presented. Early application is permitted and must be disclosed.

Impact

The requirements will not entirely eliminate the volatility in profit or loss as produce growing on bearer plants will still be measured at fair value. Furthermore, entities will need to determine appropriate methodologies to measure the fair value of these assets separately from the bearer plants on which they are growing, which may increase the complexity and subjectivity of the measurement.

Other EY publications

IFRS Developments Issue 84: Bearer plants – the new requirements (July 2014) EYG no. AU2518

IAS 19 *Defined Benefit Plans: Employee Contributions — Amendments to IAS 19*

Effective for annual periods beginning on or after 1 July 2014.

Key requirements

IAS 19 *Employee Benefits* requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. IAS 19 requires such contributions that are linked to service to be attributed to periods of service as a negative benefit.

The amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. Examples of such contributions include those that are a fixed percentage of the employee's salary, a fixed amount of contributions throughout the service period, or contributions that depend on the employee's age.

Transition

The amendments must be applied retrospectively.

Impact

These changes provide a practical expedient for simplifying the accounting for contributions from employees or third parties in certain situations.

IAS 27 *Equity Method in Separate Financial Statements – Amendments to IAS 27*

Effective for annual periods beginning on or after 1 January 2016.

Key requirements

The amendments to IAS 27 *Separate Financial Statements* allow an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. Therefore, an entity must account for these investments either:

- At cost
- In accordance with IFRS 9 (or IAS 39)

  Or
- Using the equity method

The entity must apply the same accounting for each category of investment.

A consequential amendment was also made to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment to IFRS 1 allows a first-time adopter accounting for investments in the separate financial statements using the equity method, to apply the IFRS 1 exemption for past business combinations to the acquisition of the investment.

Transition

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

Impact

The amendments eliminate a GAAP difference for countries where regulations require entities to present separate financial statements using the equity method to account for investments in subsidiaries, associates and joint ventures.

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.

2010-2012 cycle (issued in December 2013)

Following is a summary of the amendments (other than those affecting only the standards' Basis for Conclusions) from the 2010 – 2012 annual improvements cycle. With the exception of the amendment relating to IFRS 2 *Share-based Payment*, the changes summarised below are effective for annual reporting periods beginning on or after 1 July 2014. Earlier application is permitted and must be disclosed.

IFRS 2 *Share-based Payment*	Definitions of vesting conditions
	▸ The amendment defines 'performance condition' and 'service condition' to clarify various issues, including the following:
	  ▸ A performance condition must contain a service condition
	  ▸ A performance target must be met while the counterparty is rendering service
	  ▸ A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
	  ▸ A performance condition may be a market or non-market condition
	  ▸ If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.
	▸ The amendment is applicable for share-based payments for which the grant date is on or after 1 July 2014 and must be applied prospectively.

IFRS 3 *Business Combinations*	Accounting for contingent consideration in a business combination ▸ The amendment clarifies that all contingent consideration arrangements classified as liabilities or assets arising from a business combination must be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). ▸ The amendment must be applied prospectively.
IFRS 8 *Operating Segments*	Aggregation of operating segments ▸ The amendment clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in IFRS 8.12, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are similar.
	Reconciliation of the total of the reportable segments' assets to the entity's assets ▸ The amendment clarifies that the reconciliation of segment assets to total assets is required to be disclosed only if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*	**Revaluation method – proportionate restatement of accumulated depreciation/amortisation** ▸ The amendments to IAS 16 and IAS 38 clarify that the revaluation can be performed, as follows: ▸ Adjust the gross carrying amount of the asset to market value Or ▸ Determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the resulting carrying amount equals the market value. ▸ The amendments also clarify that accumulated depreciation/amortisation is the difference between the gross and carrying amounts of the asset. ▸ The amendments must be applied retrospectively.
IAS 24 *Related Party Disclosures*	**Key management personnel** ▸ The amendment clarifies that a management entity – an entity that provides key management personnel services – is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. ▸ The amendment must be applied retrospectively.

2011-2013 cycle (issued in December 2013)

Following is a summary of the amendments (other than those affecting only the standards' Basis for Conclusions) from the 2011-2013 annual improvements cycle. The changes summarised below are effective for annual reporting periods beginning on or after 1 July 2014. Earlier application is permitted and must be disclosed.

IFRS 3 *Business Combinations*	**Scope exceptions for joint ventures** ▸ The amendment clarifies that: ▸ Joint arrangements, not just joint ventures, are outside the scope of IFRS 3 ▸ The scope exception applies only to the accounting in the financial statements of the joint arrangement itself. ▸ The amendment must be applied prospectively.
IFRS 13 *Fair Value Measurement*	**Scope of paragraph 52 (portfolio exception)** ▸ The amendment clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). ▸ The amendment must be applied prospectively.
IAS 40 *Investment Property*	**Interrelationship between IFRS 3 and IAS 40 (ancillary services)** ▸ The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment clarifies that IFRS 3, not the description of ancillary services in IAS 40, is used to determine whether the transaction is the purchase of an asset or business combination. ▸ The amendment must be applied prospectively.

2012-2014 cycle (issued in September 2014)

Following is a summary of the amendments (other than those affecting only the standards' Basis for Conclusions) from the 2012-2014 annual improvements cycle. The changes summarised below are effective for annual reporting periods beginning on or after 1 January 2016. Earlier application is permitted and must be disclosed.

Standard	Amendment
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	**Changes in methods of disposal** ▸ Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. ▸ The amendment must be applied prospectively.
IFRS 7 *Financial Instruments: Disclosures*	**Servicing contracts** ▸ The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. ▸ The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendment. **Applicability of the offsetting disclosures to condensed interim financial statements** ▸ The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. ▸ The amendment must be applied retrospectively.
IAS 19 *Employee Benefits*	**Discount rate: regional market issue** ▸ The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. ▸ The amendment must be applied prospectively.
IAS 34 *Interim Financial Reporting*	**Disclosure of information 'elsewhere in the interim financial report'** ▸ The amendment clarifies that the required interim disclosures must be either in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). ▸ The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. ▸ The amendment must be applied retrospectively.

Other EY publications

IFRS Developments Issue 71: The IASB issues two cycles of annual improvements to IFRS (December 2013) EYG no. AU2068

IFRS Developments Issue 91: IASB concludes the 2012-2014 Annual Improvements Cycle (September 2014) EYG no. AU2645

Section 2: Items not taken onto the IFRS Interpretations Committee's agenda in Q1 2016

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

The table below summarises topics that the IFRS IC decided not to take onto its agenda for the period from 1 January 2016 (since our previous edition of *IFRS Update*) to 31 March 2016 and contains highlights from the agenda decisions. For agenda decisions published before 1 January 2016, 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.[6]

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
January 2016	IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* – Allocation of impairment loss to non-current assets within a disposal group	The IFRS IC received a request to clarify whether the allocation of an impairment loss recognised for a disposal group can reduce the carrying amount of non-current assets that are within the scope of the measurement requirements of IFRS 5 to an amount that is lower than their fair value less costs of disposal or their value in use. In analysing this issue, the IFRS IC considered a situation in which the carrying amount of such non-current assets is not less than the amount of the impairment loss, and did not consider the implications for allocating an impairment loss if that loss exceeds the carrying amount of such non-current assets. The IFRS IC noted that paragraph 23 does not refer to paragraph 105 of IAS 36 *Impairment of Assets*, which restricts the impairment losses allocated to individual assets by requiring that an asset is not written down to less than the higher of its fair value less costs of disposal, its value in use and zero. Consequently, the IFRS IC observed that the restriction in paragraph 105 of IAS 36 does not apply when allocating an impairment loss for a disposal group to the non-current assets that are within the scope of the measurement requirements of IFRS 5. The IFRS IC understood this to mean that the amount of impairment that should be recognised for a disposal group would not be restricted by the fair value less costs of disposal or value in use of those non-current assets that are within the scope of the measurement requirements of IFRS 5.
January 2016	IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* – Presentation of intragroup transactions between continuing and discontinued operations	The IFRS IC received a request to clarify how to present intragroup transactions between continuing and discontinued operations. The submitter points out that paragraph 30 of IFRS 5 requires an entity to present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups). However, IFRS 5 does not provide specific requirements on how to eliminate intragroup transactions between continuing and discontinued operations. The IFRS IC noted that neither IFRS 5 nor IAS 1 includes requirements for the presentation of discontinued operations that override the consolidation requirements in IFRS 10. The IFRS IC also noted that paragraph B86(c) of IFRS 10 requires elimination of, among other things, income and expenses relating to intragroup transactions, and not merely intragroup profit. Consequently, the IFRS IC observed that not eliminating intragroup transactions would be inconsistent with the elimination requirements of IFRS 10.

[6] The *IFRIC Update* is available at http://www.ifrs.org/Updates/IFRIC+Updates/IFRIC+Updates.htm.

<table>
<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>
<tr><td></td><td></td><td>The IFRS IC observed that, depending on the particular facts and circumstances, an entity may have to provide additional disclosures in order to enable users to evaluate the financial effects of discontinued operations.

The IFRS IC noted that IFRS 5 was described as a possible research project in the Request for Views on the 2015 Agenda Consultation published by the IASB in August 2015. In the light of this, the IFRS IC decided that the issue of how an entity should disaggregate consolidated results between continuing and discontinued operations in a way that reflects elimination of intragroup transactions would be better considered as part of such a project.</td></tr>
<tr><td>January 2016</td><td>IFRS 5 Non-current Assets Held for Sale and Discontinued Operations — Other various IFRS 5-related issues</td><td>The IFRS IC has received and discussed a number of issues relating to the application of IFRS 5 requirements at several meetings. Those issues relate to various aspects of IFRS 5 and include the following:

Whether particular types of planned-loss-of-control events, besides loss of control through sale or distribution, can result in a held-for-sale classification, such as loss of control of a subsidiary due to dilution of the shares held by the entity, due to call options held by a non-controlling shareholder, or due to a modification of a shareholders’ agreement
Whether IFRS 5 applies to a disposal group that consists mainly, or entirely, of financial instruments
In a situation in which the difference between the carrying amount and the fair value less costs to sell of a disposal group exceeds the carrying amount of non-current assets in the disposal group, whether the amount of the impairment loss recognised should be limited to the carrying amount of:

Non-current assets that are within the scope of the measurement requirements of IFRS 5
Net assets of a disposal group
Total assets of a disposal group
Or
Non-current assets, in which case, the entity would recognise a liability for any excess

Whether an impairment loss previously allocated to goodwill in a disposal group can be reversed
How to interpret the definition of ‘discontinued operation’, especially with regard to the notion of ‘separate major line of business or geographical area of operations’, as described in paragraph 32 of IFRS 5.
In a situation in which a disposal group that consists of both a subsidiary and other non-current assets ceases to be classified as held for sale, whether an entity should recognise the remeasurement adjustments relating to the subsidiary and the other non-current assets in different accounting periods, and whether any amendment should be applied to presentation as well as to measurement
In a situation where there are significant intragroup transactions between continuing and discontinued operations, whether they should be:

Eliminated without any adjustments
Or
Eliminated, with adjustments to illustrate how transactions between continuing or discontinued operations are expected to be affected in the future

</td></tr>
</table>

<table>
<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>
<tr><td></td><td></td><td>Because of the number and variety of unresolved issues, the IFRS IC concluded that a broad-scope project on IFRS 5 might be warranted. The IFRS IC noted that IFRS 5 was described as a possible research project in the Request for Views on the 2015 Agenda Consultation published by the IASB in August 2015.</td></tr>
<tr><td>January 2016</td><td>IFRS 9 Financial Instruments —Transition issues relating to hedging</td><td>The IFRS IC received a request for guidance on two issues pertaining to hedge designation and hedge accounting in situations in which an entity makes the transition from IAS 39 Financial Instruments: Recognition and Measurement to IFRS 9. Specifically, the IFRS IC was asked to consider:
▸ Issue 1: Whether an entity can treat a hedging relationship as a continuing hedging relationship on transition from IAS 39 to IFRS 9 if the entity changes the hedged item in a hedging relationship from an entire non-financial item (as permitted by IAS 39) to a component of the non-financial item (as permitted by IFRS 9) in order to align the hedge with the entity’s risk management objective; and
▸ Issue 2: Whether an entity can continue with its original hedge designation of the entire non-financial item on transition to IFRS 9 when the entity’s risk management objective is to hedge only a component of the non-financial item.
In relation to Issue 1, the IFRS IC noted that when an entity changes the hedged item in a hedging relationship from an entire non-financial item to a component of the non-financial item upon transition to IFRS 9, it is required to do so on a prospective basis, as described in paragraph 7.2.22 of IFRS 9. The IFRS IC also noted that changing the hedged item while continuing the original hedge relationship would be equivalent to the retrospective application of the hedge accounting requirements in IFRS 9, which is prohibited except in the limited circumstances described in paragraph 7.2.26 of IFRS 9. The IFRS IC observed that in the example presented in Issue 1, the exceptions in paragraph 7.2.26 do not apply. Therefore, the original hedge relationship could not be treated as a continuing hedge relationship on transition to IFRS 9.

In relation to Issue 2, the IFRS IC observed that:
▸ Paragraphs BC6.97, BC6.98 and BC6.100 of IFRS 9 support the use of hedge designations that are not exact copies of actual risk management (‘proxy hedging’) as long as they reflect risk management in that they relate to the same type of risk that is being managed and the same type of instruments that are being used for that purpose
▸ The use of proxy hedging in cases in which it reflects the entity’s risk management (that is, where it relates to the same type of risk that is being managed and the same type of instruments that are being used for that purpose) did not appear to be restricted to instances in which IFRS 9 had prohibited an entity from designating hedged items in accordance with its actual risk management
As a result, the IFRS IC noted that hedge designations of an entire non-financial item could continue on transition to IFRS 9 as long as they meet the qualifying criteria in IFRS 9.</td></tr>
</table>

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
January 2016	IFRS 11 *Joint Arrangements* — Remeasurement of previously held interests	The IFRS IC discussed whether previously held interests in the assets and liabilities of a joint operation should be remeasured in the following transactions when the asset, or group of assets, involved in such transactions do not meet the definition of a business in accordance with IFRS 3: ▸ Obtaining control of a joint operation when the entity previously had joint control of, or was a party to, the joint operation before the transaction And ▸ A change of interests resulting in a party to a joint operation obtaining joint control over the joint operation. The party to the joint operation had rights to the assets and obligations for the liabilities relating to the joint operation before the transaction The IFRS IC noted that paragraph 2(b) of IFRS 3 explains the requirements for accounting for an asset acquisition in which the asset or group of assets do not meet the definition of a business. The IFRS IC noted that paragraph 2(b) of IFRS 3 specifies that a cost-based approach should be used in accounting for an asset acquisition, and that, in a cost-based approach, the existing assets are generally not remeasured. The IFRS IC also observed that it was not aware of significant diversity in practice.
January 2016	IAS 12 *Income Taxes* — Recognition of deferred taxes for the effect of exchange rate changes	The IFRS IC received a submission regarding the recognition of deferred taxes when the tax bases of an entity's non-monetary assets and liabilities are determined in a currency that is different from its functional currency. The question is whether deferred taxes that result from exchange rate changes on the tax bases of non-current assets are recognised through profit or loss. The IFRS IC noted that paragraph 41 of IAS 12 states that when the tax base of a non-monetary asset or liability is determined in a currency that is different from the functional currency, temporary differences arise resulting in a deferred tax asset or liability. Such deferred tax does not arise from a transaction or event that is recognised outside profit or loss. Therefore, it is charged or credited to profit or loss in accordance with paragraph 58 of IAS 12. Such deferred tax charges or credits would be presented with other deferred taxes, instead of with foreign exchange gains or losses, in the statement of profit or loss. The IFRS IC also noted that paragraph 79 of IAS 12 requires the disclosure of the major components of tax expense (income). The IFRS IC observed that when changes in the exchange rate are the cause of a major component of the deferred tax charge or credit, an explanation of this in accordance with paragraph 79 of IAS 12 would help users of financial statements to understand the tax expense (income) for the period.
January 2016	IAS 39 *Financial Instruments: Recognition and Measurement* — Separation of an embedded floor from a floating rate host contract in a negative interest rate environment	The IFRS IC received a request to clarify the application of the embedded derivative requirements of IAS 39 in a negative interest rate environment. Specifically, the IFRS IC considered: ▸ Whether paragraph AG33(b) of IAS 39 should apply to an embedded interest rate floor in a floating rate host debt contract in a negative interest rate environment ▸ How to determine the 'market rate of interest' referred to in that paragraph

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
		The IFRS IC observed that: ▸ Paragraph AG33(b) of IAS 39 should be applied to an interest rate floor in a negative interest rate environment in the same way as it would be applied in a positive interest rate environment. ▸ When applying paragraph AG33(b) of IAS 39, in a positive or negative interest rate environment, an entity should compare the overall interest rate floor (i.e., the benchmark interest rate referenced in the contract plus contractual spreads and. if applicable, any premiums, discounts or other elements that would be relevant to the calculation of the effective interest rate) for the hybrid contract to the market rate of interest for a similar contract without the interest rate floor (i.e., the host contract). ▸ In order to determine the appropriate market rate of interest for the host contract, an entity is required to consider the specific terms of the host contract and the relevant spreads (including credit spreads) appropriate for the transaction. In making these observations, the IFRS IC noted the following: ▸ Paragraph AG33(b) of IAS 39 makes no distinction between positive and negative interest rates. Therefore, the requirements of that paragraph should be applied consistently in both cases. ▸ Paragraph AG33(b) of IAS 39 requires an entity to identify whether an embedded interest rate floor is closely related to a host debt contract and makes no reference to individual components of an embedded interest rate floor (such as the benchmark interest rate). ▸ The term 'market rate of interest' is linked to the concept of fair value as defined in IFRS 13 and is described in paragraph AG64 of IAS 39 as the rate of interest 'for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating'. The IFRS IC also observed that paragraphs B4.3.8(b) and B5.1.1 of IFRS 9 replicate the requirements of paragraphs AG33(b) and AG64 of IAS 39 respectively. Consequently, the observations noted in this agenda decision would be equally applicable to financial liabilities accounted for in accordance with IFRS 9.

Section 3: Active IASB projects

The ability to stay current on the IASB's standard-setting activities is critical in a sea of change. The following pages summarise key features of selected active projects of the IASB, along with potential implications of the proposed standards. The 'Key projects' are those initiated with the objective of issuing new standards or that involve overarching considerations across a number of standards. 'Other projects' include proposed amendments with narrower applicability. Generally, only those projects that have reached the exposure draft stage are included, but in selected cases, projects that have not yet reached the exposure draft stage are also commented on.[7]

Key projects

Insurance Contracts

Key developments to date

Background

The IASB completed redeliberating its second ED, issued in June 2013, on a comprehensive method of accounting for insurance contracts. The IASB staff is currently working on the balloting process, which is expected to take up the remainder of 2016. The FASB also published its proposals in June 2013. Subsequently, however, the FASB decided not to issue a new insurance contracts standard, but to make enhancements to its current accounting for insurance companies instead.

Scope

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

Key features

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

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

The objective of the insurance contracts standard would be to provide principles for accounting for individual contracts, but contracts could be aggregated as long as this objective is met.

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

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

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

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

A simplified approach based on a premium allocation could be applied to the liability for remaining coverage if contracts meet certain eligibility criteria (e.g., contracts with a coverage period of one year or less).

Transition and effective date

The IASB has not yet concluded on the effective date, but it is expected to be approximately three years from the issuance of the standard. During redeliberations, the Board decided on a retrospective approach to transition, subject to certain practical reliefs, if applicable.

Impact

The Board's tentative decision to make the use of OCI optional is a compromise necessary to complete the insurance contracts project. Having an option allows entities to reflect the differences that exist in how they run their businesses to fulfil their obligations under their insurance contracts.

[7] The latest IASB work plan and further information on the projects is available at http://www.ifrs.org/Current-Projects/IASB-Projects/Pages/IASB-Work-Plan.aspx.

Even though the IASB made OCI optional and introduced a variable fee model, the proposed model is expected to have a significant impact on key performance indicators and may still result in increased volatility in equity and profit or loss compared to today's accounting model.

Interaction with IFRS 9

IFRS 9 will be effective from annual periods beginning on or after 1 January 2018. To mitigate the effects of certain accounting mismatches that may arise when an insurance entity applies IFRS 9 before the new insurance contracts standard becomes effective, the IASB decided, in March 2016, to proceed with amending the existing IFRS 4 *Insurance Contracts* to allow either a temporary exemption from applying IFRS 9 (provided an entity's predominant activity is issuing insurance contracts) or to reclassify from profit or loss to OCI some of the income or expenses arising for qualifying financial assets. The Board has a few remaining technical issues to resolve and plans to issue the amendment to IFRS 4 in September 2016.

Other EY publications

Our *Insurance Accounting Alerts* provide timely updates on the IASB's discussion of the project.[8]

Conceptual Framework

Key developments to date

Background

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

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

Scope and key features

The May 2015 ED includes proposals to:

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

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

Impact

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

Other EY publications

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

[8] The *Insurance Accounting Alerts* can be accessed at http://www.ey.com/GL/en/Industries/Financial-Services/Insurance/IFRS-insurance.insights.

Disclosure Initiative

Key developments to date

Background

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

Materiality

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

- Change the current definition of materiality within IFRS to align it across different standards and the *Conceptual Framework for Financial Reporting*, and to add a paragraph to IAS 1 clarifying the key characteristics of materiality
- Provide guidance on the application of materiality, which will take the form of a non-mandatory Practice Statement
- Wait until further work has been performed on the general disclosure review of other standards before considering possible changes to address the use of inconsistent or excessively prescriptive language in standards

The ED of a proposed Practice Statement was issued in October 2015. The ED proposes guidance in three main areas:

- Characteristics of materiality
- How to apply the concept of materiality when presenting and disclosing information in the financial statements
- How to assess whether omissions and misstatements of information are material to the financial statements

The comment period on the ED ended on 26 February 2016.

Principles of disclosure

The objective of this project is to identify and develop a possible set of principles for disclosure in IFRS that could form the basis of a standard-level project. The research phase will focus on a review of the general requirements in IAS 1, IAS 7 and IAS 8, and consider how they might be replaced with a single standard, in essence, creating a disclosure framework. The main focus will be on recommendations for improvements expressed by constituents in the Financial Reporting Disclosure Discussion Forum. In addition, the Board plans to consider feedback received in the Conceptual Framework project.

The IASB plans to research the following:

- Principles of disclosure for the notes, including disclosure of alternative performance measures and non-IFRS information
- Information in a complete set of IFRS financial statements, including:
  - Differential disclosures and proportionality
  - Cash flow reporting
  - Disclosure of interim financial information

A Discussion Paper (DP) is expected by the second half of 2016.

Distinction between a change in accounting policy and a change in accounting estimate

The objective of this project is to clarify the existing distinction between a change in accounting policy and a change in accounting estimate. An ED is expected in 2016.

General disclosure review

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

Impact

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

The amendments to IAS 1 issued in December 2014 generally only clarify existing requirements. However, these clarifications can be effective in steering practice away from making disclosures that contribute to the observed disclosure ineffectiveness. Similarly, the other projects have the potential to contribute to more tailored and effective disclosures.

Other EY publications

Applying IFRS: Improving disclosure effectiveness (July 2014) EYG no. AU2513

IFRS Developments Issue 115: Disclosure Initiative – proposed guidance on materiality (October 2015) EYG no. AU3581

Other projects

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

<table>
<tr><th>Other projects</th><th>Status/next steps</th></tr>
<tr><td>Clarifications to IFRS 15 Revenue from Contracts with Customers (issues emerging from TRG discussions)
▸ The objective of this project is to clarify the requirements in IFRS 15 in respect of the implementation issues arising from the discussions of the TRG
▸ The IASB issued an ED proposing to clarify:
  ▸ When a promised good or service is distinct within the context of the contract
  ▸ 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
  ▸ When an entity's activities significantly affect the intellectual property 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
  ▸ How entities would apply the exception for sales and usage-based royalties related to licences of IP and recognise revenue when the related licences are not separate performance obligations
▸ In addition, the ED contains proposals for two practical expedients for contract modifications and completed contracts to aid the transition to IFRS 15
▸ During redeliberations in Q4 2015, the IASB further decided to:
  ▸ Remove the credit risk indicator from the principal-versus-agent application guidance
  ▸ Allow entities to apply the modified retrospective transition method either to all contracts at the date of initial application (as proposed by the FASB) or to contracts that are not complete at the date of initial application (as proposed by the IASB)
  ▸ Permit entities using the modified retrospective transition method and electing to apply the contract modifications practical expedient, either the option to apply that expedient at the beginning of the earliest period presented or at the date of initial application of IFRS 15, but not any other date
▸ Entities will need to retrospectively apply the amendments for annual reporting periods beginning on or after 1 January 2018. Early application will be permitted.</td><td>▸ ED issued in July 2015; redeliberations completed in Q1 2016
▸ Amendments expected in Q2 2016</td></tr>
</table>

Other projects	Status/next steps
Financial Instruments – Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging ▸ 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 ▸ The IASB is focusing initially on the information constituents believe should be required to better reflect entities' dynamic risk management activities ▸ The IASB is expected to later consider how constituents' information needs could be addressed through disclosures before considering the areas that need to be addressed through recognition and measurement. The objective is not to be a disclosure-only project	▸ DP issued in April 2014; redeliberations completed in Q4 2015 ▸ A second DP expected after Q3 2016

Clarification of Classification and Measurement of Share-based Payment Transactions (Proposed amendments to IFRS 2)
▸ The IASB proposed amendments to IFRS 2 to address:
  ▸ The effects of vesting conditions on a cash-settled share-based payment
  ▸ A share-based payment transaction in which the entity has an obligation under tax laws or regulations to settle the arrangement net by withholding a specified portion of equity instruments to meet its minimum statutory withholding tax obligations
  ▸ A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled
	▸ ED issued in Q4 2014; redeliberations completed in Q4 2015
	▸ Amendments expected by Q3 2016

Classification of Liabilities (Proposed amendments to IAS 1)
▸ 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
	▸ ED issued in Q1 2015; amendments expected after Q3 2016

Other projects	Status/next steps
Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value (Proposed amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13) ▶ The IASB proposed amendments to IFRS 10, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27, IAS 28 and IAS 36, which would provide the following clarifications: ▶ The unit of account for investments in subsidiaries, joint ventures and associates is the investment as a whole ▶ When a quoted price in an active market is available for the individual financial instruments that comprise the entire investment, the fair value measurement is the product of the quoted price of the financial instrument (P) multiplied by the quantity (Q) of instruments held (i.e., P × Q) ▶ When testing cash generating units for impairment, if they correspond to an entity whose financial instruments are quoted in an active market, the fair value (when determining fair value less costs of disposal) is the product of P × Q ▶ The ED also proposes to include an example in IFRS 13 to illustrate application of the portfolio approach to portfolios that are solely comprised of investments for which quoted prices in an active market are available	▶ ED issued in Q3 2014; redeliberations on project direction completed in Q1 2016 ▶ The work carried out in this project will be fed into the post-implementation review of IFRS 13
Remeasurement at a plan amendment, curtailment or settlement/Availability of a refund of a surplus from a defined benefit plan (Proposed amendments to IAS 19 and IFRIC 14) ▶ The proposed amendments to IAS 19 specify that, in the event of a plan amendment, curtailment or settlement during a reporting period, an entity is required to use updated information to determine current service cost and net interest for the period following such an event ▶ 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	▶ ED issued in Q2 2015; decision on project direction expected by Q3 2016

The table below sets out the estimated timeline for the remaining projects on the IASB's active agenda as at 18 March 2016.

IASB projects	Q2 2016	Q3 2016	After Q3 2016
Rate-regulated activities			Discussion paper
Annual improvements 2014-2016[9]		Decide project direction	
Annual improvements 2015-2017		Decide project direction	
Clarifications to IFRS 8 arising from the post-implementation review		Exposure draft	
Amendments to IFRS 4: Applying IFRS 9 with IFRS 4[10]		Issue IFRS	
Definition of a Business	Exposure draft		
Remeasurement of previously held interests – obtaining control or joint control in a joint operation that constitutes a business	Exposure draft		
Transfers of investment property		Decide project direction	
Draft IFRIC Interpretation – Uncertainty over Income Tax treatments[11]		Decide project direction	
Draft IFRIC Interpretation – Foreign Currency Transactions and Advance Consideration[11]		Decide project direction	

[9] Comment period ended 17 February 2016.
[10] Comment period ended 8 February 2016.
[11] Comment period ended 19 January 2016.

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