



IFRS Core Tools
IFRS Update of
standards and
interpretations
in issue at
31 March 2019



Building a better
working world

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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 31 March 2019 that will be effective for the first-time for reporting periods ended at that date or thereafter. This overview provides a summary of the transitional requirements and a brief discussion of the potential impact that the changes may have on an entity's financial statements.

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

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

Section 2 provides a summary of the agenda decisions published in the *IFRIC Update*¹ since 1 January 2019. For agenda decisions published before 1 January 2019, 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.

¹ The *IFRIC Update* is available on the IASB's website at <http://www.ifrs.org/news-and-events/updates/ifric-updates/>

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 2019 edition of *International GAAP® Disclosure Checklist* captures disclosure requirements applicable to periods ended 30 June 2019, and disclosures that are permitted to be adopted early. These disclosure requirements are for all pronouncements issued as at 28 February 2019. 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 2019, based on IFRS in issue at 28 February 2019, 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

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® 2019⁴

Our *International GAAP® 2019* is a comprehensive guide to interpreting and implementing IFRS.⁵ It includes pronouncements mentioned in this publication that were issued prior to September 2018, 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 <http://www.igaap.info>.

Section 1: New pronouncements issued as at 31 March 2019

Table of mandatory application

New pronouncement	Page	Effective date*	First time applied in annual periods ending on the last day of these months**											
			Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
IFRS 16 Leases	5	1 Jan 2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2019
IFRIC Interpretation 23 <i>Uncertainty over Income Tax Treatments</i>	7	1 Jan 2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2019
<i>Prepayment Features with Negative Compensation - Amendments to IFRS 9</i>	9	1 Jan 2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2019
<i>Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28</i>	12	1 Jan 2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2019
<i>Plan Amendment, Curtailment or Settlement - Amendments to IAS 19</i>	11	1 Jan 2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2019
<i>AIP IFRS 3 Business Combinations - Previously held Interests in a joint operation</i>	14	1 Jan 2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2019
<i>AIP IFRS 11 Joint Arrangements - Previously held Interests in a joint operation</i>	14	1 Jan 2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2019
<i>AIP IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity</i>	14	1 Jan 2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2019
<i>AIP IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation</i>	14	1 Jan 2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2019
<i>Definition of a Business - Amendments to IFRS 3</i>	8	1 Jan 2020	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2020
<i>Definition of Material - Amendments to IAS 1 and IAS 8</i>	10	1 Jan 2020	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2020
<i>The Conceptual Framework for Financial Reporting</i>	13	1 Jan 2020	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2020
IFRS 17 <i>Insurance Contracts</i>	6	1 Jan 2021	2022	2022	2022	2022	2022	2022	2022	2022	2022	2022	2022	2021
<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28</i>	12	Note 1												

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, interpretation or amendment.
 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 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 Leases. 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 *Revenue from Contracts with Customers*.

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 IFRS 16 Leases (December 2018) EYG No. 012807-18Gbl

Applying IFRS: Presentation and disclosure requirements of IFRS 16 Leases (November 2018) EYG No. 012299-18Gbl

Applying IFRS: Impairment considerations for the new leasing standard (November 2018) EYG No. 012452-18Gbl

IFRS Developments Issue 146: Subsurface rights (March 2019) EYG No. 001476-19Gbl

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 *Financial Instruments* 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.



In November 2018, the IASB tentatively decided to amend the effective date of IFRS 17 to reporting periods beginning on or after 1 January 2022. The Board also tentatively decided to allow insurers qualifying for the deferral of IFRS 9 an additional year of deferral, meaning they could apply both standards for the first time in reporting periods beginning on or after 1 January 2022. Furthermore, the Board has also tentatively decided to make certain limited amendments to the standard in response to concerns and implementation challenges raised by stakeholders. Refer to our *Insurance Accounting Alert* publication available on ey.com/ifrs for updates.

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

IASB proposes further changes to IFRS 17 (March 2019) EYG no. 001424-19Gbl

IASB proposes changes to IFRS 17 covering scope and transition (February 2019) EYG no. 000643-19Gbl

IASB proposes changes to IFRS 17 for acquisition cash flows, reinsurance contracts and recognition of the CSM (January 2019) EYG no. 000378-19Gbl

IASB makes change to balance sheet presentation for IFRS 17 (December 2018) EYG no. 012779-18Gbl

IASB agrees to defer IFRS 17 to 2022 (November 2018) EYG no. 012226-18Gbl

IASB considers concerns and implementation challenges raised by stakeholders on IFRS 17 (October 2018) EYG no. 011907-18Gbl

Third technical discussion of the IASB's IFRS 17 Transition Resource Group (October 2018) EYG no. 011564-18Gbl

IASB proposes narrow-scope amendments to IFRS 17 Insurance Contracts (June 2018) EYG no. 03848-183Gbl

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

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



Definition of a Business - Amendments to IFRS 3

Effective for annual periods beginning on or after 1 January 2020.

Key requirements

The IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Minimum requirements to be a business

The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.

Market participants' ability to replace missing elements

Prior to the amendments, IFRS 3 stated that a business need not include all of the inputs or processes that the seller used in operating that business, 'if market participants are capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes'. The reference to such integration is now deleted from IFRS 3 and the assessment must be based on what has been acquired in its current state and condition.

Assessing whether an acquired process is substantive

The amendments specify that if a set of activities and assets does not have outputs at the acquisition date, an acquired process must be considered substantive only if: (a) it is critical to the ability to develop or convert acquired inputs into outputs; and (b) the inputs acquired include both an organised workforce with the necessary skills, knowledge, or experience to perform that process, and other inputs that the organised workforce could develop or convert into outputs. In contrast, if a set of activities and assets has outputs at that date, an acquired process must be considered substantive if: (a) it is critical to the ability to continue producing outputs and the acquired inputs include an organised workforce with the necessary skills, knowledge, or experience to perform that process; or (b) it significantly contributes to the ability to continue producing outputs and either is considered unique or scarce, or cannot be replaced without significant cost, effort or delay in the ability to continue producing outputs.

Narrowed definition of outputs

The amendments narrowed the definition of outputs to focus on goods or services provided to customers, investment income (such as dividends or interest) or other income from ordinary activities. The definition of a business in Appendix A of IFRS 3 was amended accordingly.

Optional concentration test

The amendments introduced an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. Entities may elect to apply the concentration test on a transaction-by-transaction basis. The test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the test is met, the set of activities and assets is determined not to be a business and no further assessment is needed. If the test is not met, or if an entity elects not to apply the test, a detailed assessment must be performed applying the normal requirements in IFRS 3.

Transition

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed.

Impact

Since the amendments apply prospectively to transactions or other events 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 the acquisition of a set of activities and assets after first applying the amendments should update their accounting policies in a timely manner.

The amendments could also be relevant in other areas of IFRS (e.g., they may be relevant where a parent loses control of a subsidiary and has early adopted *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28)).

Other EY publications

IFRS Developments Issue 137: IASB issues amendments to the definition of a business in IFRS 3 (October 2018)
EYG no. 011864-18Gbl



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.

Impact

The IASB stated specifically that this clarification relates to the application of IFRS 9. As such, it would appear that this clarification does not need to be applied to the accounting for modification of liabilities under IAS 39 *Financial Instruments: Recognition and Measurement*. Any entities that have not applied this accounting under IAS 39 are therefore likely to have a change of accounting on transition. As there is no specific relief, this change needs to be made retrospectively.

Other EY publications

IFRS Developments Issue 130: IASB issues an Amendment to IFRS 9 (October 2017) EYG no. 05831-173GbI



Definition of Material - Amendments to IAS 1 and IAS 8

Effective for annual periods beginning on or after 1 January 2020.

Key requirements

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

Obscuring information

The amendments explain that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information. Material information may, for instance, be obscured if information regarding a material item, transaction or other event is scattered throughout the financial statements, or disclosed using a language that is vague or unclear. Material information can also be obscured if dissimilar items, transactions or other events are inappropriately aggregated, or conversely, if similar items are inappropriately disaggregated.

New threshold

The amendments replaced the threshold 'could influence', which suggests that any potential influence of users must be considered, with 'could reasonably be expected to influence' in the definition of 'material'. In the amended definition, therefore, it is clarified that the materiality assessment will need to take into account only reasonably expected influence on economic decisions of primary users.

Primary users of the financial statements

The current definition refers to 'users' but does not specify their characteristics, which can be interpreted to imply that an entity is required to consider all possible users of the financial statements when deciding what information to disclose. Consequently, the IASB decided to refer to primary users in the new definition to help respond to concerns that the term 'users' may be interpreted too widely.

Other amendments

The definition of material in the Conceptual Framework and IFRS Practice Statement 2: *Making Materiality Judgements* were amended to align with the revised definition of material in IAS 1 and IAS 8.

Transition

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

Impact

Although the amendments to the definition of material is not expected to have a significant impact on an entity's financial statements, the introduction of the term 'obscuring information' in the definition could potentially impact how materiality judgements are made in practice, by elevating the importance of how information is communicated and organised in the financial statements.

Other EY publications

IFRS Developments Issue 138: IASB issues amendments to the definition of material (November 2018) EYG no. 011935-18Gb1



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.

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 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.



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 and for those applying IAS 8.

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 revised Conceptual Framework for Financial Reporting (April 2018) EYG no.02013-183Gbl

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



Improvements to International Financial Reporting Standards

Key requirements

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

2015-2017 cycle (issued in December 2017)

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

IFRS 3 <i>Business Combinations</i>	<p>Previously held interests in a joint operation</p> <ul style="list-style-type: none"> ▶ 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.
IFRS 11 <i>Joint Arrangements</i>	<p>Previously held interests in a joint operation</p> <ul style="list-style-type: none"> ▶ 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.
IAS 12 <i>Income Taxes</i>	<p>Income tax consequences of payments on financial instruments classified as equity</p> <ul style="list-style-type: none"> ▶ 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.
IAS 23 <i>Borrowing Costs</i>	<p>Borrowing costs eligible for capitalisation</p> <ul style="list-style-type: none"> ▶ 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.

Section 2: Items not taken onto the IFRS Interpretations Committee's agenda in Q1 2019

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 the topics that the IFRS IC decided not to take onto its agenda for the period from 1 January 2019 (since our previous edition of *IFRS Update*) to 31 March 2019. For agenda decisions published before 1 January 2019, 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

The March 2019 *IFRIC Update* noted that 'the process for publishing an agenda decision might often result in explanatory material that provides new information that was not otherwise available and could not otherwise reasonably have been expected to be obtained. Because of this, an entity might determine that it needs to change an accounting policy as a result of an agenda decision. The Board expects that an entity would be entitled to sufficient time to make that determination and implement any change (for example, an entity may need to obtain new information or adapt its systems to implement a change).'

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
January 2019	IFRS 15 <i>Revenue from Contracts with Customers</i> - Assessment of promised goods or services	<p>The IFRS IC received a request about the recognition of revenue by a stock exchange that provides a listing service to a customer. Specifically, the request asked whether the stock exchange promises to transfer an admission service that is distinct from the listing service. In the fact pattern described in the request, the stock exchange charges the customer a non-refundable upfront fee on initial listing and an ongoing listing fee. The upfront fee relates to activities the stock exchange undertakes at or near contract inception.</p> <p>Paragraph 22 of IFRS 15 requires an entity to assess the goods or services promised in a contract with a customer and to identify performance obligations. A performance obligation is a promise to transfer to the customer either:</p> <ul style="list-style-type: none"> ▶ A good or service (or a bundle of goods or services) that is distinct Or ▶ A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer <p>In paragraph BC87 of IFRS 15, the Board noted that before an entity can identify its performance obligations in a contract with a customer, the entity would first need to identify all the promised goods or services in that contract.</p> <p>Paragraph 25 of IFRS 15 specifies that performance obligations do not include activities that an entity must undertake to fulfil a contract unless those activities transfer a good or service to a customer.</p> <p>Paragraph B49 of IFRS 15 states that to identify performance obligations in contracts in which an entity charges a non-refundable upfront fee, the entity assesses whether the fee relates to the transfer of a promised good or service. In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near contract inception to fulfil the contract, that activity does not result in the transfer of a promised good or service to the customer.</p>

⁶ The *IFRIC Update* is available at <http://www.ifrs.org/news-and-events/updates/ifric-updates/>.

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
		<p>Accordingly, the IFRS IC noted that when an entity charges a customer a non-refundable upfront fee, the entity considers whether it transfers a promised good or service to the customer at or near contract inception or, instead, for example, whether any activities it performs at or near contract inception represent tasks to set up a contract.</p> <p>Application of IFRS 15 to the fact pattern in the request</p> <p>The assessment of the goods and services promised in a contract and the identification of performance obligations requires an assessment of the facts and circumstances of the contract. Accordingly, the outcome of an entity's assessment depends on those facts and circumstances.</p> <p>In the fact pattern described in the request, the stock exchange charges the customer a non-refundable upfront fee and an ongoing listing fee. The stock exchange undertakes various activities at or near contract inception to enable admission to the exchange, such as:</p> <ul style="list-style-type: none"> ▶ Performing due diligence for new applications ▶ Reviewing the customer's listing application (including assessing whether to accept the application) ▶ Issuing reference numbers and tickers for the new security ▶ Processing the listing and admission to the market ▶ Publishing the security on the order book ▶ Issuing the dealing notice on the admission date <p>The IFRS IC observed that the activities performed by the entity at or near contract inception are required to transfer the goods or services for which the customer has contracted, i.e., the service of being listed on the exchange. However, the entity's performance of those activities does not transfer a service to the customer.</p> <p>The IFRS IC also observed that the listing service transferred to the customer is the same on initial listing and on all subsequent days for which the customer remains listed.</p> <p>Based on the fact pattern described in the request, the IFRS IC concluded that the stock exchange does not promise to transfer any good or service to the customer other than the service of being listed on the exchange.</p> <p>The IFRS IC concluded that the principles and requirements in IFRS 15 provide an adequate basis for an entity to assess the promised goods and services in a contract with a customer.</p>
January 2019	IAS 27 <i>Separate Financial Statements</i> - Investment in a subsidiary accounted for at cost: Partial disposal	<p>The IFRS IC received a request about how an entity applies the requirements in IAS 27 to a fact pattern involving an investment in a subsidiary.</p> <p>In the fact pattern described in the request, the entity preparing separate financial statements:</p> <ul style="list-style-type: none"> ▶ Elects to account for its investments in subsidiaries at cost applying paragraph 10 of IAS 27. ▶ Holds an initial investment in a subsidiary (investee). The investment is an investment in an equity instrument as defined in paragraph 11 of IAS 32 <i>Financial Instruments: Presentation</i>.

- ▶ Subsequently disposes of part of its investment and loses control of the investee. After the disposal, the entity has neither joint control of, nor significant influence over, the investee.

The request asked whether:

- ▶ The investment retained (retained interest) is eligible for the presentation election in paragraph 4.1.4 of IFRS 9. That election permits the holder of particular investments in equity instruments to present subsequent changes in fair value in other comprehensive income (OCI) (Question A).
- ▶ The entity presents in profit or loss or OCI any difference between the cost of the retained interest and its fair value on the date of losing control of the investee (Question B).

Question A

Paragraph 9 of IAS 27 requires an entity to apply all applicable IFRS standards in preparing its separate financial statements, except when accounting for investments in subsidiaries, associates and joint ventures to which paragraph 10 of IAS 27 applies. After the partial disposal transaction, the investee is not a subsidiary, associate or joint venture of the entity. Accordingly, the entity applies IFRS 9 for the first time in accounting for its retained interest in the investee. The IFRS IC observed that the presentation election in paragraph 4.1.4 of IFRS 9 applies at initial recognition of an investment in an equity instrument. An investment in an equity instrument within the scope of IFRS 9 is eligible for the election if it is neither held for trading (as defined in Appendix A of IFRS 9) nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.

In the fact pattern described in the request, assuming the retained interest is not held for trading, the IFRS IC concluded that (a) the retained interest is eligible for the presentation election in paragraph 4.1.4 of IFRS 9, and (b) the entity would make this presentation election when it first applies IFRS 9 to the retained interest (i.e., at the date of losing control of the investee).

Question B

Any difference between the cost of the retained interest and its fair value on the date the entity loses control of the investee meets the definitions of income or expenses in the *Conceptual Framework for Financial Reporting*. Accordingly, the IFRS IC concluded that, applying paragraph 88 of IAS 1, the entity recognises this difference in profit or loss. This is the case regardless of whether the entity presents subsequent changes in fair value of the retained interest in profit or loss or OCI.

The IFRS IC also noted that its conclusion is consistent with the requirements in paragraph 22(b) of IAS 28 and paragraph 11B of IAS 27, which deal with similar and related issues.

The IFRS IC concluded that the principles and requirements in IFRS standards provide an adequate basis for an entity to account for a partial disposal transaction in its separate financial statements.

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
January 2019	IAS 27 <i>Separate Financial Statements</i> - Investment in a subsidiary accounted for at cost: Step acquisition	<p>The IFRS IC received a request about how an entity applies the requirements in IAS 27 to a fact pattern involving an investment in a subsidiary.</p> <p>In the fact pattern described in the request, the entity preparing separate financial statements:</p> <ul style="list-style-type: none"> ▶ Elects to account for its investments in subsidiaries at cost applying paragraph 10 of IAS 27. ▶ Holds an initial investment in another entity (investee). The investment is an investment in an equity instrument as defined in paragraph 11 of IAS 32. The investee is not an associate, joint venture or subsidiary of the entity and, accordingly, the entity applies IFRS 9 in accounting for its initial investment (initial interest). ▶ Subsequently acquires an additional interest in the investee (additional interest), which results in the entity obtaining control of the investee, i.e., the investee becomes a subsidiary of the entity. <p>The request asked:</p> <ul style="list-style-type: none"> ▶ Whether the entity determines the cost of its investment in the subsidiary as the sum of: <ul style="list-style-type: none"> ▶ The fair value of the initial interest at the date of obtaining control of the subsidiary, plus any consideration paid for the additional interest (fair value as deemed cost approach) Or ▶ The consideration paid for the initial interest (original consideration), plus any consideration paid for the additional interest (accumulated cost approach) (Question A). ▶ How the entity accounts for any difference between the fair value of the initial interest at the date of obtaining control of the subsidiary and its original consideration when applying the accumulated cost approach (Question B). <p>Question A</p> <p>IAS 27 does not define 'cost', nor does it specify how an entity determines the cost of an investment acquired in stages. The IFRS IC noted that cost is defined in other IFRS standards (for example, paragraph 6 of IAS 16 <i>Property, Plant and Equipment</i>, paragraph 8 of IAS 38 <i>Intangible Assets</i> and paragraph 5 of IAS 40 <i>Investment Property</i>). The IFRS IC observed that the two approaches outlined in the request arise from different views of whether the step acquisition transaction involves:</p> <ul style="list-style-type: none"> ▶ The entity exchanging its initial interest (plus consideration paid for the additional interest) for a controlling interest in the investee Or ▶ Purchasing the additional interest while retaining the initial interest <p>Based on its analysis, the IFRS IC concluded that a reasonable reading of the requirements in IFRS standards could result in the application of either one of the two approaches outlined in this agenda decision (i.e., fair value as deemed cost approach or accumulated cost approach).</p>

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
		<p>The IFRS IC observed that an entity would apply its reading of the requirements consistently to step acquisition transactions. An entity would also disclose the selected approach applying paragraphs 117-124 of IAS 1 if that disclosure would assist users of financial statements in understanding how step acquisition transactions are reflected in reporting financial performance and financial position.</p> <p>Question B</p> <p>In applying the accumulated cost approach, any difference between the fair value of the initial interest at the date of obtaining control of the subsidiary and its original consideration meets the definitions of income or expenses in the <i>Conceptual Framework for Financial Reporting</i>. Accordingly, the IFRS IC concluded that, applying paragraph 88 of IAS 1, the entity recognises this difference in profit or loss, regardless of whether, before obtaining control, the entity had presented subsequent changes in fair value of the initial interest in profit or loss or other comprehensive income.</p> <p>For Question A, the IFRS IC considered whether to develop a narrow-scope amendment to address how an entity determines the cost of an investment acquired in stages. The IFRS IC observed that:</p> <ul style="list-style-type: none"> ▶ It did not have evidence to assess whether the application of the two acceptable approaches to determining cost outlined in this agenda decision would have a material effect on those affected. ▶ The matter could not be resolved without also considering the requirements in paragraph 10 of IAS 28 to initially measure an investment in an associate or joint venture at cost. The IFRS IC did not obtain information to suggest that the Board should reconsider this aspect of IAS 28 at this stage, rather than as part of its wider consideration of IAS 28 within its research project on the equity method. <p>On balance, the IFRS IC decided not to undertake standard-setting to address Question A.</p> <p>For Question B, the IFRS IC concluded that the principles and requirements in IFRS standards provide an adequate basis for an entity to determine its accounting.</p>
January 2019	IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> - Deposits relating to taxes other than income tax	<p>The IFRS IC received a request about how to account for deposits relating to taxes that are outside the scope of IAS 12 (i.e., deposits relating to taxes other than income tax). In the fact pattern described in the request, an entity and a tax authority dispute whether the entity is required to pay the tax. The tax is not an income tax, so it is not within the scope of IAS 12. Any liability or contingent liability to pay the tax is instead within the scope of IAS 37. Taking account of all available evidence, the preparer of the entity's financial statements judges it probable that the entity will not be required to pay the tax - it is more likely than not that the dispute will be resolved in the entity's favour. Applying IAS 37, the entity discloses a contingent liability and does not recognise a liability. To avoid possible penalties, the entity has deposited the disputed amount with the tax authority. Upon resolution of the dispute, the tax authority will be required to either refund the tax deposit to the entity (if the dispute is resolved in the entity's favour) or use the deposit to settle the entity's liability (if the dispute is resolved in the tax authority's favour).</p>

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
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Whether the tax deposit gives rise to an asset, a contingent asset or neither

The IFRS IC observed that if the tax deposit gives rise to an asset, that asset may not be clearly within the scope of any IFRS standard. Furthermore, the IFRS IC concluded that no IFRS standard deals with issues similar or related to the issue that arises in assessing whether the right arising from the tax deposit meets the definition of an asset. Accordingly, applying paragraphs 10-11 of IAS 8, the IFRS IC referred to the two definitions of an asset in IFRS literature – the definition in the *Conceptual Framework for Financial Reporting* issued in March 2018 and the definition in the previous Conceptual Framework that was in place when many existing IFRS standards were developed. The IFRS IC concluded that the right arising from the tax deposit meets either of those definitions. The tax deposit gives the entity a right to obtain future economic benefits, either by receiving a cash refund or by using the payment to settle the tax liability. The nature of the tax deposit – whether voluntary or required – does not affect this right and therefore does not affect the conclusion that there is an asset. The right is not a contingent asset, as defined by IAS 37, because it is an asset, and not a possible asset, of the entity.

Consequently, the IFRS IC concluded that in the fact pattern described in the request, the entity has an asset when it makes the tax deposit to the tax authority.

Recognising, measuring, presenting and disclosing the tax deposit

In the absence of a standard that specifically applies to the asset, an entity applies paragraphs 10-11 of IAS 8 in developing and applying an accounting policy for the asset. The entity's management uses its judgement in developing and applying a policy that results in information that is relevant to the economic decision-making needs of users of financial statements and is reliable. The IFRS IC noted that the issues that need to be addressed in developing and applying an accounting policy for the tax deposit may be similar or related to those that arise for the recognition, measurement, presentation and disclosure of monetary assets. If this is the case, the entity's management would refer to requirements in IFRS standards dealing with those issues for monetary assets.

The IFRS IC concluded that the requirements in IFRS standards and concepts in the *Conceptual Framework for Financial Reporting* provide an adequate basis for an entity to account for deposits relating to taxes other than income tax.

March 2019	IFRS 9 <i>Financial Instruments</i> and IAS 39 <i>Financial instruments: Recognition and Measurement - Application of the Highly Probable Requirement when a Specific Derivative is Designated as a Hedging Instrument</i>	<p>The IFRS IC received a request about the requirement in IFRS 9 and IAS 39 that a forecast transaction must be 'highly probable' to qualify as a hedged item in a cash flow hedge relationship. The request asked how an entity applies that requirement when the notional amount of the derivative designated as a hedging instrument (load following swap) varies depending on the outcome of the hedged item (forecast energy sales).</p> <p>The responses to outreach performed on the request and those received in comment letters confirmed that the financial instrument described in the request is not common. The comment letters also confirmed the views expressed by some IFRS IC members that the request relates to the broader matter of how uncertainty over the timing and magnitude of a forecast transaction affects the highly probable assessment applying IFRS 9 and IAS 39.</p> <p>The IFRS IC observed that, in a cash flow hedge, a forecast transaction can be a hedged item if, and only if, it is highly probable (paragraphs 6.3.1 and 6.3.3 of IFRS 9 and paragraphs 86(b) and 88(c) of IAS 39). When assessing whether a forecast transaction (in the request, the forecast energy sales) is highly</p>
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Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
		<p>probable, an entity considers uncertainty over both the timing and magnitude of the forecast transaction (paragraphs F.3.7 and F.3.11 of the Implementation Guidance accompanying IAS 39).</p> <p>The IFRS IC also observed that, for hedge accounting purposes, the entity must document the forecast energy sales with sufficient specificity in terms of timing and magnitude, so that when such transactions occur the entity can identify whether the transaction is the hedged transaction. Consequently, the forecast energy sales cannot be specified solely as a percentage of sales during a period because that would lack the required specificity (paragraphs F.3.10 and F.3.11 of the Implementation Guidance accompanying IAS 39).</p> <p>In addition, the IFRS IC observed that the terms of the hedging instrument (in the request, the load following swap) do not affect the highly probable assessment because the highly probable requirement is applicable to the hedged item.</p> <p>The IFRS IC noted that the highly probable requirement in IFRS 9 is not new; IAS 39 includes the same requirement. The Board decided not to carry forward any of the hedge accounting related Implementation Guidance that accompanied IAS 39; nonetheless, paragraph BC6.95 of IFRS 9 explains that not carrying forward the Implementation Guidance did not mean that the Board had rejected that guidance.</p> <p>The IFRS IC concluded that the requirements in IFRS 9 and IAS 39 provide an adequate basis for an entity to determine whether a forecast transaction is highly probable.</p>
March 2019	IFRS 9 <i>Financial Instruments</i> - Physical Settlement of Contracts to Buy or Sell a Non-financial Item	<p>The IFRS IC received a request about how an entity applies IFRS 9 to particular contracts to buy or sell a non-financial item in the future at a fixed price. The request describes two fact patterns in which an entity accounts for such contracts as derivatives at fair value through profit or loss (FVPL), but, nonetheless, physically settles the contracts by either delivering or taking delivery of the underlying non-financial item.</p> <p>IFRS 9 must be applied to contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if those contracts were financial instruments, with one exception. That exception applies to contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements ('own use scope exception' in paragraph 2.4 of IFRS 9).</p> <p>In the fact patterns described in the request, the entity concludes that the contracts are within the scope of IFRS 9 because they do not meet the own use scope exception. Consequently, the entity accounts for the contracts as derivatives measured at FVPL. The entity does not designate the contracts as part of a hedging relationship for accounting purposes.</p> <p>At the settlement date, the entity physically settles the contracts by either delivering, or taking delivery of, the non-financial item. In accounting for that settlement, the request explains that the entity records the cash paid (in the case of the purchase contract) or received (in the case of the sale contract) and derecognises the derivative.</p>

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
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In addition, the entity:

- ▶ Recognises inventory for the non-financial item at the amount of the cash paid plus the fair value of the derivative on the settlement date (in the case of the purchase contract).

Or

- ▶ Recognises revenue for the sale of the non-financial item at the amount of the cash received plus the fair value of the derivative on the settlement date (in the case of the sale contract). The request assumes the entity has an accounting policy of recognising revenue on a gross basis for such contracts.

The request asked whether, in accounting for the physical settlement of these contracts, the entity is permitted or required to make an additional journal entry that would:

- ▶ Reverse the accumulated gain or loss previously recognised in profit or loss on the derivative (even though the fair value of the derivative is unchanged).

And

- ▶ Recognise a corresponding adjustment to either revenue (in the case of the sale contract) or inventory (in the case of the purchase contract).

The IFRS IC observed that, in the fact patterns described in the request, the contracts are settled by the receipt (or delivery) of a non-financial item in exchange for both cash and the settlement of the derivative asset or liability. The IFRS IC also observed that the accounting for contracts that do not meet the own use scope exception in IFRS 9 (and are accounted for as a derivative) is different from the accounting for contracts that meet that exception (and are not accounted for as a derivative). Similarly, the accounting for contracts designated in a hedging relationship for accounting purposes is different from the accounting for contracts that are not designated in such relationships. Those differences in accounting reflect differences in the respective requirements. IFRS 9 neither permits nor requires an entity to reassess or change its accounting for a derivative contract because that contract is ultimately physically settled.

The additional journal entry described in the request would effectively negate the requirement in IFRS 9 to account for the contract as a derivative because it would reverse the accumulated fair value gain or loss on the derivative without any basis to do so. The additional journal entry would also result in the recognition of income or expenses on the derivative that do not exist.

Consequently, the IFRS IC concluded that IFRS 9 neither permits nor requires an entity to make the additional journal entry described in the request. However, the IFRS IC observed that an entity is required to present gains and losses on the derivative, and disclose information about those amounts, applying applicable IFRS standards, such as IAS 1 and IFRS 7 *Financial Instruments: Disclosures*. In determining what line items to present in profit or loss, the requirements in IAS 1 (including those related to aggregation) are applicable. IAS 1 does not specify requirements for the presentation of amounts related to the remeasurement of derivatives. However, paragraph 20(a)(i) of IFRS 7 specifies disclosure requirements for net gains or net losses on financial assets or financial liabilities that are mandatorily measured at FVPL applying IFRS 9. For these purposes, in the fact patterns described in the request, there is no gain or loss on the derivative caused by settlement.

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
March 2019	IFRS 9 <i>Financial Instruments</i> - Credit Enhancement in the Measurement of Expected Credit Losses	<p>The IFRS IC concluded that the principles and requirements in IFRS standards provide an adequate basis for an entity to conclude on whether it is permitted or required to make the additional journal entry described in the request.</p> <hr/> <p>The IFRS IC received a request about the effect of a credit enhancement on the measurement of expected credit losses when applying the impairment requirements in IFRS 9. The request asked whether the cash flows expected from a financial guarantee contract or any other credit enhancement can be included in the measurement of expected credit losses if the credit enhancement is required to be recognised separately applying IFRS standards.</p> <p>For the purposes of measuring expected credit losses, paragraph B5.5.55 of IFRS 9 requires the estimate of expected cash shortfalls to 'reflect the cash flows expected from collateral and other credit enhancements that are part of the contractual terms and are not recognised separately by the entity.'</p> <p>Accordingly, the IFRS IC observed that the cash flows expected from a credit enhancement are included in the measurement of expected credit losses if the credit enhancement is both:</p> <ul style="list-style-type: none"> ▶ Part of the contractual terms <li style="padding-left: 20px;">And ▶ Not recognised separately by the entity <p>The IFRS IC concluded that, if a credit enhancement is required to be recognised separately by IFRS standards, an entity cannot include the cash flows expected from it in the measurement of expected credit losses. An entity applies the applicable IFRS standard to determine whether it is required to recognise a credit enhancement separately. Paragraph B5.5.55 of IFRS 9 does not provide an exemption from applying the separate recognition requirements in IFRS 9 or other IFRS standards.</p> <p>The IFRS IC concluded that the requirements in IFRS standards provide an adequate basis for an entity to determine whether to include the cash flows expected from a credit enhancement in the measurement of expected credit losses in the fact pattern described in the request.</p>
March 2019	IFRS 9 <i>Financial Instruments</i> - Curing of a Credit-impaired Financial Asset	<p>The IFRS IC received a request about how an entity presents amounts recognised in the statement of profit or loss when a credit-impaired financial asset is subsequently cured (i.e., paid in full or no longer credit-impaired).</p> <p>When a financial asset becomes credit-impaired, paragraph 5.4.1(b) of IFRS 9 requires an entity to calculate interest revenue by applying the 'effective interest rate to the amortised cost of the financial asset'. This results in a difference between: (a) the interest that would be calculated by applying the effective interest rate to the gross carrying amount of the credit-impaired financial asset; and (b) the interest revenue recognised for that asset. The request asked whether, following the curing of the financial asset, an entity can present this difference as interest revenue or, instead, is required to present it as a reversal of impairment losses.</p> <p>Appendix A to IFRS 9 defines a credit loss as 'the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls), discounted at the original effective interest rate ...'. Appendix A also defines the gross carrying amount as 'the amortised cost of a financial asset, before adjusting for any loss allowance.' The IFRS IC noted that, based on the</p>

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
		<p>definitions in Appendix A to IFRS 9, the gross carrying amount, amortised cost and loss allowance are discounted amounts, and changes in these amounts during a reporting period include the effect of the unwinding of the discount.</p> <p>Paragraph 5.5.8 of IFRS 9 requires an entity to 'recognise in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with this standard.'</p> <p>The IFRS IC observed that, applying paragraph 5.5.8 of IFRS 9, an entity recognises in profit or loss, as a reversal of expected credit losses, the adjustment required to bring the loss allowance to the amount that is required to be recognised in accordance with IFRS 9 (zero if the asset is paid in full). The amount of this adjustment includes the effect of the unwinding of the discount on the loss allowance during the period that the financial asset was credit-impaired, which means the reversal of impairment losses may exceed the impairment losses recognised in profit or loss over the life of the asset.</p> <p>The IFRS IC also observed that paragraph 5.4.1 specifies how an entity calculates interest revenue using the effective interest method. Applying paragraph 5.4.1(b), an entity calculates interest revenue on a credit-impaired financial asset by applying the effective interest rate to the amortised cost of the financial asset, and thus, interest revenue on such a financial asset does not include the difference described in the request.</p> <p>Accordingly, the IFRS IC concluded that, in the statement of profit or loss, an entity is required to present the difference described in the request as a reversal of impairment losses following the curing of a credit-impaired financial asset.</p> <p>The IFRS IC concluded that the requirements in IFRS standards provide an adequate basis for an entity to recognise and present the reversal of expected credit losses following the curing of a credit-impaired financial asset in the fact pattern described in the request.</p>
March 2019	IFRS 11 <i>Joint Arrangements</i> - Sale of Output by a Joint Operator	<p>The IFRS IC received a request about the recognition of revenue by a joint operator for output arising from a joint operation (as defined in IFRS 11) when the output it receives in a reporting period is different from the output to which it is entitled. In the fact pattern described in the request, the joint operator has the right to receive a fixed proportion of the output arising from the joint operation and is obliged to pay for a fixed proportion of the production costs incurred. For operational reasons, the output received by the joint operator and transferred to its customers in a particular reporting period is different from the output to which it is entitled. That difference will be settled through future deliveries of output arising from the joint operation - it cannot be settled in cash. Applying IFRS 15, the joint operator recognises revenue as a principal for the transfer of all the output to its customers.</p> <p>The request asked whether, in the fact pattern described, the joint operator recognises revenue to depict the transfer of output to its customers in the reporting period or, instead, to depict its entitlement to a fixed proportion of the output produced from the joint operation's activities in that period.</p> <p>In relation to its interest in a joint operation, paragraph 20(c) of IFRS 11 requires a joint operator to recognise 'its revenue from the sale of its share of the output arising from the joint operation'. Accordingly, the revenue recognised by a joint operator depicts the output it has received from the joint operation and sold, rather than for example the production of output. The joint operator accounts</p>

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
		<p>for the revenues relating to its interest in the joint operation applying the IFRS standards applicable to the particular revenues (paragraph 21 of IFRS 11).</p> <p>The IFRS IC concluded that, in the fact pattern described in the request, the joint operator recognises revenue that depicts only the transfer of output to its customers in each reporting period, i.e., revenue recognised applying IFRS 15. This means, for example, the joint operator does not recognise revenue for the output to which it is entitled but which it has not received from the joint operation and sold.</p> <p>The IFRS IC concluded that the principles and requirements in IFRS standards provide an adequate basis for a joint operator to determine its revenue from the sale of its share of output arising from a joint operation as described in the request.</p>
March 2019	IFRS 11 <i>Joint Arrangements</i> - Liabilities in relation to a Joint Operator's Interest in a Joint Operation	<p>The IFRS IC received a request about the recognition of liabilities by a joint operator in relation to its interest in a joint operation (as defined in IFRS 11). In the fact pattern described in the request, the joint operation is not structured through a separate vehicle. One of the joint operators, as the sole signatory, enters into a lease contract with a third-party lessor for an item of property, plant and equipment that will be operated jointly as part of the joint operation's activities. The joint operator that signed the lease contract (hereafter, the operator) has the right to recover a share of the lease costs from the other joint operators in accordance with the contractual arrangement to the joint operation.</p> <p>The request asked about the recognition of liabilities by the operator.</p> <p>In relation to its interest in a joint operation, paragraph 20(b) of IFRS 11 requires a joint operator to recognise 'its liabilities, including its share of any liabilities incurred jointly'. Accordingly, a joint operator identifies and recognises both: (a) liabilities it incurs in relation to its interest in the joint operation; and (b) its share of any liabilities incurred jointly with other parties to the joint arrangement.</p> <p>Identifying the liabilities that a joint operator incurs and those incurred jointly requires an assessment of the terms and conditions in all contractual agreements that relate to the joint operation, including consideration of the laws pertaining to those agreements.</p> <p>The IFRS IC observed that the liabilities a joint operator recognises include those for which it has primary responsibility.</p> <p>The IFRS IC highlighted the importance of disclosing information about joint operations that is sufficient for a user of financial statements to understand the activities of the joint operation and a joint operator's interest in that operation. The IFRS IC noted that, applying paragraph 20(a) of IFRS 12 <i>Disclosure of Interests in Other Entities</i>, a joint operator is required to disclose information that enables users of its financial statements to evaluate the nature, extent and financial effects of its interests in a joint operation, including the nature and effects of its contractual relationship with the other investors with joint control of that joint operation.</p> <p>The IFRS IC concluded that the principles and requirements in IFRS standards provide an adequate basis for the operator to identify and recognise its liabilities in relation to its interest in a joint operation.</p>

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
March 2019	IAS 23 <i>Borrowing Costs</i> - Over Time Transfer of Constructed Good	<p>The IFRS IC received a request about the capitalisation of borrowing costs in relation to the construction of a residential multi-unit real estate development (building).</p> <p>In the fact pattern described in the request:</p> <ul style="list-style-type: none"> ▶ A real estate developer (entity) constructs the building and sells the individual units in the building to customers. ▶ The entity borrows funds specifically for the purpose of constructing the building and incurs borrowing costs in connection with that borrowing. ▶ Before construction begins, the entity signs contracts with customers for the sale of some of the units in the building (sold units). ▶ The entity intends to enter into contracts with customers for the remaining part-constructed units (unsold units) as soon as it finds suitable customers. ▶ The terms of, and relevant facts and circumstances relating to, the entity's contracts with customers (for both the sold and unsold units) are such that, applying paragraph 35(c) of IFRS 15, the entity transfers control of each unit over time and, therefore, recognises revenue over time. The consideration promised by the customer in the contract is in the form of cash or another financial asset. <p>The request asked whether the entity has a qualifying asset as defined in IAS 23 and, therefore, capitalises any directly attributable borrowing costs.</p> <p>Applying paragraph 8 of IAS 23, an entity capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Paragraph 5 of IAS 23 defines a qualifying asset as 'an asset that necessarily takes a substantial period of time to get ready for its intended use or sale'.</p> <p>Accordingly, the entity assesses whether, in the fact pattern described in the request, it recognises an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Depending on the particular facts and circumstances, the entity might recognise a receivable, a contract asset and/or inventory.</p> <p>The IFRS IC concluded that, in the fact pattern described in the request:</p> <ul style="list-style-type: none"> ▶ A receivable that the entity recognises is not a qualifying asset. Paragraph 7 of IAS 23 specifies that financial assets are not qualifying assets. ▶ A contract asset that the entity recognises is not a qualifying asset. The contract asset (as defined in Appendix A to IFRS 15) would represent the entity's right to consideration that is conditioned on something other than the passage of time in exchange for transferring control of a unit. The intended use of the contract asset - to collect cash or another financial asset - is not a use for which it necessarily takes a substantial period of time to get ready.

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
		<ul style="list-style-type: none"> ▶ Inventory (work-in-progress) for unsold units under construction that the entity recognises is not a qualifying asset. In the fact pattern described in the request, this asset is ready for its intended sale in its current condition - i.e., the entity intends to sell the part-constructed units as soon as it finds suitable customers and, on signing a contract with a customer, will transfer control of any work-in-progress relating to that unit to the customer. <p>The IFRS IC concluded that the principles and requirements in IAS 23 provide an adequate basis for an entity to determine whether to capitalise borrowing costs in the fact pattern described in the request.</p>
March 2019	IAS 38 <i>Intangible Assets</i> - Customer's Right to Receive Access to the Supplier's Software Hosted on the Cloud	<p>The IFRS IC received a request about how a customer accounts for a 'Software as a Service' cloud computing arrangement in which the customer contracts to pay a fee in exchange for a right to receive access to the supplier's application software for a specified term. The supplier's software runs on cloud infrastructure managed and controlled by the supplier. The customer accesses the software on an 'as needed' basis over the internet or via a dedicated line. The contract does not convey to the customer any rights over tangible assets.</p> <p><i>Does the customer receive a software asset at the contract commencement date or a service over the contract term?</i></p> <p>The IFRS IC noted that a customer receives a software asset at the contract commencement date if either: (a) the contract contains a software lease; or (b) the customer otherwise obtains control of software at the contract commencement date.</p> <p><i>A software lease</i></p> <p>IFRS 16 defines a lease 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'. Paragraphs 9 and B9 of IFRS 16 explain that a contract conveys the right to use an asset if, throughout the period of use, the customer has both:</p> <ul style="list-style-type: none"> ▶ The right to obtain substantially all the economic benefits from use of the asset (an identified asset) <p style="padding-left: 20px;">And</p> <ul style="list-style-type: none"> ▶ The right to direct the use of that asset <p>Paragraphs B9-B31 of IFRS 16 provide application guidance on the definition of a lease. Among other requirements, that application guidance specifies that a customer generally has the right to direct the use of an asset by having decision-making rights to change how and for what purpose the asset is used throughout the period of use. Accordingly, in a contract that contains a lease the supplier has given up those decision-making rights and transferred them to the customer at the lease commencement date.</p> <p>The IFRS IC observed that a right to receive future access to the supplier's software running on the supplier's cloud infrastructure does not in itself give the customer any decision-making rights about how and for what purpose the software is used - the supplier would have those rights by, for example, deciding how and when to update or reconfigure the software, or deciding on which hardware (or infrastructure) the software will run. Accordingly, if a contract conveys to the customer only the right to receive access to the supplier's application software over the contract term, the contract does not contain a software lease.</p>

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
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A software intangible asset

IAS 38 defines an intangible asset as 'an identifiable non-monetary asset without physical substance'. It notes that an asset is a resource controlled by the entity and paragraph 13 specifies that an entity controls an intangible asset if it has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits.

The IFRS IC observed that, if a contract conveys to the customer only the right to receive access to the supplier's application software over the contract term, the customer does not receive a software intangible asset at the contract commencement date. A right to receive future access to the supplier's software does not, at the contract commencement date, give the customer the power to obtain the future economic benefits flowing from the software itself and to restrict others' access to those benefits.

Consequently, the IFRS IC concluded that a contract that conveys to the customer only the right to receive access to the supplier's application software in the future is a service contract. The customer receives the service - the access to the software - over the contract term. If the customer pays the supplier before it receives the service, that prepayment gives the customer a right to future service and is an asset for the customer.

The IFRS IC concluded that the requirements in IFRS standards provide an adequate basis for an entity to account for fees paid or payable to receive access to the supplier's application software in Software as a Service arrangements.

Section 3: Active IASB projects

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

Key projects

Better communication in financial reporting

Key developments to date

Background

The IASB is undertaking a broad-based initiative to explore how disclosures in IFRS financial reporting can be improved. The Board has identified implementation and research projects that will support better communication.

In December 2014 and January 2016, amendments to IAS 1 and IAS 7 *Statement of Cash Flows*, respectively, were issued. Furthermore, the IASB released the IFRS Practice Statement 2 *Making Materiality Judgement* (the PS) in September 2017 and the *Definition of Material* (Amendments to IAS 1 and IAS 8) in October 2018. For further details on the definition of material, please refer to Section 1: *New pronouncements issued as at 31 December 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 plans to publish either a discussion paper or an exposure draft in H1 2019.

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 focused on the general disclosure requirements in IAS 1 and the concepts that were being developed in the then ongoing project to revise the *Conceptual Framework for Financial Reporting* (now finalised, see page 13 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 PS.

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: Alternative Performance Measures
(October 2018) EYG no. 011765-18Gbl

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

IFRS Developments Issue 124: Disclosure Initiative - Principles of Disclosure (April 2017) EYG no. 01608-173Gbl

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.

Other projects	Status/next steps
<p><i>Financial Instruments - Accounting for Dynamic Risk Management</i></p> <ul style="list-style-type: none">▶ 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 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:<ul style="list-style-type: none">▶ 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.▶ The second phase will address non-core areas that are extensions of concepts developed during the first phase.▶ The IASB intends to gather external feedback on the core model developed in the first phase before progressing on to the second phase.	<ul style="list-style-type: none">▶ As of March 2019, re-deliberations are ongoing. A discussion paper is expected in H2 2019.▶ Key aspects of core DRM model that the IASB has tentatively decided as of March 2019 are:<ul style="list-style-type: none">▶ 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.▶ 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).▶ Designation and formal documentation will be required.▶ 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.▶ Entities should measure imperfect alignment on an on-going basis. Imperfect alignment may result in volatility in the profit or loss.
<p><i>Availability of a Refund (Amendments to IFRIC 14)</i></p> <ul style="list-style-type: none">▶ The proposed amendments to IFRIC 14 <i>IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i> address whether the powers of other parties (e.g., trustees) affect an entity's right to a refund of a surplus in a defined benefit plan.	<ul style="list-style-type: none">▶ An exposure draft (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 in IFRIC 14 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.

Other projects

Status/next steps

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 proposed 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

- ▶ The ED was issued in March 2015.
- ▶ The Board continued its discussions on the proposed amendments. The following are the key tentative agenda decisions as of March 2019:
 - ▶ To clarify that in assessing an entity's right to defer settlement of a liability, compliance with any conditions in a lending agreement must be assessed as at the reporting date, even if the lender will not test the entity's compliance until a later date.
 - ▶ To clarify that an entity's right to defer settlement is not affected by management's expectations about whether the entity will exercise that right, or the subsequent settlement of the liability after the end of the reporting period, but before the financial statements were authorised for issue. In addition, an entity's right to defer settlement must have substance.
 - ▶ To clarify the circumstances in which an obligation to transfer the entity's own equity instruments affects the classification of a liability and that the existing and proposed references to equity instruments are to the entity's own equity instruments. In addition, the terminology will be aligned to refer to the 'transfer to the counterparty' (not 'issue') of the entity's own equity instruments.

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.
- ▶ In February 2019, a project summary was published, which sets out the Board's rationale for not proceeding with the proposals in the ED.

Other projects

Status/next steps

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 November 2018, the Board tentatively decided to proceed with the proposed amendments with some modifications to include:
 - ▶ Clarifications on how entities identify the costs related to sales of items produced before an item of property, plant and equipment is capable of operating in the manner intended by management
 - ▶ Disclosure and presentation requirements

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.

- ▶ 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 is expected to decide on the project direction in Q2 2019.

Accounting Policy Changes (Amendments to IAS 8)

- ▶ 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.

- ▶ The ED was issued in March 2018.
- ▶ In December 2018, the Board discussed the summary of the feedback received on the ED. The Board will decide on the project direction at a future meeting.

Other projects

Status/next steps

Financial Instruments with Characteristics of Equity

- ▶ 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 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 DP was issued in June 2018.
- ▶ In March 2019, the Board discussed the key themes emerging from the feedback on the DP through comment letters and outreach activities. The detailed comment letter analysis will be discussed in a future meeting.

Onerous Contracts - Costs of Fulfilling a Contract (Amendments to IAS 37)

- ▶ The IASB proposed amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.
- ▶ The proposed amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.
- ▶ These proposed amendments are intended to provide clarity and help ensure consistent application of the standard.

- ▶ The ED was issued in December 2018 and is open for comment until 15 April 2019.

The table below sets out the estimated timeline for the remaining projects on the IASB's agenda as at the end of March 2019.

IASB projects	Next milestone	Expected date
Research projects		
Business Combinations under Common Control	Discussion Paper	H1 2020
Extractive Activities	Review Research	-
Goodwill and Impairment	Discussion Paper	H2 2019
Pension Benefits that Depend on Asset Returns	Review Research	H2 2019
Provisions	Review Research	H2 2019
Subsidiaries that are SMEs	Review Research	H2 2019
Standard-setting and related projects		
Management Commentary	Exposure Draft	H1 2020
Rate-regulated Activities	Discussion Paper or Exposure Draft	H2 2019
Maintenance projects		
2019 Comprehensive Review of the IFRS for SMEs Standard	Request for Information	H2 2019
Amendments to IFRS 17 <i>Insurance Contracts</i>	Exposure Draft	June 2019
Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12)	Exposure Draft	June 2019
Fees in the '10 Per Cent' Test for Derecognition (Amendments to IFRS 9)	Exposure Draft	June 2019
IBOR Reform and the Effects on Financial Reporting	Exposure Draft	May 2019
Lease Incentives (Amendments to Illustrative Example 13 accompanying IFRS 16)	Exposure Draft	June 2019
Subsidiary as a First-time Adopter (Amendments to IFRS 1)	Exposure Draft	June 2019
Taxation in Fair Value Measurements (Amendments to IAS 41)	Exposure Draft	June 2019
Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)	Exposure Draft	June 2019
Other projects		
Due Process Handbook Review	Exposure Draft	June 2019

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