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Navigating the changes to International Financial Reporting Standards

A briefing for Chief Financial Officers
December 2016

Introduction

This publication is designed to give Chief Financial Officers a high-level awareness of recent changes to International Financial Reporting Standards that will affect companies' future financial reporting. It covers both new Standards and Interpretations that have been issued and amendments made to existing ones.

This edition includes IFRS 16 – the new Standard on leasing.

What's new in the 2016 edition

The December 2016 edition of the publication has been updated for changes to International Financial Reporting Standards that have been published between 1 December 2015 and 30 November 2016.

The publication now covers 31 March 2016, 30 June 2016, 30 September 2016, 31 December 2016 and 31 March 2017 financial year ends.

Contents

The table of contents on the next page lists all the changes covered in the publication, their effective dates, and the page in the publication on which the appropriate summary can be found.

How to use the publication

Identifying the changes that will affect you

The table of contents has been colour coded to help entities planning for a specific financial reporting year end, and identifies:

- changes mandatorily effective for the first time
- changes not yet effective
- changes already in effect.

Where a change is not yet mandatorily effective for a particular year end, it may still be possible for an entity to adopt it early (depending on local legislation and the requirements of the particular change in concern).

Where a change has been made but an entity is yet to apply it, certain disclosures are required to be made under IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Disclosures required include the fact that the new or amended Standard or Interpretation is in issue but has not yet been applied, and known or reasonably estimable information relevant to assessing its possible impact on the financial statements in the period of initial application.

Identifying the commercial significance of the changes in the publication

For each change covered in the publication, we have included a box on its commercial implications. These sections focus on two questions:

- how many entities will be affected?
- what will be the impact on affected entities?

A traffic light system indicates our assessment of the answers to these questions.

Other Grant Thornton International publications

Where appropriate, references have been made to other Grant Thornton International publications that provide more detailed information on the changes discussed in this publication. A list of other recent guides is provided at the back of the publication. These publications can be obtained from your local IFRS contact or downloaded directly from our website using the links provided.

Grant Thornton International Ltd
December 2016

The publication now covers 31 March 2016, 30 June 2016, 30 September 2016, 31 December 2016 and 31 March 2017 financial year ends.

Effective dates of new Standards

(based on Standards issued at 30 November 2016)

Standard	Title of Standard or Interpretation	Effective for accounting periods beginning on or after	Page ref	31 Mar 2016 year end	30 Jun 2016 year end	30 Sep 2016 year end	31 Dec 2016 year end	31 Mar 2017 year end
Various	Annual Improvements to IFRSs 2010–2012 Cycle	1 July 2014	4	effective for the first time	already in mandatory effect	already in mandatory effect	already in mandatory effect	already in mandatory effect
Various	Annual Improvements to IFRSs 2011–2013 Cycle	1 July 2014	6					
IAS 19	Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)	1 July 2014	8					
IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation (Amendments to IAS 16 and IAS 38)	1 January 2016	10	not yet effective	not yet effective	not yet effective	effective for the first time	effective for the first time
IAS 16 and IAS 41	Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)	1 January 2016	11					
Various	Annual Improvements to IFRSs 2012–2014 Cycle	1 January 2016	12					
IAS 27	Equity Method in Separate Financial Statements (Amendments to IAS 27)	1 January 2016	14					
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016	15					
IFRS 14	Regulatory Deferral Accounts	1 January 2016	16					
IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	1 January 2016	18					
IAS 1	Disclosure Initiative (Amendments to IAS 1)	1 January 2016	20					
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017	22				not yet effective	not yet effective
IAS 7	Disclosure Initiative (Amendments to IAS 7)	1 January 2017	24					
IFRS 15	Revenue from Contracts with Customers[1]	1 January 2018	26					
IFRS 9 (2014)	Financial Instruments	1 January 2018	31					
IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	1 January 2018	37					
IFRS 2	Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018	39					
IFRS 16	Leases	1 January 2019	42					

The colour coding gives an indication of when the changes covered in the publication become effective in relation to the specific financial reporting year ends set out in the table.

Key: Change already in mandatory effect Change effective for the first time Change not yet effective

Notes:

1 The article on IFRS 15 includes 'Clarifications to IFRS 15', amendments made to IFRS 15 that are also effective 1 January 2018.

2 The IASB also issued **'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)'** which was due to be effective from 1 January 2016. However in December 2015, the effective date of these amendments was deferred indefinitely. Entities are still permitted to apply these amendments and therefore they are included on page 47 of this publication.

Effective from 1 July 2014

The Standards discussed on pages four to eight are effective for accounting periods beginning on or after 1 July 2014.

It may be possible to apply these changes early depending on local legislation and the requirements of the particular change in concern. The Standards are:

- Annual Improvements to IFRSs 2010-2012 Cycle
- Annual Improvements to IFRSs 2011-2013 Cycle
- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

Annual Improvements to IFRSs 2010-2012 Cycle

Issued in December 2013, 'Annual Improvements to IFRSs 2010-2012 Cycle' is a collection of amendments to IFRSs, in response to issues that were discussed by the IASB during the 2010-2012 project cycle that began in 2010, and which were subsequently included in an Exposure Draft published in May 2012. The IASB uses the process for making non-urgent, but necessary, minor amendments to IFRSs that will not be included as part of any other project.

A summary of the issues addressed is set out in the table:

Summary of Improvements to IFRSs 2010-2012

Standard affected	Subject	Summary of amendment
IFRS 2 'Share-based Payment'	Definition of vesting conditions	• clarifies the definition of 'vesting conditions' by defining a 'performance condition' and a 'service condition' • amends the definition of a 'market condition' to clarify that a market condition is a performance condition • clarifies that a 'market condition' can be based on the market price (or value) of the entity's equity instruments or the equity instruments of another entity in the same group • clarifies that a share market index is a non-vesting condition because it not only reflects the performance of the entity, but also of other entities outside the group.
IFRS 3 'Business Combinations'	Accounting for contingent consideration in a business combination	• clarifies that the classification of contingent consideration in a business combination as either a financial liability or an equity instrument is based solely on the requirements of IAS 32 'Financial Instruments: Presentation' • states that the subsequent measurement of contingent consideration in a business combination should be measured at fair value at each reporting date and changes in fair value should be recognised in profit or loss, regardless of whether it is a financial instrument or a non-financial instrument.
IFRS 8 'Operating Segments'	Aggregation of operating segments Reconciliation of the total of the reportable segments' assets to the entity's assets	• requires entities to disclose the judgements made in identifying their reportable segments when operating segments have been aggregated, including a brief description of the operating segments that have been aggregated and the economic indicators that determine the aggregation criteria • clarifies that the entity is required to provide a reconciliation between the total reportable segments' assets and the entity's assets only if the segment assets are regularly reported to the chief operating decision maker.

Summary of Improvements to IFRSs 2010-2012

Standard affected	Subject	Summary of amendment
IFRS 13 'Fair Value Measurement'	Short-term receivables and payables	• amends the Basis for Conclusions to clarify that an entity is not required to discount short-term receivables and payables without a stated interest rate below their invoice amount when the effect of discounting is immaterial.
IAS 16 'Property, Plant and Equipment'	Revaluation method-proportionate restatement of accumulated depreciation	• addresses the diversity in practice in calculating the accumulated depreciation for an item of PP&E that is measured using the revaluation method • clarifies that the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount • clarifies that the accumulated depreciation is calculated as the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.
IAS 24 'Related Party Disclosures'	Key management personnel	• amends the definition of a 'related party' in order to include 'management entities' that provide key management personnel services to the reporting entity • requires the disclosure of the amounts recognised by the reporting entity as a service fee to a separate management entity for the provision of the key management personnel services • provides a relief so that the reporting entity is not required to disclose components of the compensation to key management personnel where the compensation is paid via a management entity.
IAS 38 'Intangible Assets'	Revaluation method-proportionate restatement of accumulated amortisation	• makes equivalent changes to the accounting of intangible assets, as described above for IAS 16 'Property, Plant and Equipment'.

The amendments to IFRSs contained in the publication are effective for annual periods beginning on or after 1 July 2014, although entities are permitted to apply them earlier. Certain of the amendments are effective on a prospective basis.

Commercial significance

Number of entities affected: Few

The amendments make changes to relatively narrow areas within IFRSs.

Impact on affected entities: Low

The IASB's Annual Improvements process addresses non-urgent, but necessary minor amendments to IFRSs. By their nature then, their commercial significance can be expected to be low. Overall the changes are uncontroversial.

Annual Improvements to IFRSs 2011-2013 Cycle

Issued in December 2013, 'Annual Improvements to IFRSs 2011-2013 Cycle' is a collection of amendments to IFRSs, in response to issues that were discussed by the IASB during the 2011-2013 project cycle that began in 2011, and which were subsequently included in an Exposure Draft published in November 2012. The IASB uses the process for making non-urgent, but necessary, minor amendments to IFRSs that will not be included as part of any other project.

A summary of the issues addressed is set out in the table:

Summary of Improvements to IFRSs 2011-2013

Standard affected	Subject	Summary of amendment
IFRS 1 'First-time Adoption of International Financial Reporting Standards'	Meaning of 'effective IFRSs'	Amends the Basis for Conclusions to clarify that a first time adopter has the choice between: • applying an existing and currently effective IFRS or • applying early a new or revised IFRS that is not yet mandatorily effective, provided that the new or revised IFRS permits early application. A first time adopter is required however to apply the same version of the IFRS throughout the periods covered by those first IFRS financial statements unless IFRS 1 provides an exemption or an exception that permits or requires otherwise.
IFRS 3 'Business Combinations'	Scope exceptions for joint ventures	• amends IFRS 3 to exclude from its scope the accounting for the formation of all types of joint arrangements as defined in IFRS 11 'Joint Arrangements' • clarifies that the above mentioned scope exclusion only addresses the accounting in the financial statements of the joint arrangement itself, and not the accounting by the parties to the joint arrangement for their interests in the joint arrangement.
IFRS 13 'Fair Value Measurement'	Scope of paragraph 52 (portfolio exception)	• clarifies that the portfolio exception in IFRS 13.52 applies to all contracts accounted for within the scope of IAS 39 'Financial Instruments: Recognition and Measurement' or IFRS 9 'Financial Instruments', regardless of whether those contracts meet the definitions of financial assets or financial liabilities in accordance with IAS 32 'Financial Instruments: Presentation' • this means for example that commodity contracts that can be settled net in cash and which are accounted for as financial instruments, can qualify for the exemption.

Summary of Improvements to IFRSs 2011-2013

Standard affected	Subject	Summary of amendment
IAS 40 'Investment Property'	Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property	Clarifies that IFRS 3 and IAS 40 are not mutually exclusive. Therefore, in determining: • whether a property is owner-occupied property or investment property requires judgement based on IAS 40.7-14 • whether the acquisition of an investment property meets the definition of a business combination or is the acquisition of an asset, reference should be made to IFRS 3 to determine whether it is a business combination (not to IAS 40.7-14). The amendments to IAS 40 are to be applied prospectively. An entity may however choose to apply the amendment to individual transactions that occurred prior to the beginning of the first annual period occurring on or after the effective date but only where the information needed is available to the entity.

The amendments to IFRSs contained in the publication are effective for annual periods beginning on or after 1 July 2014, although entities are permitted to apply them earlier. Certain of the amendments are effective on a prospective basis.

Commercial significance

Number of entities affected: Few

The amendments make changes to relatively narrow areas within IFRSs.

Impact on affected entities: Medium

The IASB's Annual Improvements process addresses non-urgent, but necessary minor amendments to IFRSs. By their nature then, their commercial significance can be expected to be low and overall the changes are largely uncontroversial.

One change that may have more significance however is the amendment to IAS 40, which states that reference should be made to IFRS 3 to determine whether the acquisition of an investment property meets the definition of a business combination or is the acquisition of an asset. Depending on how IAS 40 has been interpreted in the past, this could lead to changes in practice in the accounting for investment properties.

Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

'Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)' makes narrow scope amendments to IAS 19 'Employee Benefits' which:

- clarify the requirements on how contributions from employees (or third parties) that are linked to service should be attributed to periods of service when accounting for post-employment defined benefit plans
- permit a practical expedient if the amount of the contributions is independent of the number of years of service.

Background

Prior to the publication of IAS 19 (Revised 2011), it was common practice for entities to deduct employee contributions to defined benefit plans from service cost in the period in which the service was rendered. IAS 19 (Revised 2011) however requires contributions that are linked to service to be attributed to periods of service as a reduction of service cost (ie as a negative benefit). Concerns were raised however about the complexity of this requirement when it was applied to simple contributory plans.

The Amendments to IAS 19

The IASB has responded to these concerns by both clarifying the requirements of IAS 19 and introducing a practical expedient to the Standard.

The practical expedient

The practical expedient applies where the amount of contributions from employees or third parties is independent of the number of years of service, and permits an entity to recognise such contributions as a reduction in the service cost in the period in which the related service is rendered, instead of attributing the contributions to the periods of service.

Examples of contributions that are independent of the number of years of service include those that are a fixed percentage of the employee's salary, a fixed amount throughout the service period or dependent on the employee's age.

The clarification of the requirements of IAS 19

Separately the IASB has clarified that if the amount of the contributions from employees or third parties is dependent on the number of years of service, then an entity shall attribute the contributions to periods of service using the same attribution method required by IAS 19.70 for the gross benefit (ie either using the plan's contribution formula or on a straight-line basis).

IAS 19.93 had previously caused confusion by stating that contributions from employees or third parties in respect of service are attributed to periods of service as a negative benefit in accordance with IAS 19.70, and then stating that the net benefit is attributed in accordance with IAS 19.70.

Commercial significance

Number of entities affected: Some

The Interpretation will only affect entities with defined benefit pension schemes.

Impact on affected entities: Medium

The introduction of the practical expedient for accounting for certain contributions from employees or third parties should alleviate the need for complex calculations, and disruption to established practices, in relation to straightforward employee contributions to defined benefit plans.

The IASB has responded to concerns raised on IAS 19 by introducing a practical expedient to the Standard.

Effective from 1 January 2016

The Standards discussed on pages 10 to 20 are effective for accounting periods beginning on or after 1 January 2016.

It may be possible to apply these changes early depending on local legislation and the requirements of the particular change in concern. The Standards are:

- Clarification of acceptable methods of depreciation and amortisation (Amendments to IAS 16 and IAS 38)
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)
- Annual Improvements to IFRSs 2012-2014 Cycle
- Equity Method in Separate Financial Statements (Amendments to IAS 27)
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- IFRS 14 Regulatory Deferral Accounts
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
- Disclosure Initiative (Amendments to IAS 1)

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

In May 2014, amendments were made to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets' in order to address depreciation and amortisation methods which are based on revenue.

The amendments stem from concerns regarding the use of a revenue-based method for depreciating an asset. By way of background, the two Standards require that a depreciation or amortisation method should reflect the expected pattern of consumption of the future economic benefits of the asset. The amendments result from a request to clarify the meaning of the term 'consumption of the expected future economic benefits of the asset'.

The Amendments to IAS 16

The Amendments to IAS 16 prohibit the use of a revenue-based depreciation method for property, plant and equipment because:

- a depreciation method which is based on revenue allocates the asset's depreciable amount based on revenue generated in an accounting period as a proportion of total expected revenue during the asset's useful life
- revenue reflects a pattern of economic benefits that are generated from operating the business rather than the economic benefits that are being consumed through use of the asset.

The Amendments to IAS 38

The Amendments to IAS 38 present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate for the same reasons set out above. This rebuttable presumption can be overcome, ie a revenue-based amortisation method might be appropriate, only in two limited circumstances:

1. the intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold, or
2. when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Application of the diminishing balance method

In addition, the IASB has taken the opportunity to expand on the guidance on applying the diminishing balance method to property, plant and equipment and to intangible assets.

Commercial significance

Number of entities affected: Few

The amendments are fairly narrow in scope and would only impact those entities using revenue as a basis for depreciating and amortising their tangible/intangible assets.

Impact on affected entities: Medium

The amendments will require entities to reconsider their basis for depreciating their assets. While such a change would be accounted for prospectively as a change in accounting estimate, the effect could be significant depending on the materiality of the depreciation charge.

Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)

IAS 41 'Agriculture' requires all biological assets that are related to agricultural activity to be measured at fair value less costs to sell (subject to fair value being reliably measurable), based on the principle that their biological transformation is best reflected by fair value measurement. However, there is a class of biological assets, known as bearer plants, that, once mature, are held by an entity solely to grow produce over their productive life. Examples include grape vines, rubber trees and oil palms.

Constituents told the IASB that IAS 41's fair value model was not appropriate for mature bearer plants that are no longer undergoing significant biological transformation as the way they use these assets is more similar in nature to manufacturing. The IASB listened to these concerns and made changes by issuing 'Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)'. The amendments:

- define a bearer plant as a living plant that:
  - is used in the production or supply of agricultural produce;
  - is expected to bear produce for more than one period; and
  - has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales (this definition is not met if there is a more than 'remote' likelihood that the plant will be sold as agricultural produce, incidental scrap sales excepted)
- include bearer plants within the scope of IAS 16 'Property, Plant and Equipment' instead of IAS 41 (produce growing on bearer plants remains within the scope of IAS 41)
- clarify that until bearer plants are mature, they are to be accounted for as self-constructed items of property, plant and equipment
- require any difference between fair value and the carrying amount under IAS 41 (fair value less costs to sell) at the time of initial adoption to be recognised in opening retained earnings
- exempt entities from the requirement in IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' to disclose the impact of initial application on each financial statement line item affected
- permit the fair value of the bearer plants at the beginning of the earliest period presented to be used as the deemed cost for IAS 16 purposes when first applied.

The amendments do not result in any changes to existing accounting for 'bearer livestock' or plants with more than a remote likelihood of being harvested and sold as agricultural produce.

Commercial significance

Number of entities affected: Few

The amendments will only impact those entities that have bearer plants.

Impact on affected entities: Medium

Once implemented, the amendments should serve to reduce the cost, complexity and practical difficulties of measuring bearer plants at fair value less costs to sell in the absence of markets for these assets. They will also enable the entities to better reflect the economic nature of these plants as productive assets.

Annual Improvements to IFRSs 2012-2014 Cycle

This publication is a collection of amendments to IFRSs resulting from issues that were discussed by the IASB during the project cycle for making annual improvements that began in 2012 and which were included in an Exposure Draft published in December 2013. The IASB uses the Annual Improvements process to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of any other project. By presenting the amendments in a single document rather than as a series of piecemeal changes, the IASB aims to ease the burden of change for all concerned. A summary of the issues addressed is set out in the table.

Summary of Improvements to IFRSs 2012-2014

Standard affected	Subject	Summary of amendment
IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'	Change in methods of disposal	Amends IFRS 5 to clarify that a direct reclassification of an asset (or disposal group) from being held for sale to being held for distribution (or vice-versa) is not treated as a cessation of held for sale classification. Accordingly the entity continues to measure the asset (or disposal group) at the lower of carrying amount and fair value less costs to sell. The amendments also state that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29.
IFRS 7 'Financial Instruments: Disclosures'	Servicing contracts	The amendments provide additional guidance to help entities identify the circumstances under which a contract to 'service' financial assets is considered to be 'continuing involvement' in those assets for the purposes of applying the disclosure requirements in paragraphs 42E-42H of IFRS 7. Such circumstances commonly arise when, for example, the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset or when a fixed fee is not paid in full due to non-performance of that asset.
	Applicability of the amendments to IFRS 7 to condensed interim financial statements	These amendments clarify that the additional disclosures required by the recent amendments to IFRS 7 'Disclosure–Offsetting Financial Assets and Financial Liabilities' are not specifically required for all interim periods. However, these disclosures may still be required in some circumstances to meet the general principles of IAS 34.

Summary of Improvements to IFRSs 2012-2014

Standard affected	Subject	Summary of amendment
IAS 19 'Employee Benefits'	Discount rate: regional market issue	Paragraph 83 of IAS 19 requires that the currency and term of the corporate or government bonds used to determine the discount rate for post-employment benefit obligations must be consistent with the currency and estimated term of the obligations. The amendments clarify that the assessment of the depth of the corporate bond market shall be made at the currency level rather than the country level. This will be particularly relevant to Eurozone entities with defined benefit plans.
IAS 34 'Interim Financial Reporting'	Disclosure of information 'elsewhere in the interim financial report'	The amendments clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and require the inclusion of a cross-reference from the interim financial statements to the location of this information. The amendments specify that information incorporated by cross-reference must be available to users of the interim financial statements on the same terms and at the same time as those statements.

The amendments are effective for annual periods beginning on or after 1 January 2016, although entities are permitted to apply them earlier. The amendments are effective on a retrospective basis, except for the amendments to IFRS 5 which are to be applied prospectively.

Commercial significance

Number of entities affected: Few

The amendments make changes to relatively narrow areas within IFRSs.

Impact on affected entities: Medium

The IASB's Annual Improvements process addresses non-urgent, but necessary minor amendments to IFRSs. By their nature then, their commercial significance can be expected to be low. Overall the changes are largely uncontroversial although the amendments to IAS 19 may be significant for some entities in the Eurozone that have defined benefit plans.

The IASB uses the Annual Improvements process to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of any other project.

Equity Method in Separate Financial Statements (Amendments to IAS 27)

In August 2014, the IASB published narrow scope amendments to IAS 27 'Separate Financial Statements', entitled 'Equity Method in Separate Financial Statements (Amendments to IAS 27)', which allow the use of the equity method to account for investments in subsidiaries, joint ventures and associates.

Prior to the publication of the Amendments to IAS 27, the Standard required an entity to account for its investments in subsidiaries, joint ventures and associates either at cost or in accordance with IFRS 9 'Financial Instruments' (or IAS 39 'Financial Instruments: Recognition and Measurement' where an entity has not yet adopted IFRS 9).

In responses to the IASB's 2011 Agenda Consultation, some of the IASB's constituents noted however that:

- the laws of some countries require listed companies to present separate financial statements prepared in accordance with local regulations
- those local regulations require the use of the equity method to account for investments in subsidiaries, joint ventures and associates
- in most cases, the use of the equity method would be the only difference between the separate financial statements prepared in accordance with IFRSs and those prepared in accordance with local regulations.

In response, the IASB published the Amendments to IAS 27, so introducing a third option which allows entities to account for investments in subsidiaries, joint ventures and associates under the equity method. As a result, entities will have an accounting policy choice in their separate financial statements between accounting:

- at cost
- in accordance with IFRS 9 (or IAS 39)
- under the equity method.

Entities are required to apply the same accounting for each category of investments. No transitional provisions have been included as the IASB believes entities should be able to use information that is already available to them in applying the amendments.

Commercial significance

Number of entities affected: Some

The amendments will give an additional option to entities that prepare separate financial statements that have investments in subsidiaries, joint ventures and associates.

Impact on affected entities: Medium

The inclusion of the equity method as one of the options to account for an entity's investments in subsidiaries, joint ventures and associates in the entity's separate financial statements should serve to reduce the burdens on entities in some jurisdictions and encourage greater use of IFRS.

These amendments allow the use of the equity method to account for investments in subsidiaries, joint ventures and associates.

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)

The Amendments to IFRS 11 'Joint Arrangements' provide guidance on the accounting for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business.

More specifically, the amendments state that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3 'Business Combinations', should:

- apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs apart from principles that conflict with the guidance of IFRS 11. This requirement also applies to the acquisition of additional interests in an existing joint operation and to the acquisition of an interest in a joint operation on its formation
- provide disclosures for business combinations as required by IFRS 3 and other IFRSs.

Additionally, consequential amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' have been made so that IFRS 1's exemption for past business combinations can also apply to past acquisitions of interests in joint operations in which the activity of the joint operation constitutes a business.

The amendments to IFRS 11 are to be applied prospectively for annual periods beginning on or after 1 January 2016, with earlier application permitted.

Commercial significance

Number of entities affected: Few

The amendments will affect entities accounting for the acquisition of an interest in a joint operation that constitutes a business.

Impact on affected entities: Low

Prior to the publication of the amendments, there was diversity in the way that entities accounted for the acquisition of an interest in a Joint Operation that constitutes a business. Some entities applied an IFRS 3 approach, some a cost approach and some a hybrid approach. The amendments will reduce such diversity by requiring an IFRS 3 approach to be used. The impact is softened however by the fact that the amendments are to be applied prospectively.

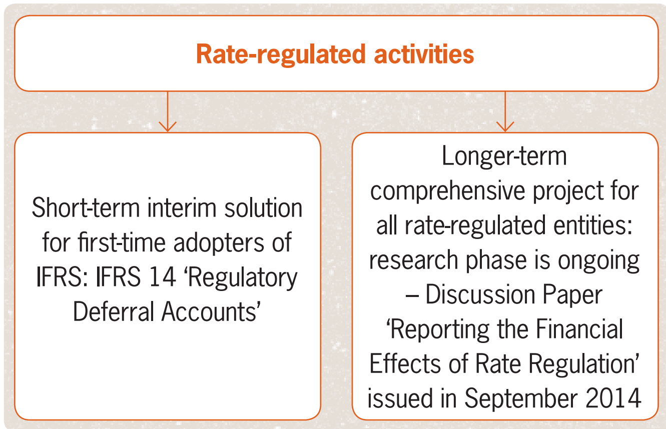
IFRS 14 Regulatory Deferral Accounts

In January 2014, the IASB issued an interim Standard on rate-regulated activities entitled IFRS 14 'Regulatory Deferral Accounts'.

Many governments regulate the supply and pricing of particular types of activity by private entities, including utilities such as gas, electricity and water. These regulations are often designed to allow the suppliers to recover specified costs and other amounts through the prices they charge to customers. However, rate regulation is also designed to protect the interests of customers. Consequently, the rate regulation may defer the recovery of these amounts in order to reduce price volatility. The suppliers usually keep track of these deferred amounts in separate regulatory deferral accounts until they are recovered through future sales of the regulated goods or services.

As a result, the requirements of some national accounting standard-setting bodies permit or require entities that are subject to certain types of rate regulation to capitalise and defer expenditures (or income) that would otherwise be recognised as expenses (or income) in the statement of profit or loss and other comprehensive income by non-rate-regulated entities. These amounts are often referred to as 'regulatory deferral' (or 'variance') accounts.

IFRS 14 has been published as an interim Standard that will allow entities that adopt IFRS for the first-time to preserve the existing accounting policies that they have in place for rate-regulated activities with some modifications designed to enhance comparability (the Standard requires that the effect of recognising the deferred account balances that arise from rate regulation must be presented separately from other items).



A longer term project will address the more difficult question of whether regulatory deferral account balances meet the definitions of assets and liabilities in the 'Conceptual Framework'. Depending on the outcome of this longer term project, the IASB could decide to issue a comprehensive Standard for rate-regulated activities or alternatively not to develop any specific requirements. In the meantime however, the publication of IFRS 14 allows entities in jurisdictions that are transitioning to IFRS to continue to use the accounting for regulatory deferral accounts that they have previously used until the outcome of the IASB's longer term project is resolved.

The following table illustrates the main points of the Standard:

Summary of IFRS 14 Regulatory Deferral Accounts

Features	Key points
Scope	• applies to first-time adopters that conduct rate-regulated activities and have recognised regulatory deferral accounts under their previous GAAP • application is not mandatory, but if a first-time adopter is eligible to apply the Standard, it must elect to do so in its first financial statements. If it does not, the entity will not be eligible to apply the Standard in subsequent periods • entities that already present IFRS financial statements are not eligible to apply IFRS 14.
Accounting requirements	• permits an entity that adopts IFRS to continue to use, in its first and subsequent IFRS financial statements, its previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral account balances • a regulatory deferral account balance is defined as the balance of any expense (or income) account that would not be recognised as an asset or a liability in accordance with other Standards, but that qualifies for deferral because it is included, or is expected to be included, by the rate regulator in establishing the rate(s) that can be charged to customers.
Presentation	Isolates impact of recognising regulatory deferral account balances in IFRS financial statements by requiring the following separate line items: Two line items in the statement of financial position: • regulatory deferral account debit balances – after total assets • regulatory deferral account credit balances – after total liabilities Two line items in the statement of profit or loss and Other Comprehensive Income (OCI): • movement in regulatory deferral account balances related to profit or loss • movement in regulatory deferral account balances related to OCI.
Disclosures	Specific disclosures are required to identify the nature of, and risks associated with, the rate regulation that has resulted in the recognition of regulatory deferral account balances in accordance with the Standard.

Commercial significance

Number of entities affected: Few

IFRS 14 is a very limited scope Standard which aims to provide a transitory solution for rate-regulated entities that have not yet adopted IFRS.

Impact on affected entities: High

The inability to recognise regulatory assets and liabilities had proved to be a significant issue which had prevented rate-regulated entities in some jurisdictions from moving to IFRS.

IFRS 14 will reduce this significant barrier to the adoption of IFRS, and should improve comparability by reducing the number of different accounting frameworks being used.

IFRS 14 'Regulatory Deferral Accounts' is an interim Standard on rate-regulated activities.

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

In December 2014, the IASB published narrow scope amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in other entities', IAS 28 'Investments in Associates and Joint Ventures' entitled 'Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)'.

The publication introduces three narrow-scope amendments to IFRS 10 and IAS 28 addressing the accounting for interests in investment entities and applying the consolidation exemption.

Exemption from preparing consolidated financial statements

Under IFRS 10 'Consolidated Financial Statements', a parent entity is exempted from preparing consolidated financial statements if it meets certain criteria. One of these criteria is that the entity's ultimate or any intermediate parent produces consolidated financial statements that are available for public use and comply with IFRSs. This gave rise to confusion over whether the exemption remains available if the ultimate or intermediate parent is an investment entity and ceases to prepare consolidated financial statements when it applies IFRS 10's investment entity exception.

The amendments confirm that the exemption from consolidation is available to parent entities that are subsidiaries of investment entities in these circumstances.

A subsidiary that provides services that relate to the parent's investment activities

The general rule under IFRS 10's investment entity exception is that an investment entity measures its subsidiaries at fair value through profit or loss. This fair value requirement applies to subsidiaries that are investments, and to subsidiaries that are themselves investment entities. There is however an exception to the exception: subsidiaries that provide services that relate to the investment entity's investment activities continue to be consolidated.

These requirements have led to some confusion over the accounting required when an investment entity's subsidiary is itself an investment entity and also provides investment-related services. IFRS 10 seemed to provide conflicting guidance on this situation.

The amendments modify IFRS 10, clarifying that the consolidation requirement applies only to subsidiaries that are not themselves investment entities and whose main purpose and activities are providing services that relate to the investment entity's investment activities.

Application of the equity method by a non-investment entity investor to an investment entity investee

IFRS 10 states that a non-investment entity parent must consolidate all entities under its control, including those controlled through an investment entity subsidiary. The non-investment entity parent cannot then retain the fair value measurement basis applied by an investment entity subsidiary. IAS 28 'Investments in Associates', however, contained no equivalent guidance as to whether a similar principle should be followed in relation to the equity method accounting applied by a non-investment entity investor to its investments in associates or joint ventures that are investment entities.

The amendments therefore add guidance to IAS 28. They provide relief to non-investment entity investors with interests in associates or joint ventures that are investment entities by allowing them to retain, when applying the equity method, the fair value measurement applied by the investment entity associates or joint ventures to their interests in subsidiaries.

Commercial significance

Number of entities affected: Few

These amendments only affect certain specific situations involving investment entities.

Impact on affected entities: Medium

We anticipate that these amendments will save entities the cost and time they would have otherwise incurred unwinding the fair value accounting applied by investment entity associates or joint ventures or preparing additional sets of consolidated financial statements, while still providing investors and other users with information that is most relevant to them.

With regards to the consolidation or non-consolidation of a subsidiary that provides services related to its investment entity parent's investment activities, the amendments should offer improved clarity to users by addressing inconsistencies in the former guidance.

The publication introduces three narrow-scope amendments to IFRS 10 and IAS 28 addressing the accounting for interests in investment entities and applying the consolidation exemption.

Disclosure Initiative (Amendments to IAS 1)

In December 2014, the IASB published narrow scope amendments to IAS 1 'Presentation of Financial Statements', entitled Disclosure Initiative (Amendments to IAS 1). The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

The amendments are part of the IASB's Disclosure Initiative project. The Disclosure Initiative itself is in part a reaction to the growing clamour over disclosure overload in financial statements. It consists of a number of projects, both short- and medium-term, and ongoing activities that explore how presentation and disclosure principles and requirements in existing Standards can be improved.

The amendments:

- clarify the materiality requirements in IAS 1, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information
- clarify that IAS 1's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated
- add requirements for how an entity should present sub-totals in the statement(s) of profit or loss and other comprehensive income and the statement of financial position
- clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order
- remove potentially unhelpful guidance in IAS 1 for identifying a significant accounting policy.

Commercial significance

Number of entities affected: Most

The amendments will impact all entities in the preparation of their financial statements.

Impact on affected entities: Low

These amendments are in the main clarifications which should reduce rather than add to the burden of financial statement preparation. They will achieve limited, short-term improvements and are a good start to the overall larger initiative.

The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements.

Effective from 1 January 2017

The Standards discussed on pages 22 to 24 are effective for accounting periods beginning on or after 1 January 2017.

It may be possible to apply these changes early depending on local legislation and the requirements of the particular change in concern. The Standards are:

- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)
- Disclosure Initiative (Amendments to IAS 7)

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

In January 2015, the IASB made narrow-scope amendments to IAS 12 'Income Taxes' entitled 'Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)'. The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.

The IFRS Interpretations Committee (IFRIC) was originally asked to clarify a number of issues surrounding the recognition of deferred tax assets related to debt instruments measured at fair value. The IFRIC referred the issue to the IASB, leading to an Exposure Draft being issued in August 2015 and now the final amendments.

Matters addressed

The amendments add guidance to the Standard in the following areas where diversity in practice previously existed:

Matters addressed by the amendments

Topic	Issue	Clarification
Existence of a deductible temporary difference	Do decreases in the carrying amount of a fixed-rate debt instrument for which the principal is paid on maturity always give rise to a deductible temporary difference if the debt instrument is measured at fair value and if its tax base remains at cost.	The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount. Consequently, decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference.
Recovering an asset for more than its carrying amount	Should an entity assume that it will recover an asset for more than its carrying amount when estimating probable future taxable profit against which deductible temporary differences are assessed for utilisation if such recovery is probable (relevant when taxable profit from other sources is insufficient for the utilisation of the deductible temporary differences related to debt instruments measured at fair value).	The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

Matters addressed by the amendments

Topic	Issue	Clarification
Probable future taxable profit against which deductible temporary differences are assessed for utilisation	When an entity assesses whether it can utilise a deductible temporary difference against probable future taxable profit, does that probable future taxable profit include the effects of reversing deductible temporary differences.	Deductible temporary differences are utilised by deduction against taxable profit, excluding deductions arising from reversal of those deductible temporary differences. Consequently, taxable profit used for assessing the utilisation of deductible temporary differences is different from taxable profit on which income taxes are payable. If those deductions were not excluded, then they would be counted twice.
Combined versus separate assessment	Should an entity assess whether a deferred tax asset is recognised for each deductible temporary difference separately, or in combination with other deductible temporary differences.	The Amendments clarify that an entity should consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of the deductible temporary difference. If tax law imposes no such restrictions, an entity assesses a deductible temporary difference in combination with all of its other deductible temporary differences.

Commercial significance

Number of entities affected: Some

The amendments will impact entities with debt instruments measured at fair value.

Impact on affected entities: Low

These amendments are narrow in scope and uncontroversial in nature.

The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.

Disclosure Initiative (Amendments to IAS 7)

In January 2015, the IASB published narrow scope amendments to IAS 7 'Statement of Cash Flows', entitled 'Disclosure Initiative (Amendments to IAS 7)'. The amendments respond to requests from investors for improved disclosures about an entity's financing activities. As their name suggests, the amendments form another part of the IASB's Disclosure Initiative.

The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes).

The amendments:

- require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgement when determining the exact form and content of the disclosures needed to satisfy this requirement
- suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including:
  - changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses
  - a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

Commercial significance

Number of entities affected: Most

The amendments will impact all entities in the preparation of their financial statements.

Impact on affected entities: Low

These amendments are in the main clarifications which should reduce rather than add to the burden of financial statement preparation. They aim to improve the disclosures about an entity's financing activities and changes in related liabilities.

The amendments respond to requests from investors for improved disclosures about an entity's financing activities.

Effective from 1 January 2018

The Standards discussed on pages 26 to 40 are effective for accounting periods beginning on or after 1 January 2018.

It may be possible to apply these changes early depending on local legislation and the requirements of the particular change in concern. The Standards are:

- IFRS 15 Revenue from Contracts with Customers[1]
- IFRS 9 (2014) Financial Instruments
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

[1] Includes 'Clarifications to IFRS 15' issued in April 2016

IFRS 15 Revenue from Contracts with Customers

IFRS 15 'Revenue from Contracts with Customers' is the product of a major joint project between the IASB and the US Financial Accounting Standards Board. The previous requirements of IFRS and US GAAP were not harmonised and often resulted in different accounting treatments for economically significant transactions. In response, the Boards have developed new, fully converged requirements for the recognition of revenue under both IFRS and US GAAP. IFRS 15:

- replaces IAS 18 'Revenue', IAS 11 'Construction Contracts' and some revenue-related Interpretations
- establishes a new control-based revenue recognition model
- changes the basis for deciding whether revenue is recognised at a point in time or over time
- provides new and more detailed guidance on specific topics
- expands and improves disclosures about revenue.

IFRS 15 at a glance

Features	Key points
Who is affected?	• all entities that enter into contracts with customers with few exceptions
What is the impact?	• entities affected will need to reassess their revenue recognition policies and may need to revise them • the timing and amount of revenue recognised may not change for simple contracts for a single deliverable but most complex arrangements will be affected to some extent • IFRS 15 requires more and different disclosures
When are the changes effective?	• annual periods beginning on or after 1 January 2018 • early application is permitted.

A five step model for revenue recognition

1. Identify the contract(s) with the customer
2. Identify the separate performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognise revenue when or as an entity satisfies performance obligations

IFRS 15 is based on a core principle that requires an entity to recognise revenue:

- in a manner that depicts the transfer of goods or services to customers
- at an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services.

A "customer" is defined as "a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities."

Applying this core principle involves following a five step model depicted above. The following table expands on the factors to consider in applying this new model.

The 'five step model'

	Step	Principal considerations	Other factors to consider
1.	**Identify the contract(s) with a customer**	The first step in IFRS 15 is to identify the "contract," which IFRS 15 defines as "an agreement between two or more parties that creates enforceable rights and obligations." A contract can be written, oral, or implied by an entity's customary business practices. In addition the general IFRS 15 model applies only when or if: • the contract has commercial substance • the parties have approved the contract • the entity can identify – each party's rights – the payment terms for the goods and services to be transferred • it is probable the entity will collect the consideration. If a customer contract does not meet these criteria, revenue is recognised only when either: • the entity's performance is complete and substantially all of the consideration in the arrangement has been collected and is non-refundable • the contract has been terminated and the consideration received is non-refundable. For purposes of IFRS 15, a contract does not exist if each party has an enforceable right to terminate a wholly unperformed contract without compensating the other party.	Guidance is also given on: • combining contracts • contract modifications.
2.	**Identify the separate performance obligations in the contract**	Having identified a contract, the entity next identifies the performance obligations within that contract. A performance obligation is a promise in a contract with a customer to transfer either (1) a good or service, or a bundle of goods or services, that is 'distinct'; or (2) a series of distinct goods or services that are substantially the same and meet certain criteria. Performance obligations are normally specified in the contract but could also include promises implied by an entity's customary business practices, published policies or specific statements that create a valid customer expectation that goods or services will be transferred under the contract.	Guidance is given on the criteria that need to be met in order to determine whether a promised good or service is distinct.
3.	**Determine the transaction price**	Under IFRS 15, the "transaction price" is defined as the amount of consideration an entity expects to be entitled to in exchange for the goods or services promised under a contract, excluding any amounts collected on behalf of third parties (for example, sales taxes). The transaction price is not adjusted for effects of the customer's credit risk, but is adjusted if the entity (eg based on its customary business practices) has created a valid expectation that it will enforce its rights for only a portion of the contract price.	An entity must consider the effects of all the following factors when determining the transaction price: • variable consideration • the constraint on variable consideration • time value of money • non-cash consideration • consideration payable to the customer.
4.	**Allocate the transaction price to the performance obligations**	Under IFRS 15, an entity allocates a contract's transaction price to each separate performance obligation within that contract on a relative stand-alone selling price basis at contract inception. IFRS 15 defines a stand-alone selling price as "the price at which an entity would sell a promised good or service separately to a customer."	IFRS 15 suggests, but does not require, the following three methods as suitable for estimating the stand-alone selling price: • adjusted market assessment approach • expected cost plus margin approach • residual approach.
5.	**Recognise revenue when or as an entity satisfies performance obligations**	Under IFRS 15, an entity recognises revenue when or as it transfers promised goods or services to a customer. A "transfer" occurs when the customer obtains control of the good or service. A customer obtains control of an asset (good or service) when it can direct the use of and obtain substantially all the remaining benefits from it. Control includes the ability to prevent other entities from directing the use of and obtaining the benefits from an asset. The benefits of an asset are the potential cash flows that can be obtained directly or indirectly from the asset in many ways.	A key part of the model is the concept that for some performance obligations control is transferred over time while for others control transfers at a point in time. Guidance is given in the Standard to help entities decide which is appropriate.

Other matters

In addition to the items discussed above in relation to the five step model, IFRS 15 contains guidance on a number of other matters including:

- contract costs
- warranties
- licensing
- rights of return and repurchase obligations.

The Grant Thornton International Ltd IFRS team has published a special edition of IFRS News on IFRS 15 'Revenue from Contracts with Customers'. The special edition takes readers through the key features of the new Standard and gives practical insights into how it may affect entities. This edition has recently been updated to incorporate the changes made to IFRS 15 when the IASB issued 'Clarifications to IFRS 15' in April 2016. To obtain a copy of the special edition, please get in touch with the IFRS contact in your local Grant Thornton office or go to **www.grantthornton.global/en/insights/articles/ifrs-news-special-edition-on-ifrs-15/**.

Effective date and transition

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. Early adoption is permitted.

Entities are required to apply the new revenue Standard either:

- retrospectively to each prior period presented, subject to some practical expedients or
- retrospectively, with the cumulative effect of initial application recognised in the current period.

An entity that chooses to restate only the current period is required to provide the following additional disclosures in the initial year of adoption:

- the current year impact of applying the new revenue Standard by financial statement line item
- an explanation of the reasons behind the significant impacts.

The previous requirements of IFRS and US GAAP were not harmonised and often resulted in different accounting treatments for economically significant transactions. In response, the Boards have developed new, fully converged requirements for the recognition of revenue under both IFRS and US GAAP.

Change of effective date

In September 2015, in view of the possibility of clarifying changes being made to the new Standard (refer below, these were subsequently made in April 2016), the IASB decided that a one-year deferral to IFRS 15's effective date was needed in order to ensure entities have the time required to consider both the original guidance and the forthcoming clarifications. Therefore, in September 2015 the IASB changed the effective date of IFRS 15 from 1 January 2017 to 1 January 2018.

Clarifications to IFRS 15

Following discussions with the Revenue Transition Resource Group ('TRG'), in April 2016 the IASB published 'Clarifications to IFRS 15 Revenue from Contracts with Customers' ('the Amendments') addressing several targeted clarifications to IFRS 15. The TRG was formed by both the FASB and the IASB Boards after issuing the new standard in 2014 and is tasked with supporting the implementation of IFRS 15. While a total of five topics discussed by the TRG indicated the possible need for clarification, the IASB has elected to address just three of these, striking a balance between being responsive to issues raised while minimising disruption to the implementation process. The Amendments also introduce two practical expedients available for use by entities implementing the new Standard.

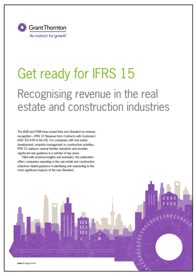
The Amendments clarify the application of IFRS 15 in three specific areas to reduce the amount of diversity in practice that might otherwise result from differing views on how to implement the requirements of the new standard. They will help companies:

- identify performance obligations (by clarifying how to apply the concept of 'distinct')
- determine whether a company is a principal or an agent in a transaction (by clarifying how to apply the control principle)
- determine whether a licence transfers to a customer at a point in time or over time (by clarifying when a company's activities significantly affect the intellectual property to which the customer has rights).

The Amendments also create two additional practical expedients available for use when implementing IFRS 15:

- for contracts that have been modified before the beginning of the earliest period presented, the Amendments allow companies to use hindsight when identifying the performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations
- companies applying the full retrospective method are permitted to ignore contracts already complete at the beginning of the earliest period presented.

The Amendments are effective for annual periods beginning on or after 1 January 2018 (the effective date of the new Standard). Earlier application is permitted.



The Grant Thornton International Ltd IFRS team has released 'Get ready for IFRS 15 – Recognising revenue in the real estate and construction indusries', our first more detailed look at the issues facing companies as they prepare themselves for IFRS 15. To obtain your copy, please get in touch with the IFRS contact in your local Grant Thornton office or go to **www.grantthornton.global/en/insights/articles/get-ready-for-ifrs-15-rec/**.

In April 2016, the IASB published 'Clarifications to IFRS 15 Revenue from Contracts with Customers' addressing several targeted clarifications to IFRS 15.

The Grant Thornton International Ltd IFRS Team has released six publications in a series of 'industry insights' on IFRS 15 'Revenue from Contracts with Customers'.

The industry insights publications look at what the new Standard means for the following industries:

- construction
- software & cloud services
- retail
- manufacturing
- real estate
- life sciences.

To obtain a copy of any of the industry insights publications, please get in touch with the IFRS contact in your local Grant Thornton office or go to **www.grantthornton.global/en/service/Assurance/ifrs/accounting-for-revenue-under-ifrs-15/**.

Commercial significance

Number of entities affected: Most

IFRS 15 impacts all entites that enter into contracts with customers with few exceptions.

Impact on affected entities: High

The impact on the top line will very much depend on each entity's specific customer contracts and how the much less detailed existing Standards have been applied. For some it will be a significant shift while others may see only minor changes. Entities are advised to start their assessment of IFRS 15 now in order to determine the impact on their financial statements.

IFRS 9 (2014) Financial Instruments

The IASB began its overhaul of the accounting for financial instruments in the summer of 2009 in response to the widespread criticism of IAS 39 and its alleged role in contributing to the financial crisis of 2007/8. Due to the complexity of the issues involved, the project was completed in a number of stages as follows:

- November 2009: the classification and measurement of financial assets
- October 2010: requirements for classifying and measuring financial liabilities and derecognising financial assets and financial liabilities were added
- November 2013: requirements on hedge accounting were introduced
- July 2014: the IASB issued IFRS 9 (2014) adding requirements on impairment and amending the Standard's classification and measurement requirements.

Following the publication of IFRS 9 (2014) the Standard as a whole is now complete. The different parts of the Standard are discussed in greater detail below.

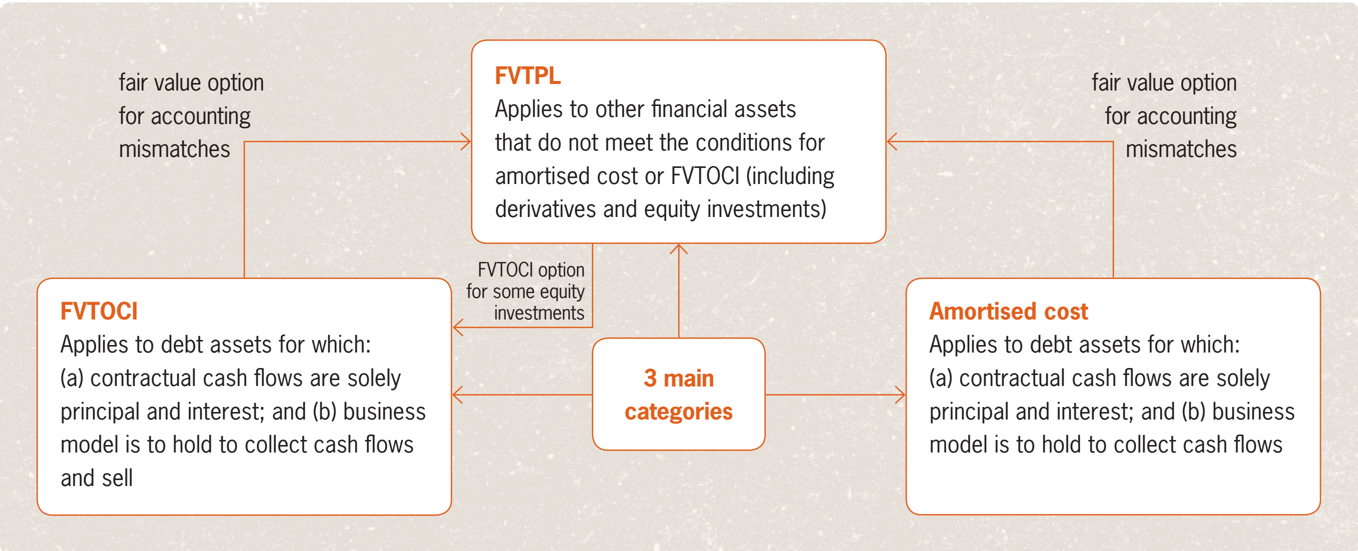
Classification and measurement of financial assets

The classification and measurement of financial assets was one of the areas of IAS 39 that received the most criticism during the financial crisis. In publishing the original version of IFRS 9, the IASB therefore made a conscious effort to reduce the complexity in accounting for financial assets by just having two categories (fair value and amortised cost). However following comments that having just two categories created too sharp a dividing line and failed to reflect the way many businesses manage their financial assets, an additional category was added in July 2014 when IFRS 9 (2014) was published.

Classification

Under IFRS 9 each financial asset is classified into one of three main classification categories:

- amortised cost
- fair value through other comprehensive income (FVTOCI)
- fair value through profit or loss (FVTPL).



The classification is determined by both:

a) the entity's business model for managing the financial asset ('business model test'); and
b) the contractual cash flow characteristics of the financial asset ('cash flow characteristics test').

The diagramme on the previous page summarises the three main categories and how the business model and cash flow characteristics determine the applicable category.

In addition, IFRS 9 contains an option which allows an entity to designate a financial asset at fair value through profit or loss and an additional option to classify investments in equity instruments in a special 'equity – FVTOCI' category.

'Get ready for IFRS 9: Classifying and measuring financial Instruments' is the first in a series of publications designed to get you ready for IFRS 9. In this issue we bring you up to speed on the Standard's new classification and measurement requirements. To obtain your copy, please get in touch with the IFRS contact in your local Grant Thornton office or go to **www.grantthornton.global/en/insights/articles/get-ready-for-ifrs-9/**.

The business model test

IFRS 9 uses the term 'business model' in terms of how financial assets are managed and the extent to which cash flows will result from collecting contractual cash flows, selling financial assets or both. The Standard positively defines two such 'business models':

- a business model whose objective is to hold the financial asset in order to collect contractual cash flows ('hold to collect'); and
- a business model in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets ('hold to collect and sell').

Business models other than the two above result in classification of financial assets at fair value through profit or loss.

The cash flow characteristics test

The second condition for classification in the amortised cost classification or FVTOCI category can be labelled the 'solely payments of principal and interest' (SPPI) test. The requirement is that the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For the purpose of applying this test, 'principal' is the fair value of the financial asset at initial recognition. 'Interest' consists of consideration for:

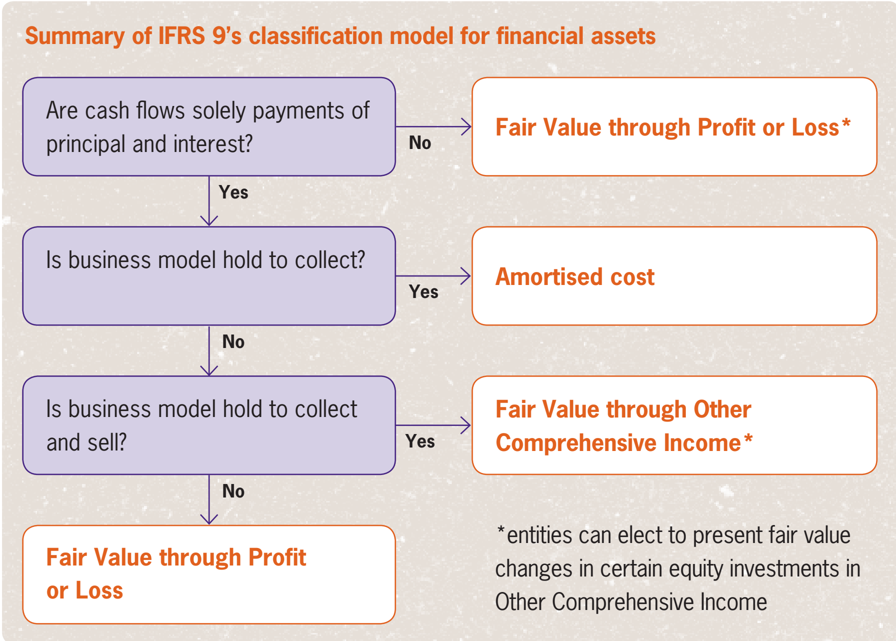
- the time value of money
- the credit risk associated with the principal amount outstanding during a particular period of time
- other basic lending risks and costs
- a profit margin.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposures to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement however, such as exposure to changes in equity prices or commodity prices, fail the SPPI test. Similarly contracts that increase leverage fail the test as they increase the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest.

IFRS 9 introduces:

- a new approach for financial asset clarification
- a more forward-looking expected loss impairment model
- major new requirements on hedge accounting.

Summary of classification model
The diagramme shows how IFRS 9's business model test and cash flow characteristics test interact in determining the classification of financial assets.



Classification and measurement of financial liabilities

In October 2010, the IASB amended IFRS 9 to incorporate requirements on the classification and measurement of financial liabilities. Most of IAS 39's requirements have been carried forward unchanged to IFRS 9. Changes were however made to address issues related to own credit risk where an entity takes the option to measure financial liabilities at fair value.

Majority of requirements retained
Under IAS 39 most liabilities are measured at amortised cost or bifurcated into a host instrument measured at amortised cost, and an embedded derivative, measured at fair value.

Liabilities that are held for trading (including all derivative liabilities) are measured at fair value. These requirements have been retained.

Own credit risk
The requirements related to the fair value option for financial liabilities have however been changed to address own credit risk. Where an entity chooses to measure its own debt at fair value, IFRS 9 now requires the amount of the change in fair value due to changes in the entity's own credit risk to be presented in other comprehensive income. This change addresses the counterintuitive way in which a company in financial trouble was previously able to recognise a gain based on its theoretical ability to buy back its own debt at a reduced cost.

The only exception to the new requirement is where the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss, in which case all gains or losses on that liability are to be presented in profit or loss.

In November 2013, the IASB amended IFRS 9 to allow these changes to be applied in isolation without the need to change any other accounting for financial instruments.

Elimination of the exception from fair value measurement for certain derivative liabilities
The new version of IFRS 9 also eliminates the exception from fair value measurement for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument. Under IAS 39, if those derivatives were not reliably measurable, they were required to be measured at cost. IFRS 9 requires them to be measured at fair value.

Simplifications compared to IAS 39

Features	Key points
Objective of the Standard	• to better align hedging from an accounting point of view with entities' underlying risk management activities
Similarities with IAS 39	• hedge accounting remains an optional choice • the three types of hedge accounting (fair value hedges, cash flow hedges and hedges of a net investment) remain • formal designation and documentation of hedge accounting relationships is required • ineffectiveness needs to be measured and included in profit or loss • hedge accounting cannot be applied retrospectively
The major changes	• increased eligibility of hedged items • increased eligibility of hedging instruments and reduced volatility • revised criteria for hedge accounting qualification and for measuring hedge ineffectiveness • a new concept of rebalancing hedging relationships • new requirements restricting the discontinuance of hedge accounting.

Derecognition of financial assets and financial liabilities

In October 2010, the requirements in IAS 39 related to the derecognition of financial assets and financial liabilities were incorporated unchanged into IFRS 9.

The IASB had originally envisaged making changes to the derecognition requirements of IAS 39. In the summer of 2010, however, the IASB revised its strategy, having concluded that IAS 39's requirements in this area had performed reasonably during the financial crisis. IAS 39's derecognition requirements have therefore been incorporated into IFRS 9 unchanged, while new disclosure requirements were instead issued in October 2010 as an amendment to IFRS 7 'Financial Instruments: Disclosures'.

Hedge accounting

In November 2013, the IASB published Chapter 6 of IFRS 9 'Hedge Accounting'.

IAS 39's hedge accounting requirements had been heavily criticised for containing complex rules which either made it impossible for entities to use hedge accounting or, in some cases, simply put them off doing so. As an example, hedge effectiveness was judged on both a prospective and a retrospective basis, with a 'bright-line' quantitative range of 80-125% being used to assess retrospective effectiveness on a quantitative basis. Anything outside this range resulted in the discontinuance of hedge accounting, leading to a sharp increase in profit and loss volatility.

In part this complexity was a reflection of the fact that the hedge accounting requirements were an exception to IAS 39's normal requirements. There was however also a perception that hedge accounting did not properly reflect entities' actual risk management activities, thereby reducing the usefulness of their financial statements. IFRS 9's new requirements look to rectify some of these problems, aligning hedge accounting more closely with entities' risk management activities by:

- increasing the eligibility of both hedged items and hedging instruments
- introducing a more principles-based approach to assessing hedge effectiveness.

As a result, the new requirements should serve to reduce profit or loss volatility. The increased flexibility of the new requirements are however partly offset by entities being prohibited from voluntarily discontinuing hedge accounting and also by enhanced disclosure requirements. The table above gives a highly summarised view of the new requirements.

For more information on IFRS 9's hedge accounting requirements, please refer to our Special Edition of IFRS News 'IFRS 9 Hedge accounting' which can be obtained from your IFRS contact in your local Grant Thornton office or go to **www.grantthornton.global/en/insights/articles/ifrs9-hedge-accounting/**.

Impairment
IFRS 9 (2014) contains the Standard's requirements on impairment, including the recognition of expected credit losses. IAS 39's impairment requirements had been criticised for being overly complicated and resulting in impairment being recognised at too late a stage. IFRS 9 (2014) addresses these criticisms by applying the same impairment model to all financial instruments that are subject to impairment accounting and by using more forward-looking information. In applying this more forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category. There is also a third step to the model in the sense that for assets which actually become credit-impaired after initial recognition, interest is calculated on the asset's amortised cost (i.e. the amount net of the loss allowance) as opposed to its gross carrying amount.

'Get ready for IFRS 9: Impairment' is the second in a series of publications designed to get you ready for IFRS 9. In this issue we bring you up to speed on the Standard's new impairment requirements. To obtain your copy, please get in touch with the IFRS contact in your local Grant Thornton office or go to **www.grantthornton.global/en/insights/articles/get-ready-for-ifrs-9-issue-2/**.

Expected credit losses

Deterioration in credit quality

Stage 1 – Performing
- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk at the reporting date
- 12-month expected credit losses are recognised
- interest revenue is calculated on the gross carrying amount of the asset.

Stage 2 – Under-performing
- financial instruments that have deteriorated significantly in credit quality since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of a credit loss event
- lifetime expected credit losses are recognised
- interest revenue is still calculated on the asset's gross carrying amount.

Stage 3 – Non-performing
- financial assets that have objective evidence of impairment at the reporting date
- lifetime expected credit losses are recognised
- interest revenue is calculated on the net carrying amount (ie reduced for expected credit losses).

Credit risk = low | **Credit risk > low**

Extensive transition provisions have been included due to the complexity of the material and the phased way in which the project has been completed.

Effective date and transition disclosures

IFRS 9 (2014) introduces a new mandatory effective date for the Standard of accounting periods beginning on or after 1 January 2018.

Extensive transition provisions have been included due to the complexity of the material and the phased way in which the project has been completed.

Advantages and disadvantages of early adoption of IFRS 9

Advantages

- improved ability to align accounting with the company's business model for managing financial assets
- gives a (one-off) opportunity to reclassify financial assets on initial adoption (assuming all the criteria are met)
- only one set of impairment rules needs to be considered, with no separate impairment assessment (or losses) for investment in equity instruments
- simplified accounting for and valuation of financial instruments containing embedded derivatives in asset host contracts
- enables hedge accounting to be aligned more closely with entities' risk management activities
- avoids counter-intuitive results arising from changes in own credit risks where the option to measure financial liabilities at fair value has been taken.

Disadvantages

- need to re-evaluate the classification of all instruments within the scope of IAS 39, with consequent implications for system changes
- restricted ability to reclassify financial instruments on an ongoing basis
- system changes will need to be made in order to generate the information necessary to implement the Standard's three-stage impairment model
- inability to voluntarily discontinue hedge accounting
- complicated transition provisions as a result of the phased completion of the project.

For more information on this Standard, please refer to our Special Edition of IFRS News 'IFRS 9 (2014)', which can be obtained from your IFRS contact in your local Grant Thornton office or go to **www.grantthornton.global/en/insights/articles/ifrs-news-special-edition-on-ifrs-9/**.

Commercial significance

Number of entities affected: Most

Because the definition of a financial instrument is so wide, most companies can expect to be affected. Even companies with relatively simple debtors and creditors should consider the changes. In addition, the greater alignment of IFRS 9's hedge accounting requirements with entities risk management practices may encourage entities who engage in economic hedging to also apply hedge accounting.

Impact on affected entities: High

The new Standard, with its reduced number of measurement categories, should help to reduce the complexity in accounting for financial instruments. In the short-term however, it may lead to far reaching changes, with companies needing to re-evaluate the classification of all instruments within the scope of IAS 39.

In addition to the impact on companies' financial position and reported results, many businesses will need to collect and analyse additional data and implement changes to systems in order to implement the new requirements on impairment.

While its effective date of 2018 may seem a long way off, we strongly advise companies to start evaluating the new Standard now.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

In September 2016, the IASB published 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' which makes narrow scope amendments to IFRS 4 'Insurance Contracts'. The IASB issued the amendments to address the temporary accounting consequences of the different effective dates of IFRS 9 'Financial Instruments' and the anticipated new insurance contracts Standard. The new insurance contracts Standard is yet to be finalised and will have an effective date no earlier than 2020. This means its mandatory effective date will be after the 2018 effective date of IFRS 9.

As entities that issue insurance contracts will be affected by both IFRS 9 and the new insurance contracts Standard, there was considerable concern over the practical challenges of implementing these two significant accounting changes on different dates. Further concerns were raised over the potential for increased volatility in profit or loss if IFRS 9's new requirements for financial instruments come into force before the new insurance accounting rules.

To address these concerns while still fulfilling the needs of users of financial statements, the IASB has responded by amending IFRS 4 and introducing the:

- overlay approach – an option for all entities that issue insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise as a result of IFRS 9
- temporary exemption – an optional temporary exemption from applying IFRS 9 for entities whose activities are predominantly connected with insurance. These entities will be permitted to continue to apply the existing financial instrument requirements of IAS 39.

Overlay approach

The overlay approach aims to remove from profit or loss any additional volatility that may arise if IFRS 9 is applied together with IFRS 4. All entities would be permitted to apply it but only to certain assets (see below). Furthermore, the approach must be chosen on the initial adoption of IFRS 9.

Entities applying the overlay approach are required to apply IFRS 9 from its 1 January 2018 effective date. However they are permitted to reclassify from profit or loss to other comprehensive income an amount equal to the difference between:

- the amount reported in profit or loss when IFRS 9 is applied to the qualifying financial assets (see below); and
- the amount that would have been reported in profit or loss if IAS 39 were applied to those assets.

The amendments require the reclassification to be shown as a separate line item on the face of the statement of both profit or loss and other comprehensive income, with additional disclosures being given in order to enable users to understand it.

Only financial assets that meet both of the following criteria would qualify for the overlay approach:

- the financial assets are measured at fair value through profit or loss when applying IFRS 9 but would not have been so measured in their entirety when applying IAS 39
- the financial assets are designated by the entity as relating to insurance activities for the purposes of the overlay approach.

Temporary exemption

Temporary exemption is an option for entities whose activities are predominantly connected with insurance to defer the application of IFRS 9 until the earlier of:

- the application of the new insurance contracts Standard
- 1 January 2021.

If an entity elects to use this temporary exemption, it will continue to apply IAS 39 during this period and will be required to provide some key disclosures to assist users of financial statements to make comparisons with entities applying IFRS 9.

Entities are eligible for this deferral approach only if they have activities that are predominantly connected with insurance when considering their activities as a whole. This should be considered at the reporting entity level and they must not have previously applied IFRS 9.

As eligibility is assessed at a reporting entity level, a separate assessment should be made for separate financial statements and consolidated groups. It is therefore possible for a group still to be eligible for the exemption even if there is a non-qualifying subsidiary (for its individual financial statements) within the group, or vice versa.

Predominance should be assessed by comparing the amount of an entity's insurance contract liabilities with the total amount of its liabilities.

Unlike the overlay approach, the temporary exemption will be applied to all, rather than some, financial assets of the limited population of entities that qualify for and elect to apply this approach.

Effective date

The amendments are effective as follows:

- the overlay approach is applied when entities first apply IFRS 9
- a temporary exemption from IFRS 9 is applied for accounting periods on or after 1 January 2018.

Commercial significance

Number of entities affected: Some

The amendments will only impact entities that issue insurance contracts, and will therefore be affected by both IFRS 9 and the new insurance contracts Standard.

Impact on affected entities: Significant

These amendments will provide relief to considerable concern raised over the practical challenges of adopting two significant Standards on different dates.

The IASB issued the amendments to address the temporary accounting consequences of the different effective dates of IFRS 9 'Financial Instruments' and the anticipated new insurance contracts Standard.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

In April 2016 the IASB published 'Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)'. We describe the three changes made by the amendments in more detail below.

Effects of vesting conditions on the measurement of a cash-settled share-based payment

Prior to the publication of the amendments, IFRS did not specifically address the impact of vesting and non-vesting conditions on the measurement of the fair value of the liability incurred in a cash-settled share-based payment transaction. The amendments address this lack of guidance by clarifying that these conditions should be accounted for consistently with equity-settled share-based payments in IFRS 2.

This means that the fair value of cash-settled awards is measured ignoring service and non-market performance conditions, but taking into account market and non-vesting conditions. This applies when estimating the fair value of the cash-settled share-based payment granted and when re-measuring the fair value at the end of each reporting period and at the date of settlement. The cumulative expense recognised is adjusted based on the number of awards that is ultimately expected to vest (the so-called 'true-up' mechanism).

Classification of share-based payment transactions with a net settlement feature for withholding tax obligations

The second amendment addresses the accounting for a particular type of share-based payment scheme. Many jurisdictions require entities to withhold an amount for an employee's tax obligation associated with share-based payments and transfer the amount (normally in cash) to the taxation authorities. As a result the terms of some schemes require the entity to deduct the number of equity instruments needed to equal the monetary value of the employee's tax obligation from the number of equity instruments that would otherwise be issued to the employee (referred to as a 'net settlement' feature).

The amendment stems from a request for guidance on whether the portion of the share-based payment that is withheld should be classified as cash-settled or equity-settled, where the entire share-based payment would otherwise have been classified as an equity-settled share-based payment transaction.

The amendment adds guidance to IFRS 2 to the effect that a scheme with this type of compulsory net-settlement feature would be classified as equity-settled in its entirety (assuming it would be so classified without the net settlement feature). Where necessary, an entity shall disclose an estimate of the amount that it expects to transfer to the tax authority to settle the employee's tax obligation.

Accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled

The third amendment addresses the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Such situations were not previously addressed by IFRS 2, so the IASB has amended the Standard so that:

- the share-based payment transaction is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification
- the liability recognised in respect of the original cash-settled share-based payment is derecognised upon the modification, and the equity-settled share-based payment is recognised (in equity) to the extent that the services have been rendered up to the modification date
- the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately.

This guidance also applies to a situation in which the modification changes the vesting period of the share-based payment transaction. The amendments also provide guidance for a grant of equity instruments that has been identified as a replacement for a cancelled cash-settled share-based payment.

Commercial significance

Number of entities affected: Few

The amendments will only impact entities with share based payments transactions.

Impact on affected entities: Medium

Some of the changes could have a fairly significant impact depending on the type of shared based payment transaction the entity has entered into.

The IASB issued changes to IFRS 2 covering the following matters:

- the accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment
- the classification of share-based payment transactions with a net settlement feature for withholding tax obligations
- the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Effective from 1 January 2019

The Standard discussed on pages 42 to 45 is effective for accounting periods beginning on or after 1 January 2019.

It may be possible to apply the changes early depending on local legislation and the requirements of the particular change in concern. The Standard is:

- IFRS 16 Leases

IFRS 16 Leases

IFRS 16 is the result of the IASB's long-running project to overhaul lease accounting, representing the first major change to lease accounting in over 30 years. The new Standard replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

IFRS 16 will require lessees to account for leases 'on-balance sheet' by recognising a 'right-of-use' asset and a lease liability. For many businesses, however, exemptions for short-term leases and leases of low value assets will greatly reduce the impact.

IFRS 16 also:

- changes the definition of a lease
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods
- changes the accounting for sale and leaseback arrangements
- largely retains IAS 17's approach to lessor accounting
- introduces new disclosure requirements.

The table summarises the main changes at a glance:

IFRS 16 Leases at a glance

Issue	Other factors to consider
Who is affected?	• entities that lease assets as a lessee or a lessor
What's the impact on lessees?	• all leases will be accounted for 'on-balance sheet', other than short-term and low value asset leases • lease expense will typically be 'front-loaded' • lease liability will exclude: – option periods unless exercise is reasonably certain – contingent payments that are linked to sales/usage and future changes in an index/rate
What's the impact on lessors?	• only minor changes from the current Standard – IAS 17
Are there other changes?	• a new definition of a lease will result in some arrangements previously classified as leases ceasing to be so, and vice versa • new guidance on sale and leaseback accounting • new and different disclosures
When are the changes effective?	• annual periods beginning on or after 1 January 2019 • various transition reliefs • early application is permitted if IFRS 15 'Revenue from Contracts with Customers' is applied.

Scope

IFRS 16 applies to all leases for both the lessee and lessor, except for a few scope exclusions. These exclusions, some of which are similar to IAS 17's, are summarised in the table:

Scope exclusions from IFRS 16

Scope exclusion	Standard to apply
Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources	None specified. Depending on the circumstances IFRS 6 'Exploration for and Evaluation of Mineral Resources' or IAS 38 'Intangible Assets' might apply
Leases of biological assets in scope of IAS 41 held by a lessee	IAS 41 'Agriculture'
Service concession arrangements in scope of IFRIC 12	IFRIC 12 'Service Concession Arrangements'
Licences of intellectual property granted by a lessor in scope of IFRS 15	IFRS 15 'Revenue from Contracts with Customers'
Rights held under licensing agreements in scope of IAS 38 for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights*	IAS 38 'Intangible Assets'

* for leases of other types of intangible asset a lessee is permitted to apply IFRS 16 but not required to do so

Definition of a lease

Because the new lease accounting model brings many more leases 'on-balance sheet', the evaluation of whether a contract is (or contains) a lease becomes even more important than it is today.

Under IFRS 16 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'. A contract is, or contains, a lease if:

- fulfilment of the contract depends on the use of an identified asset; and
- the contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration.

In practice, the main impact of IFRS 16's new definition and supporting guidance is likely to be on contracts that are not in the legal form of a lease but involve the use of a specific asset and may therefore contain a lease.

Lessee accounting

Subject to the optional accounting simplifications discussed below, a lessee will be required to recognise its leases on the balance sheet. This involves recognising:

- a 'right-of-use' asset; and
- a lease liability.

The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is 'reasonably certain'.

In subsequent periods, the right-of-use asset is accounted for similarly to a purchased asset and depreciated or amortised. The lease liability is accounted for similarly to a financial liability using the effective interest method.

Optional accounting simplifications

IFRS 16 provides important reliefs or exemptions for:

- short-term leases (a lease is short-term if it has a lease term of 12 months or less at the commencement date)
- low-value asset leases (the assessment of value is based on the absolute value of the leased asset when new and therefore requires judgement. In the Basis for Conclusions which accompanies the Standard, however, the IASB notes that they had in mind leases of assets with a value when new of around US $5,000 or less).

If these exemptions are used, the accounting is similar to operating lease accounting under the current Standard IAS 17 'Leases'. Lease payments are recognised as an expense on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

Lessor accounting

IFRS 16's requirements for lessor accounting are similar to IAS 17's. In particular:

- the distinction between finance and operating leases is retained
- the definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as IAS 17's
- the basic accounting mechanics are also similar, but with some different or more explicit guidance in a few areas. These include variable payments; sub-leases; lease modifications; the treatment of initial direct costs; and lessor disclosures.

Sale and leaseback accounting

IFRS 16 makes significant changes to sale and leaseback accounting.

If an entity (the seller-lessee) transfers an asset to another entity (the buyer-lessor) and leases that asset back from the buyer-lessor, both the seller-lessee and the buyer-lessor determine whether the transfer qualifies as a sale. This determination is based on the requirements for satisfying a performance obligation in IFRS 15.

The Grant Thornton International Ltd IFRS team has published a special edition of IFRS News on IFRS 16 'Leases'. The special edition explains the key features of the new Standard and provides practical insights into its application and impact. To obtain your copy, please get in touch with the IFRS contact in your local Grant Thornton office or go to **www.grantthornton.global/en/insights/articles/ifrs-news-special-edition-on-ifrs-16/**.

Effective date and transition

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of this standard.

In terms of transition, IFRS 16 provides lessees with a choice between two broad methods:

- full retrospective application – with restatement of comparative information in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
- partial retrospective application – without restating comparatives. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to equity at the date of initial application. If a lessee chooses this method, a number of more specific transition requirements and optional reliefs also apply.

Commercial significance

Number of entities affected: Most

IFRS 16 will affect most companies that report under IFRS and are involved in leasing.

Impact on affected entities: High

IFRS 16 will have a substantial impact on the financial statements of lessees of property and high value equipment.

Bringing all leases on-balance sheet is controversial. The IASB has therefore made compromises to reduce the controversy, in particular exemptions for short-term and low value asset leases. As a result businesses that lease only assets such as printers and laptops will face only a limited impact. For businesses that lease 'big-ticket' assets, such as property and high-value equipment, this will however be a major change. Whatever your views on the new Standard, businesses would be well-advised to start an impact analysis sooner rather than later.

IFRS 16 will require lessees to account for leases 'on-balance sheet' by recognising a 'righ-of-use-asset' and a lease liability.

No effective date

The Standard discussed on pages 46 to 47 was due to become effective for accounting periods beginning on or after 1 January 2016; however its effective date has been postponed indefinitely.

Entities are still permitted to adopt the Standard and therefore it has been included within this publication. The Standard is:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

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

The Amendments to IFRS 10 and IAS 28 address an acknowledged inconsistency between IFRS 10 'Consolidated Financial Statements' and IAS 28 (2011) 'Investments in Associates'. This relates to accounting for transactions in which a parent entity loses control of a subsidiary by contributing it to an associate or joint venture.

The inconsistency stemmed originally from a conflict between the requirements of IAS 27 'Consolidated and Separate Financial Statements (Revised 2008)' and SIC-13 'Jointly Controlled Entities – Non-Monetary Contributions by Venturers'. While IAS 27 required the full gain or loss to be recognised on the loss of control of a subsidiary, SIC-13 required a partial gain or loss recognition in transactions between an investor and its associate or joint venture. Although IFRS 10 supersedes IAS 27, and IAS 28 (2011) supersedes both IAS 28 and SIC-13, the conflict remained.

The amendments alter IFRS 10 so that:

- the current requirements for the partial gain or loss recognition for transactions between an investor and its associate or joint venture only apply to the gain or loss resulting from the sale or contribution of assets that do not constitute a business, as defined in IFRS 3
- the gain or loss from the sale or contribution of assets that constitute a business between an investor and its associate or joint venture is recognised in full.

Corresponding amendments have been made to IAS 28 (2011) to reflect these changes. In addition IAS 28 (2011) has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

Postponement of the effective date

The 2014 amendments were due to become effective for accounting periods beginning on or after 1 January 2016. A number of questions were raised over the application of the amendments however such as how the transfer of assets would be recognised if the investor receives both assets and an equity interest, and how other requirements of IAS 28 interact with the changes made to IFRS 10. In deliberating these issues, the IASB decided that it would be better to address them as part of the research project on the equity method rather than make changes now.

In December 2015, the IASB issued 'Effective Date of Amendments to IFRS 10 and IAS 28', which therefore defers indefinitely the mandatory effective date of the 2014 amendments. The underlying issues will instead be addressed when the IASB issues any amendments resulting from its research project on equity method of accounting. Entities are still permitted to apply the 2014 amendments as the IASB does not wish to prohibit the application of better accounting. Any proposal to insert a new effective date will be exposed for public comment.

Point of view

We agree with the proposal to defer the effective date of the 2014 amendments. We believe it does not make sense to require entities to change the way they apply IAS 28 now if further amendments are likely to arise from the IASB's research project on the equity method of accounting in the near future.

Commercial significance

Number of entities affected: Few

The scope of the amendments is narrow in nature.

Impact on affected entities: Medium

The amendments offer a pragmatic solution to a well-known conflict between IFRS 10 and IAS 28.

The Amendments to IFRS 10 and IAS 28 address an acknowledged inconsistency between IFRS 10 'Consolidated Financial Statements' and IAS 28 (2011) 'Investments in Associates'. They can still be applied even though the effective date of the amendments has been deferred indefinitely.

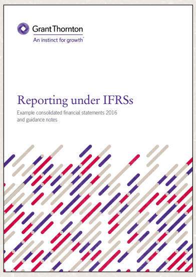
Grant Thornton's IFRS Publications

As well as the publications mentioned within the body of this publication, we also have a number of other publications including:

Example Interim Consolidated Financial Statements 2016

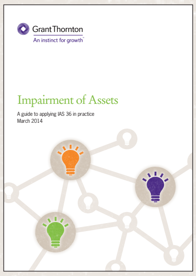
This publication illustrates the interim consolidated financial statements of a company that is an existing preparer of IFRS and produces half-yearly interim reports in accordance with IAS 34 'Interim Financial Reporting' at 30 June 2016. You can access this publication at **www.grantthornton.global/en/insights/articles/interim-consolidated-financial-statements-2016/**.

Reporting under IFRS – Example consolidated financial statements 2016



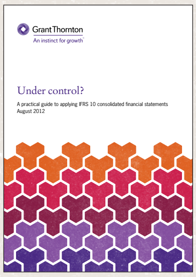
A set of illustrative consolidated financial statements for existing preparers of IFRS. The latest version of this publication has been reviewed and updated to reflect changes in IFRSs that are effective for annual periods ending 31 December 2016. You can access this publication at **www.grantthornton.global/en/insights/articles/example-financial-statements-2016/**.

Impairment of Assets: A guide to applying IAS 36 in practice



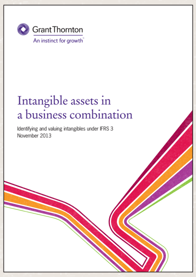
This publication summarises the overall objectives and requirements of IAS 36 'Impairment of Assets', provides a step-by-step guide to performing an impairment assessment and offers insights on best practices to address practical application issues. You can access this publication at **www.grantthornton.global/en/insights/articles/Applying-IAS-36-in-practice/**.

Under control? A practical guide to applying IFRS 10 consolidated financial statements



This publication aims to assist management in understanding the requirements of IFRS 10 'Consolidated Financial Statements' on control and consolidation as well as identifying and addressing the key practical application issues and judgements. You can access this publication at **www.grantthornton.global/en/insights/articles/under-control-applying-ifrs-10/**.

Intangible assets in a business combination – identifying and valuing intangibles under IFRS 3



This publication provides an overview of IFRS 3 'Business Combinations'. In addition, it includes practical guidance on the detection of intangible assets in a business combination and discusses the common methods used in practice to estimate their fair value. You can access this publication at **www.grantthornton.global/en/insights/articles/Valuing-intangibles-under-IFRS3/**.

IFRS News: Special edition news on the IFRS for SMEs

The IFRS for SMEs is a self-contained standard, based on full IFRS but simplified to meet the needs of the entities within its scope. In June 2015, the IASB issued amendments to the IFRS for SMEs. This special edition newsletter tells you more about these amendments and the standard in general. You can access this publication at **www.grantthornton.global/en/insights/articles/the-ifrs-for-smes/**.

IFRS Viewpoints

The Grant Thornton International Ltd IFRS Team has released the first in what will be a series of publications providing insights on applying IFRSs in challenging situations. Each edition will focus on an area where the Standards have proved difficult to apply or lack guidance.

Issue 1: Related party loans at below-market interest rates – The first IFRS Viewpoint released provides a framework for accounting for loans made by an entity to a related party that are at below-market levels of interest.

Issue 2: Acquisition of investment properties – asset purchase or business combination? – Issue 2 addresses the issue of when to treat the acquisition of investment property as a business combination and when as a simple asset purchase.

Issue 3: Inventory discounts and rebates – Issue 3 addresses how a purchaser accounts for discounts and rebates when buying inventory. Accounting for these discounts and rebates will vary depending on the type of arrangement.

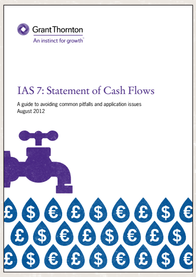
Issue 4: Common control business combinations – Issue 4 addresses how to account for a common control business combination.

Issue 5: Classification of loans with covenants – Issue 5 considers how the existence of covenants can impact the presentation of debt on the balance sheet.

Issue 6: Reverse acquisition by a listed company – Issue 6 considers how to account for a reverse acquisition by a listed company.

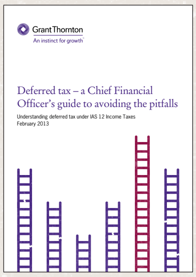
You can access these publications at **www.grantthornton.global/en/insights/viewpoint/ifrs-viewpoints-hub/**.

IAS 7: Statement of Cash flows – a guide to avoiding common pitfalls and application issues



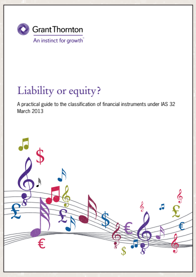
This publication provides a reminder of the requirements of IAS 7 'Statement of Cash Flows' and provides insights on avoiding the common pitfalls and application issues as seen in practice by our IFRS experts. You can access this publication at **www.grantthornton.global/en/insights/articles/cash-flow-statements--avoiding-the-pitfall/**.

Deferred tax: A chief financial officers guide to avoiding the pitfalls



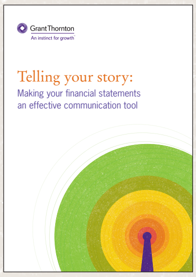
This guide illustrates the approach required by IAS 12 'Income Taxes' for the calculating deferred tax balances. It summarises the approach to calculating deferred tax in order to help CFOs prioritise and identify key issues. It also includes interpretational guidance in certain problematic areas of the calculation. You can access this publication at **www.grantthornton.global/en/insights/articles/deferred-tax--avoiding-the-pitfalls/**.

Liability or equity? A practical guide to the classification of financial instruments under IAS 32



This guide addresses the classification process of IAS 32 'Financial Instruments: Presentation'. This second edition reflects amendments that have been made to IAS 32 since the first edition in 2009, and our latest thinking on some of the more problematic areas of interpretation. You can access this publication at **www.grantthornton.global/en/insights/articles/liability-or-equity/**.

Telling your Story: Making your financial statements an effective communication tool



This publication explains and illustrates four key themes you can use to make your financial statements an effective communication tool. You can access this publication at **www.grantthornton.global/en/insights/articles/telling-your-story/**.

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