IFRS news

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Interpretation proposed on foreign currency for advance consideration

The IFRS Interpretations Committee published an exposure draft (ED) for a new interpretation on determination of the foreign currency exchange rate to translate non-monetary prepayments and deferred income liabilities. Derek Carmichael from Accounting Consulting Services provides an overview of the ED.

The Interpretations Committee (IC) was asked for guidance on determining the transaction date for foreign currency translation when an entity receives foreign currency consideration in advance of recognising the related revenue; should it be the date the advance payment is received or the date the related revenue is recognised? This date determines the spot exchange rate used to translate the advance payment.

The IC concluded that the issue would also arise on the initial recognition of other foreign currency transactions, including advance payments for purchases of property, plant and equipment or inventory, and that an interpretation was required to address diversity in practice on this issue.

Scope of the interpretation

The proposed interpretation would apply to foreign currency transactions where:

- the consideration is denominated in a foreign currency, and
- a non-monetary prepayment asset or deferred income liability is recognised in advance of the recognition of the related asset, expense or income.

It does not apply to transactions that require the related asset to be initially recognised at fair value, or to insurance contracts or income taxes.

Date of the transaction

The interpretation proposes that the transaction date used to determine the exchange rate should be the earlier of:

- the date of initial recognition of the non-monetary prepayment asset or deferred income liability; or
- the date that the asset, expense or income is recognised.

Transactions recognised in stages

Transactions will often occur in multiple stages with different dates for payment of consideration and delivery or receipt of goods or services.

The draft interpretation states that where there is more than one date, the exchange rate for each date shall be applied to the relevant part of the transaction.

How the proposals would work in practice

Where initial consideration of CU20 (currency units) is received by a seller on 1 January, delivery occurs and revenue is recognised on 31 March and final payment of CU30 is due 30 April, the exposure draft proposes:

- The seller recognises a non-monetary deferred income liability on 1 January, using the exchange rate at that date to translate the CU20.
- The deferred income is derecognised and revenue is recognised for the same amount on 31 March that is, there is no re-translation.
- A receivable and revenue is recognised for the remaining CU30, translated using the exchange rate at 31 March.
- The receivable (as a monetary asset) is re-translated until settlement with any resulting gain/loss taken to profit or loss.

The buyer in the above transaction will record its non-monetary prepayment/ asset/monetary liability using a transaction date and exchange rate determined using the same principles.

Illustrative examples

The exposure draft contains illustrative examples on how to apply the interpretation. The examples provide guidance for:

- Single advance payment for the purchase of a single item of property, plant and equipment;
- Multiple receipts for revenue recognised at a single point in time;
- Multiple payments for purchases of services recognised over a period of time;
- Multiple receipts for revenue recognised at multiple points in time.

Transition

It is proposed that entities will have a choice on how to initially apply the interpretation:

- Retrospectively to each period presented; or
- Prospectively to items in scope initially recognised on or after the beginning of the reporting period the interpretation is applied; or
- Prospectively from the beginning of a prior reporting period presented as comparative information.

What's next?

Comments on the exposure draft should be submitted by 19 January 2016.

New interpretation proposed on uncertainty over income tax treatments

John Chan from Accounting Consulting Services brings us up to speed on the proposed Interpretation to IAS 12 'Uncertainty over income tax treatments'.

The IC has observed diversity in practice in the recognition and measurement of a tax liability or asset in circumstances where there is uncertainty in the application of the tax law, and is thus proposing to issue specific guidance.

Scope and unit of account

The ED proposes that IAS 12, not IAS 37, is applied to accounting for uncertain tax treatments. Each uncertain tax treatment is considered separately, or together as a group, depending on which approach better predicts the resolution of the uncertainty. The entity considers how it prepares and supports the tax treatment and the approach that the entity expects the taxation authority to take during an examination to make this determination.

Consideration of detection risk

An entity will assume, that a taxation authority with the right to examine will examine, and have full knowledge of all relevant information when making those examinations. Therefore, an entity is not allowed to consider detection risk in the recognition and measurement of uncertain tax treatments.

Recognition and measurement

The Interpretation requires that tax assets or liabilities arising from uncertain tax treatments are assessed using a '*probable*' threshold using the recognition threshold in IAS 12.

An entity may take a particular tax position but conclude that it is not probable that the tax authority will accept the proposed tax treatment. The entity assumes that its position is rejected by the tax authorities when determining taxable profit, tax losses, tax bases, unused tax losses/credits or tax rates. The entity should use the method that provides the better prediction of the resolution of the uncertainty, either *the most likely amount* or *the expected value*.

The most likely amount may provide better prediction of the resolution of the uncertainty if the possible outcomes are binary or are concentrated on one issue or transaction. The expected value may provide better prediction of the uncertainty if the possible outcomes are widely dispersed.

The IC rejected the suggestion of using the 'cumulative-probability approach' when measuring the uncertain tax treatments. This approach is used under US GAAP, but is more complex and is not found in any other IFRS standards or interpretation.

Who is affected?

Income tax applies to nearly all entities. This draft interpretation proposes several important clarifications:

- An entity shall account for any uncertain tax treatments when it is *not probable* that the taxation authority will accept treatment.
- The same *'probable'* threshold is applied to both assets and liabilities.
- Detection risk is ignored. That is, an entity has to assume the taxation authority has the correct and full knowledge of all relevant information when making the examination.
- Measurement is not a policy choice but reflects the approach that best predicts the outcome.

What is next?

Comments on the exposure draft are due by 19 January 2016.

Proposed practice statement on application of materiality to financial statements

Madhuri Ravi Srinivasan from Accounting Consulting Services brings us up to speed on the new ED issued by the IASB as a part of its Disclosure Initiative.

The IASB has issued an ED of a Practice Statement on the application of materiality as part of its ongoing Disclosure Initiative project. The ED does not, however, address the definition of materiality, since this will be addressed in the Principles of Disclosure Discussion Paper.

Practice Statement, not a Standard

This is only the second Practice Statement proposed. The one issued Practice Statement addresses management commentary. A Practice Statement is not an authoritative part of IFRS, but it is subject to full due process. However, local jurisdictions can choose whether or not to make it a mandatory part of their national financial reporting framework.

The proposals

The exposure draft intends to aid management in applying the concept of materiality when preparing general purpose financial statements under IFRS.

The exposure draft includes guidance on:

- characteristics of materiality;
- how to apply the concept of materiality when making decisions about presenting and disclosing information in the financial statements, and
- how to assess whether omissions and misstatements of information are material to the financial statements.

It elaborates on the characteristics of materiality which include pervasiveness, the need for using when assessing materiality, consideration of qualitative and quantitative factors, and individual or collective assessment. It also discusses the importance of understanding the context of the materiality assessment when management considers presentation and disclosures in the financial statements.

The exposure draft discusses the needs of various users of general purpose financial statements and their characteristics. This discussion is based largely on the guidance included in the Conceptual Framework.

It also suggests that preparers will need to strike a balance in order to include the right level of information on the face of the financial statements and in the notes.

Finally, it also addresses the area of misstatements – identified misstatements, relating to both current and prior periods, and the expected responses by management to such misstatements.

What is next?

The comment period for this ED closes on 26 February 2016.

The draft Practice Statement does not change the definition of materiality or introduce new concepts, but we nevertheless encourage preparers to consider the proposals and respond to the IASB’s invitation to comment.

Cannon Street Press

Leases

The application date for the Leases standard should be annual periods beginning on or after 1 January 2019. Entities should be permitted to apply the new Leases standard early if the entity also applies IFRS 15 at or before the date of early application.

The IASB further tentatively decided on a number of sweep issues that came up as a result of comments received on the external review draft.

Update on IFRS 9 Impairment Transition Group

The staff informed the IASB about an issue raised at the September ITG meeting (see here) relating to the measurement of expected credit losses in respect of the undrawn portion of revolving credit facilities.

Some ITG members had noted that many banks allow customers to make drawdowns in excess of their contractually agreed credit limit. Because IFRS 9 restricts the estimation of future drawdowns to the contractual credit limit, this could give rise to a disconnect between the accounting and credit risk management view. The IASB noted the issue and concluded that the requirements of the standard are clear.

Financial Instruments with the Characteristics of Equity

The IASB discussed an analysis of the challenges associated with accounting for derivatives on 'own equity', and how IAS 32 deals with those challenges. The IASB acknowledged that any approach to classifying derivatives on 'own equity' will require a compromise between reflecting the underlying exchange of equity and non-equity instruments and the operational challenges of doing so. The IASB will continue its discussion at a future meeting.

Disclosure Initiative

The IASB instructed the staff to commence the balloting process for the Discussion Paper *Principles of Disclosure*.

Disclosures on cash and cash equivalents will not be included in the amendments to IAS 7 *Statement of cash flows* related to the reconciliation of liabilities from financing activities, which will be finalised as a stand-alone amendment to IAS 7. A broader examination of liquidity disclosures will be discussed at a future meeting, also taking into account responses to the agenda consultation.

IFRS 9 effective date for insurers and the new insurance contracts standard

The Board voted in favour of a 60 day comment letter period for the exposure draft (ED) to amend IFRS 4 *Insurance Contracts* to address concerns relating to the timing of the adoption of IFRS 9 *Financial Instruments*. The Board also decided to prohibit insurers adopting IFRS for the first time from using either the deferral or overlay approaches. The IASB's goal is to issue the ED by the end of 2015 with a comment period ending in February 2016 and a final amended standard in Q3 2016.

Classification and measurement of financial assets on transition to the new insurance contracts standard

The IASB confirmed the transition provisions proposed in the 2013 ED and decided to permit insurers to reassess their business models for IFRS 9 classification and measurement purposes upon transition to the new insurance contracts standard based on facts and circumstances that exist on initial application of that standard.

Entities are required to provide appropriate disclosures separately for each transition relief used.

Restatement of comparative information on initial application of the new insurance contracts standard

On first application of the new insurance contracts standard, all entities are required to restate comparative information about insurance contracts. An entity that has previously applied IFRS 9 and chooses to apply any of the transition reliefs for the classification and measurement of financial assets is permitted (but not required) to restate comparative information about those financial assets only if it is possible without hindsight.

Mirroring approach

The mirroring approach proposed in the IASB's 2013 ED should not be permitted or required.

Presentation and disclosure for insurance contracts

The IASB tentatively decided to confirm the 2013 ED proposals related to presentation of line items related to insurance contracts in the financial statements. Furthermore, the IASB tentatively decided upon several changes to the disclosures proposed in the 2013 ED.

Borrowing costs on completed qualifying assets

The IASB agreed with the IC's recommendation to clarify that specific borrowings should be included in the general borrowings pool once the construction of a qualifying asset has been completed. The amendment will be included in the ED *Annual Improvements 2015-2017 Cycle*.

Joint control

Remeasurement of previously held interests

The IASB agreed with the IC's recommendation to clarify that previously held interests should be remeasured when an entity obtains control over a joint operation that meets the definition of a business.

'Change of interests' transaction resulting in obtaining joint control

The IASB agreed with the IC's recommendation to clarify that previously held interests should not be remeasured when an entity that was previously a party to a joint operation obtains joint control over a joint operation that meets the definition of a business.

First fruit of the post-implementation review of IFRS 3 Business Combinations: Definition of a business

The IASB tentatively decided upon the following:

- To be considered a business, an acquired set of activities and assets (a set) must include an input and a substantive process that together contribute to the ability to create output.
- To remove the requirement that a set is a business if market participants can replace the missing elements and continue to produce outputs.
- To not consider as a business a set in which substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.
- To review the definition of outputs to focus on goods and services provided to customers.
- To add examples to help preparers to interpret what is considered a business.
- That an entity would be required to apply the proposed amendments to IFRS 3 prospectively.

IFRS Rejections in short - IAS 10

Michael Scheibli and Socheatta Ek of Accounting Consulting Services examine the practical implications of IFRIC rejections related to IAS 10.

Looking for an answer? Maybe it was already addressed by the experts.

The Interpretations Committee (IC) regularly considers anywhere up to 20 issues at its periodic meetings. A very small percentage of the issues discussed result in an interpretation. Many issues are rejected; some go on to become an improvement or a narrow scope amendment. The issues that are not taken on to the agenda end up as 'IFRIC rejections', known in the accounting trade as 'not an IFRIC' or NIFRICs. The NIFRICs are codified (since 2002) and included in the 'green book' of standards published by the IASB although they technically have no standing in the authoritative literature. This series covers what you need to know about issues that have been 'rejected' by the IC. We go standard by standard and continue with IAS 10 as per below.

IAS 10 provides guidance for whether or not, and how, an event occurring after the reporting date (but prior to authorisation of the financial statements for issue) needs to be reflected in the financial statements.

If the event provides information about conditions that existed at the reporting date, an adjustment is made. If not, the event might need to be disclosed. Although this determination is often highly judgemental, there has only been one issue discussed by the IC relating to IAS 10 which resulted in an agenda rejection.

Issue

The securities laws and regulatory practices in some jurisdictions require or permit an entity to reissue its financial statements in connection with public offerings and similar transactions. Regulators might allow or require the financial statements to be reissued ('dual-dating').

Some securities, law and regulatory practices may not require or permit the entity, in its reissued financial statements, to recognise events or transactions that occur between the time the financial statements were first authorised for issue, and the time the financial statements are reissued, unless the adjustment is required by national regulation.

IAS 10, however, requires all adjusting and non-adjusting subsequent events to be considered up until the date the financial statements are authorised for issue. In May 2013 the IC was asked to clarify whether IAS 10 would allow more than one date of authorisation for issue, in the case where financial statements may be reissued, and whether and to what extent these would then need to be updated for events that occur between the date of the original authorisation and their reissuance.

IC Considerations

In its response, the IC considered that the scope of IAS 10 is in relation to the accounting and disclosures of events that occur after the reporting period. The objective of the standard is to assist preparers in understanding when the impact of events after the reporting period should be adjusted at the reporting date as opposed to only disclosed. The IC clarified that only one date of authorisation of financial statements as defined in IAS 10 can exist.

The IC stated that IAS 10 does not cover the presentation of reissued financial statements when the originally issued financial statements are not withdrawn. Because the requirements for reissuance vary across jurisdictions, the IC decided not to add this to the agenda.

Possible Treatment

Given the agenda rejection from the IC, how should this issue be dealt with in practice? Local requirements will usually prescribe what is required or permitted to be updated with regards to events occurring between the original authorisation date and reissuance.

In our view, there are two possible scenarios when dealing with the reissueance of financial statements, other than for correcting an error:

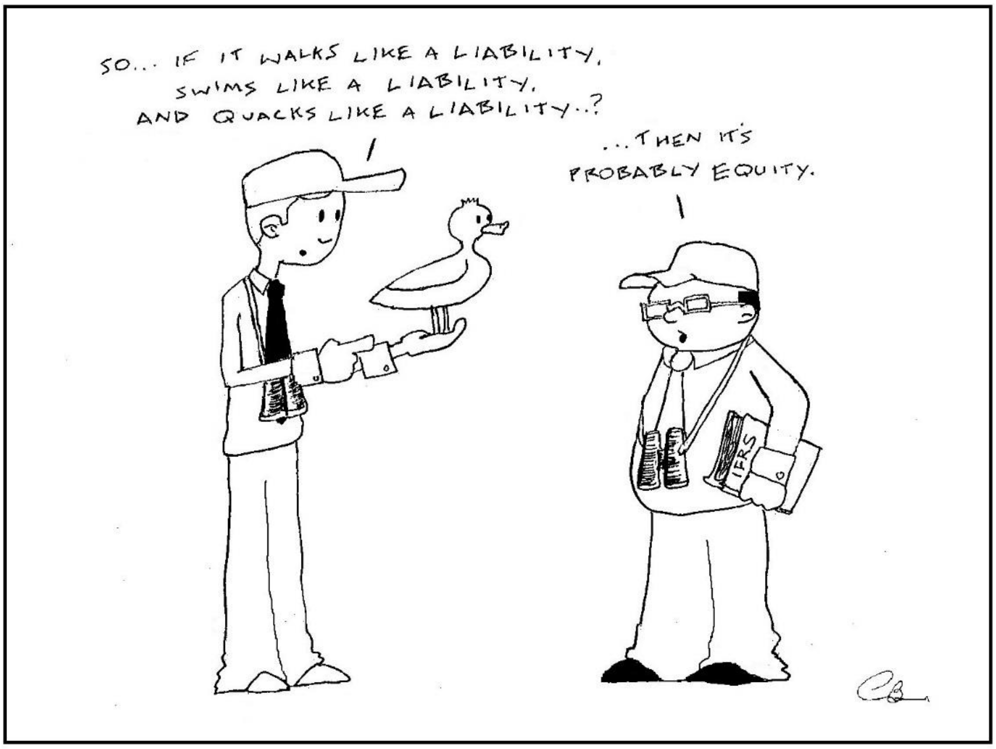
- If the reissued financial statements have a new date of authorisation, the requirements of IAS 10 should be followed with respect to adjusting and non-adjusting events occurring up to the new date of authorisation.
- If however the reissued financial statements do not have a new date of authorisation, no update should be made to reflect subsequent events after the original date of authorisation.

An example of reissued financial statements that would not have a new date of authorisation would be when the financial statements are reissued for comparative purposes in the same document as more recent financial statements and are amended in accordance with a specific requirement of IFRS to change comparative information.

Summary of IAS 10 rejections

Topic	Summary conclusion
Application of IAS 10 for financial statements reissued in connection with an offering document (May 2013)	The IC noted that IAS 10 does not address the presentation of such re-issued financial statements where the originally issued financial statements are not withdrawn. On this basis, and the fact that each jurisdiction has specific laws and regulations which may dictate the form of such reissued financial statements, the IC decided not to add this issue to their agenda.

The bit at the back…..



For further help on IFRS technical issues contact:

Business combinations and adoption of IFRS

mary.dolson@uk.pwc.com: Tel: + 44 (0) 207 804 2930

ruth.e.preedy@uk.pwc.com: Tel: + 44 (0) 207 213 2123

Liabilities, revenue recognition and other areas

tony.m.debell@uk.pwc.com: Tel: +44 (0) 207 213 5336

richard.davis@uk.pwc.com: Tel: +44 (0) 207 212 3238

Financial instruments and financial services

jessica.taurae@uk.pwc.com: Tel: + 44 (0) 207 212 5700

gabriela.d.martinez@uk.pwc.com: Tel: + 44 (0) 207 804 4464

IFRS news editor

Anna Schweizer
anna.k.schweizer@uk.pwc.com: Tel: +44 (0) 207 804 3129