IFRS news

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A look at current financial reporting issues

Player Transfer Payments (IAS 38)

At a glance

The IFRS Interpretations Committee (IC) received a request asking whether a football club recognises a transfer payment received for transferring a player to another club, gross as revenue, or, net as part of the gain or loss arising from the derecognition of an intangible asset.

The IC concluded that the football club recognises the transfer payment received net as part of the gain or loss arising from the derecognition of an intangible applying paragraph 113 of IAS 38, 'Intangible assets'. The IC also concluded that the transfer payment received is presented in the statement of cash flows as a cash flow from investing activities.

The agenda decision affects football clubs, particularly those that currently present transfer payments received gross as revenue, but it might also be relevant to other entities that use and then sell intangible assets.

What is the issue?

A football club recruits, develops and potentially sells football players as part of its ordinary activities. Players are registered in an electronic transfer system that, together with the player's employment contract, comprise a 'registration right'. The club recognises costs incurred to obtain a registration right as an intangible asset applying IAS 38. When a player is transferred to another club, the selling club receives a transfer payment as compensation for releasing the player from the employment contract and cancelling the registration. It derecognises the intangible asset when the receiving club registers the player.

The IC noted that paragraph 113 of IAS 38, which applies to the derecognition of an intangible asset, requires that 'the gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset'. Paragraph 68A of IAS 16 'Property plant and equipment' does not apply to the transaction by analogy because it applies only to a specific situation where property plant and equipment is held for rental and there is guidance for derecognising intangible assets in IAS 38.

The IC concluded that the transfer payment compensates the entity for its action in disposing of the registration right. It is therefore part of the net disposal proceeds and is recognised as part of the gain or loss arising from the derecognition of the registration right, applying paragraph 113 of IAS 38. The club does not recognise the transfer payment received or any gain arising as revenue, applying IFRS 15 'Revenue from contracts with customers'.

IAS 7 'Statement of Cash Flows' states that cash receipts from the sale of intangible assets are an example of cash flows arising from investing activities. The IC therefore concluded that transfer payments received should be presented as part of investing activities.

What is the impact and for whom?

The agenda decision applies to football clubs, particularly those that currently present transfer payments received as revenue. These entities should reconsider their existing policies in the light of the IC's conclusion and determine whether any changes are required.

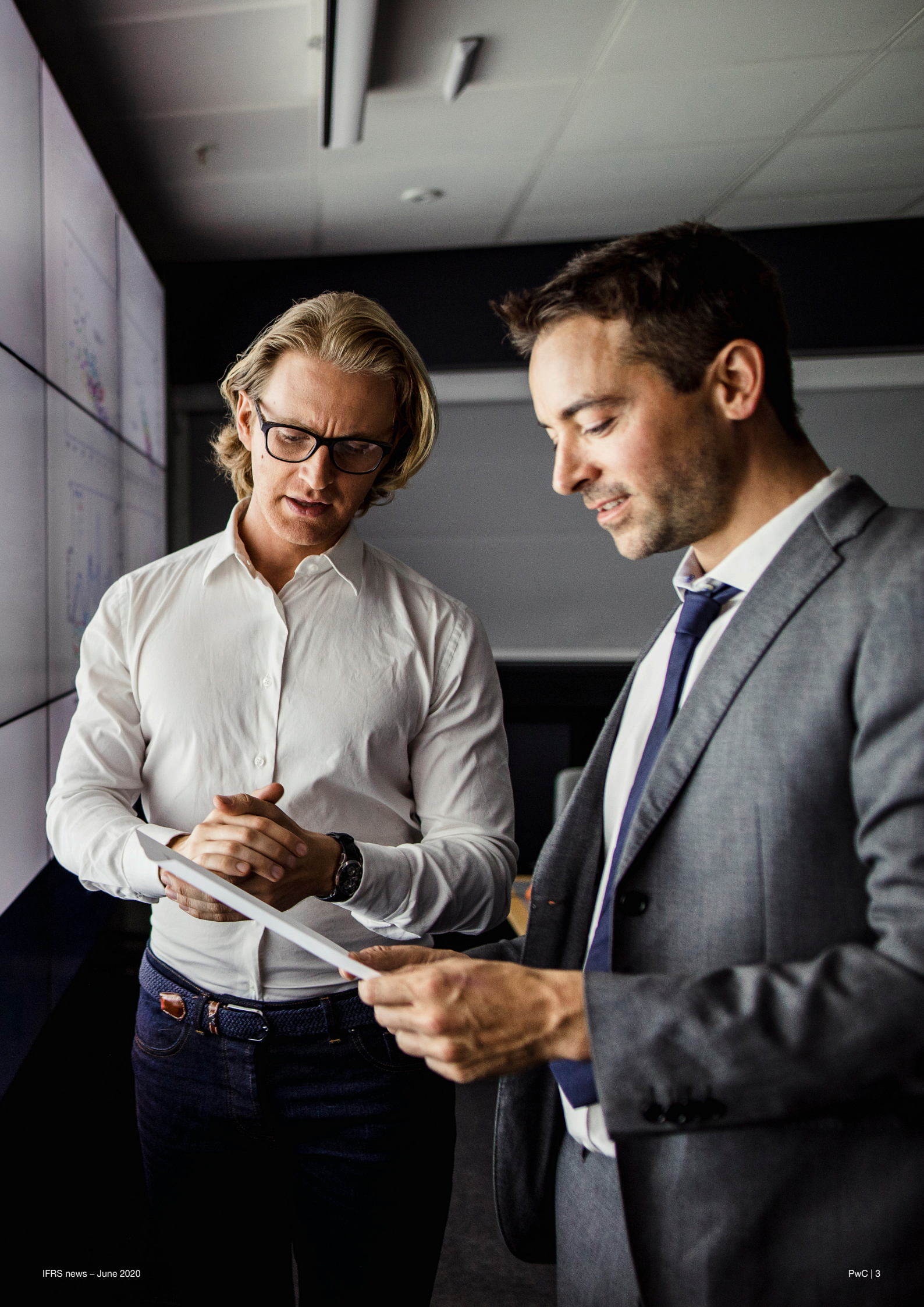
There are other industries in which entities might hold intangible assets for use in the business (for example by licensing intellectual property to third parties) and for subsequent sale. Entities that operate in these industries might also be affected, and they should consider their accounting policies and determine whether any changes are required.

When does it apply?

The agenda decision has no formal effective date. The IC has noted that agenda decisions might often result in explanatory material that was not previously available, which might cause an entity to change an accounting policy. The IASB expects that an entity would be entitled to sufficient time to make that determination and to implement any change. Any change in policy should be applied retrospectively, and comparative amounts should be restated.

Where do I get more details?

For more information, refer to the agenda decision or please contact Gary Berchowitz (gary.x.berchowitz@pwc.com) or Pablo Aligia (pablo.a.aligia@pwc.com).



Amendments to IFRS 17, 'Insurance contracts'

At a glance

The IASB issued the amendments to IFRS 17, 'Insurance contracts', on 25 June 2020, together with an amendment to IFRS 4, so that eligible insurers can still apply IFRS 9 alongside IFRS 17. This concluded the IASB's targeted amendments to IFRS 17 which aimed to ease implementation of the standard by reducing implementation costs and making it easier for entities to explain, to investors and others, the results from applying IFRS 17.

IFRS 17 should be applied to annual reporting periods beginning on or after 1 January 2023, with earlier application permitted, and the amendments should be applied at the same time.

What is the issue?

IFRS 17 was issued by the IASB (the 'Board') on 18 May 2017. IFRS 17 introduces consistent accounting requirements for insurance contracts and will replace the accounting requirements in IFRS 4, 'Insurance Contracts'.

The Board recognised that IFRS 17 introduces fundamental changes to existing insurance accounting practices and that implementing the new accounting requirements involves significant operational costs, including system development costs. Following the issuance of IFRS 17, the Board engaged in a variety of activities with stakeholders to follow its implementation. In that outreach, the Board heard concerns and implementation challenges from many stakeholders.

In response to some of the concerns and challenges raised, the Board developed targeted amendments and a number of proposed clarifications intended to ease implementation of IFRS 17,simplify some requirements of the standard and ease transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard or unduly disrupt implementation already underway. Following the Board's consultation process during 2019 and 2020, the Board has now concluded its project by issuing the amended standard.

What is the impact and for whom?

The amendments to IFRS 17 affect all companies that issue insurance contracts in all jurisdictions that apply IFRS standards, including entities outside the insurance industry that issue such contracts. The amendments to IFRS 17 include:

- **Effective date**

  The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.

- **Expected recovery of insurance acquisition cash flows**

  An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.

- **Contractual service margin attributable to investment services**

  Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.

- **Reinsurance contracts held – recovery of losses**

  When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.

- **Other amendments to IFRS 17 include:**
  - Scope exclusions for some credit card (or similar) contracts, and some loan contracts.
  - Presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups.
  - Applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss.
  - An accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17.
  - Inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows.
  - Selected transition reliefs and other minor amendments.

When does it apply?

The amended IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

Where do I get more details?

The amendments, together with a project summary and feedback statement, are available from the IASB website.

For more information, please contact your local engagement team or
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Word on the Wharf

The Board met remotely on 22–23 July 2020.

The topics, in order of discussion, were as follows:

- IBOR Reform and its Effects on Financial Reporting—Phase 2
- Disclosure Initiative—Accounting Policies
- IFRS Taxonomy (oral update)
- Maintenance and consistent application
- Extractive Activities
- Management Commentary

Coronavirus (COVID-19)

Looking for all our COVID-19 related guidance on IFRS? See Inform's dedicated topic homepage.

Accounting implications of the effects of coronavirus: PwC In depth INT2020-02

The In depth INT2020-02 continues to be updated with practical guidance, the below FAQs have been added/updated in the past two weeks:

FAQ 3.2.1 – Impact of COVID-19 payment holidays, including subsequent extensions to such holidays, on ECL staging

FAQ 3.2.6 – Cash collateral held for trade receivables or lease receivables: recognition and impact on measurement of ECL

FAQ 4.7 – Accounting by lessees for voluntary forgiveness by the lessor of lease payments

FAQ 4.8 – Accounting by operating lessors for voluntary forgiveness of amounts contractually due for past rent

FAQ 6.1.2 – Negative revenue: revision of a 'highly probable' variable transaction price due to COVID-19

FAQ 6.1.3 – Service provider shutdown due to COVID-19

FAQ 6.2.3 – Determining whether a relief or measure is a government grant within the scope of IAS 20

FAQ 9.1.2 – Classification of inventory costs, during closure, in an income statement presented by function

FAQ 10.3 – How should an entity estimate the weighted average annual effective income tax rate?

There has also been an update to the aide memoire, 'IFRS 9, financial instruments top ECL issues for corporates', with some new areas for audit teams to ask their clients about here. This includes additional links to the latest FAQs in relation to ECL for corporates.

Contacts

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