



IFRS IN PRACTICE 2019

IFRSs, Amendments to IFRSs, IFRICs and Agenda Decisions that are mandatory for 31 December 2018 year-ends and those that are effective in future periods

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1. INTRODUCTION

This publication covers changes to International Financial Reporting Standards (IFRSs) that are effective for the first time in the annual financial statements of entities with 31 December 2018 year-ends, comprising:

- New and amended IFRSs;
- IFRS Interpretations Committee Interpretations (IFRICs).

It also includes Agenda Decisions issued by the IFRS Interpretations Committee during 2018.

In addition, this publication covers changes to IFRSs that are effective in future periods, together with a discussion about major projects that are currently in progress at the International Accounting Standards Board (IASB).

Paragraph 28 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires disclosures to be made if the initial application of IFRSs, IFRICs and amendments to IFRSs has an effect on the current period or prior period (or would have an effect except that it is impracticable to determine the amount of the adjustment), or might have an effect on future periods. In some cases, retrospective application is required together with all of the related disclosures set out below. In other cases, retrospective application is not required (for example there may be prospective application, or application to transactions that take place after a specified date) or transitional reliefs are given, meaning that some of the disclosure requirements will not apply.

The disclosure requirements in the year of initial application are:

- a) The title of the IFRS;
- b) When applicable, that the change in accounting policy is made in accordance with its transitional provisions;
- c) The nature of the change in accounting policy;
- d) When applicable, a description of the transitional provisions;
- e) When applicable, the transitional provisions that might have an effect on future periods;
- f) For the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
 - i) For each financial statement line item affected; and
 - ii) If IAS 33 *Earnings per Share* applies to the entity, for basic and diluted earnings per share;
- g) The amount of the adjustment relating to periods before those presented, to the extent practicable; and
- h) If retrospective application is required but is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

In addition, IAS 8.30 requires that when a new IFRS (including amendments to IFRSs and IFRIC Interpretations) has been issued but is not yet effective, the following disclosures are required:

- a) The fact that a new IFRS has been issued but is not yet effective; and
- b) Known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.

New and amended IFRSs and IFRICs – 2018

For financial reporting years ended 31 December 2018, two new significant standards became effective:

- IFRS 9 *Financial Instruments* (IFRS 9); and
- IFRS 15 *Revenue from Contracts with Customers* (IFRS 15).

Two new IFRIC Interpretations were also issued:

- IFRIC 22 – *Foreign Currency Transactions and Advance Consideration* (IFRIC 22) with an effective date of annual reporting periods beginning on or after 1 January 2018; and
- IFRIC 23 – *Uncertainty over Income Tax Treatments* (IFRIC 23) with an effective date of annual periods beginning on or after 1 January 2019.

During 2018, the IASB continued to monitor developments around the implementation of the forthcoming standard IFRS 16 *Leases* (IFRS 16), which is effective for annual reporting periods beginning on or after 1 January 2019, although there were no formal standard setting activities. There was significant focus on issues arising from the early stages of the analysis and implementation of the requirements of IFRS 17 *Insurance Contracts* (IFRS 17) with three meetings being held of the IFRS 17 Transition Resource Group (TRG). Based on issues discussed by the TRG, the IASB has proposed to defer the effective date for IFRS 17 to annual reporting periods beginning on or after 1 January 2022.

In 2018, the IASB also published its revised *Conceptual Framework for Financial Reporting*.

The IASB also issued several amendments to various standards. Notable amendments are the revised definition of materiality and the new definition of a business. The latter will result in more transactions being accounted for as asset acquisitions in certain industries.

The new accounting standard for leases and the IFRIC Interpretation for uncertain tax positions are complex, may require significant judgements and estimates, and are likely to have a significant effect on most entities. For those entities in the insurance sector the issuance of IFRS 17 introduces fundamental accounting changes from current practice. The impact of the changes should be carefully considered and not be underestimated.

As entities begin the preparation of their first annual financial statements that include the adoption of IFRS 9 and IFRS 15, they should also well advanced in preparing for the implementation of IFRS 16. Securities regulators worldwide have indicated that they expect to see meaningful disclosures about the likely effects of adoption of IFRS 16 in 31 December 2018 annual reports, with many calling for quantitative information about its anticipated effects.

Agenda Decisions

In 2018, ten new IFRS Interpretations Committee Agenda Decisions were issued:

- Contributing property, plant and equipment to associates (IAS 28 *Investments in Associates and Joint Ventures*);
- Revenue recognition in a real estate contract that includes the transfer of land (IFRS 15 *Revenue from Contracts with Customers*);
- Revenue recognition in a real estate contract (IFRS 15 *Revenue from Contracts with Customers*);
- Presentation of interest revenue for particular financial instruments (IFRS 9 *Financial Instruments* and IAS 1 *Presentation of Financial Statements*);
- Right to payment for performance completed to date (IFRS 15 *Revenue from Contracts with Customers*);
- Classification of short-term loans and credit facilities (IAS 7 *Statement of Cash Flows*);
- Classification of a particular type of dual currency bond (IFRS 9);
- Determination of the exchange rate when there is a long-term lack of exchangeability (IAS 21 *The Effects of Changes in Foreign Exchange Rates*);
- Borrowing costs on land (IAS 23 *Borrowing Costs*);
- Expenditures on a qualifying asset (IAS 23 *Borrowing Costs*).

The Interpretations Committee is the interpretative body of the IASB. The role of the Interpretations Committee is to provide guidance on financial reporting issues which have been identified and which are not specifically addressed in IFRS, or where unsatisfactory or conflicting interpretations either have developed, or appear likely to develop. Any party which has an interest in financial reporting is encouraged to submit issues to the Interpretations Committee when it is considered to be important that the issue is addressed by either the Interpretations Committee itself, or by the IASB. When issues are raised, the Interpretations Committee normally consults a range of other parties, including national accounting standard setting bodies, other organisations involved with accounting standard setting, and securities regulators.

At each of its meetings, the Interpretations Committee considers new issues that have been raised, and decides whether they should be added to its agenda. For those issues that are not added to the agenda, a tentative agenda decision is published in the IFRIC Update newsletter which is issued shortly after each of the Interpretations Committee's meetings. These tentative agenda decisions are open to public comment for a period of 60 days, after which point they are taken back to the Interpretations Committee for further consideration in the light of any comment letters which have been received and further analysis carried out by the Staff. The tentative agenda decision is then either confirmed and reported in the next IFRIC Update, subjected to further consideration by the Interpretations Committee or referred to the IASB.

Interpretations Committee agenda decisions do not represent authoritative guidance. However, they do set out the Interpretations Committee's rationale for not taking an issue onto its agenda (or referring it to the IASB). It is noted on the IFRS Foundation's website that they 'should be seen as helpful, informative and persuasive'. In practice, it is expected that entities reporting in accordance with IFRS will take account of and follow the agenda decisions and this is the approach which is followed by securities regulators worldwide.

2. IFRSs, AMENDMENTS TO IFRSs, IFRICs AND AGENDA DECISIONS EFFECTIVE IN 31 DECEMBER 2018 YEAR-ENDS

The following table summarises new standards, amendments to standards, IFRICs and Agenda Decisions which are mandatorily effective for 31 December 2018 year-ends. The table also includes links to BDO's *global publications* and, for those entities that report in accordance with EU-endorsed IFRS, a note of the current endorsement status.

IFRSs, Amendments to IFRSs, IFRICs and Agenda Decisions	IASB Effective Date (Early Adoption permitted)*	EU-Endorsement status*	BDO IFR Publications
IFRSs			
IFRS 9 <i>Financial Instruments</i> (2014) <i>Issued: July 2014</i>	1 January 2018	Endorsed	BDO <i>IFR Bulletin</i> 2014/12 (click here) IFRS in Practice 2018 – IFRS 9 (click here) Applying IFRS 9 to Related Company Loans (click here) Applying IFRS 9 to Related Company Loans in the Real Estate Sector (click here)
IFRS 15 <i>Revenue from Contracts with Customers</i> <i>Issued: May 2014</i> <i>Amendment to change effective date to 1 January 2018</i> <i>Issued: September 2015</i> <i>Clarifications to IFRS 15</i> <i>Issued: April 2017</i>	1 January 2018	Endorsed	BDO <i>IFR Bulletin</i> 2014/08 (click here), 2014/21 (click here), and 2016/06 (click here) IFRS In Practice 2018: IFRS 15 (click here) Need to Know – IFRS 15 vs US GAAP Differences (click here)
Amendments to IFRSs			
Annual Improvements to IFRSs 2014-2016 Cycle <i>Issued: December 2016</i>	1 January 2018	Endorsed	BDO <i>IFR Bulletin</i> 2016/17 (click here)
IAS 40 <i>Investment Property</i> (Amendment – Transfers of Investment Property) <i>Issued: December 2016</i>	1 January 2018	Endorsed	BDO <i>IFR Bulletin</i> 2016/17 (click here)
IFRS 2 <i>Share-Based Payments</i> (Amendment – Classification and Measurement of Share-Based Payment Transactions) <i>Issued: June 2016</i>	1 January 2018	Endorsed	BDO <i>IFR Bulletin</i> 2017/05 (click here)
IFRS 4 <i>Insurance Contracts</i> (Amendment – Applying IFRS 9 <i>Financial Instruments</i>) <i>Issued: September 2016</i>	1 January 2018	Endorsed	BDO <i>IFR Bulletin</i> 2016/11 (click here)

IFRSs, Amendments to IFRSs, IFRICs and Agenda Decisions	IASB Effective Date (<i>Early Adoption permitted</i>)*	EU-Endorsement status*	BDO IFR Publications
IFRICs			
IFRIC Interpretation 22 – <i>Foreign Currency Transactions and Advance Consideration</i> <i>Issued: December 2016</i>	1 January 2018	Endorsed	BDO IFR Bulletin 2016/16 (click here)
Agenda Decisions			
Contributing property, plant and equipment to associates (IAS 28 <i>Investments in Associates and Joint Ventures</i>) <i>Issued: January 2018</i>			BDO IFR Bulletin 2018/01 (click here)
Revenue recognition in a real estate contract that includes the transfer of land (IFRS 15 <i>Revenue from Contracts with Customers</i>) <i>Issued: March 2018</i>			BDO IFR Bulletin 2018/01 (click here)
Revenue recognition in a real estate contract (IFRS 15 <i>Revenue from Contracts with Customers</i>) <i>Issued: March 2018</i>			BDO IFR Bulletin 2018/01 (click here)
Presentation of interest revenue for particular financial instruments (IFRS 9 <i>Financial Instruments</i> and IAS 1 <i>Presentation of Financial Statements</i>) <i>Issued: March 2018</i>			BDO IFR Bulletin 2018/01 (click here)
Right to payment for performance completed to date (IFRS 15 <i>Revenue from Contracts with Customers</i>) <i>Issued: March 2018</i>			BDO IFR Bulletin 2018/01 (click here)
Classification of short-term loans and credit facilities (IAS 7 <i>Statement of Cash Flows</i>) <i>Issued: June 2018</i>			BDO IFR Bulletin 2018/03 (click here)

IFRSs, Amendments to IFRSs, IFRICs and Agenda Decisions	IASB Effective Date (Early Adoption permitted)*	EU-Endorsement status*	BDO IFR Publications
Agenda Decisions (continued)			
Determination of the exchange rate when there is a long-term lack of exchangeability (IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i>) <i>Issued: September 2018</i>			BDO IFR Bulletin 2018/05 (click here)
Borrowing costs on land (IAS 23 <i>Borrowing Costs</i>) <i>Issued: September 2018</i>			BDO IFR Bulletin 2018/05 (click here)
Expenditures on a qualifying asset (IAS 23 <i>Borrowing Costs</i>) <i>Issued: September 2018</i>			BDO IFR Bulletin 2018/05 (click here)

* IASB effective date and EU-Endorsement status are not applicable to Interpretations Committee Agenda Decisions.

3. IFRS STANDARDS

3.1. IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* (IFRS 9) contains accounting requirements for financial instruments, including classification and measurement, impairment and hedge accounting.

Classification and measurement

IFRS 9 contains four categories for the classification and measurement of financial assets. These are:

- Amortised cost;
- Fair Value Through Other Comprehensive Income – FVTOCI;
- Fair Value Through Profit or Loss – FVTPL (residual category);
- Fair Value Through Other Comprehensive Income – FVTOCI (optional for some investments in equity instruments).

IFRS 9 introduces new criteria for the classification and measurement of financial assets to be measured at amortised cost. In order to qualify for amortised cost measurement, a two stage test is applied. Firstly, the entity's business model must be to collect the contractual cash flows from the asset, rather than generating cash flows by selling the asset to realise its fair value. Secondly, the asset must have contractual cash flows which are comprised solely of payments of principal and interest on the principal amount outstanding (often referred to as 'solely payments of principal and interest' or 'the SPPI test'). Interest is principally the time value of money plus a margin for credit risk, with the 2014 revisions to IFRS 9 adding guidance which notes that interest can contain other elements such as liquidity risk, a profit margin, and servicing/administrative costs. Guidance has also been included to cover circumstances in which the contractual cash flows do not precisely meet the definitions, such as a loan for which the interest rate is reset every three months to the six month rate.

Financial assets that pass both the business model and SPPI tests are required to be measured at amortised cost (unless the fair value option is available and elected), with all other financial assets being measured at fair value. The business model and SPPI tests are applied to the assets as a whole, with the previous guidance in IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) for embedded derivatives no longer applying to financial assets.

The second measurement category is fair value through other comprehensive income (FVTOCI). This measurement category applies to debt instruments that meet the SPPI contractual cash flow characteristics test and where the entity is holding the debt instrument in a business model which is both to collect contractual cash flows and to sell financial assets. For example, an entity with this business model might purchase a government bond with a 10 year maturity, but expect to sell the asset after collecting interest income for only three years. Financial assets in the FVTOCI category are required to be recorded on balance sheet at fair value (to reflect the cash flows that would be generated from sale) with amortised cost measurement being applied in the income statement (to reflect the collection of contractual cash flows). The difference is recorded in other comprehensive income, with the cumulative difference being recycled to profit or loss on the disposal of the financial asset.

Financial assets that fail the SPPI test, or where the entity's business model for holding the asset is not to collect contractual cash flows (in whole or in part), must be classified at fair value through profit and loss (FVTPL). In certain circumstances an entity may also be able to designate a debt instrument as at FVTPL.

The default classification of investments in equity instruments is FVTPL, because an equity instrument does not have contractual cash flows and will therefore always fail the SPPI test. However, IFRS 9 permits an entity to make an irrevocable election on the initial recognition of an equity investment, on an investment by investment basis, to include changes in fair value in other comprehensive income. This election is not available for investments that are held for trading (that is, held for short-term investment and profit taking). Note that the IFRS 9 FVTOCI category for equity investments is not the same as the Available-for-Sale category in IAS 39 as fair value gains and losses recorded in other comprehensive income are never recycled to profit or loss (including on the disposal of the investment, although the cumulative gain or loss in equity can be transferred to retained earnings by way of a reserves transfer).

The classification and measurement requirements for financial liabilities have been carried forward from IAS 39 largely unchanged, including a continuation of the requirement to separate embedded derivatives. However a significant change is that, if a financial liability is designated (under the option available in IFRS 9) as at fair value through profit or loss, changes in the fair value of that financial liability that are attributable to changes in the entity's own credit risk will normally be recorded in other comprehensive income instead of profit or loss. This change has been made in order to prevent a deterioration in an entity's financial position (and hence credit status) resulting in gains being reported in profit or loss.

Derecognition

The existing guidance for the derecognition of financial assets and liabilities has been carried forward from IAS 39 unchanged, with some improvements to disclosure requirements being added to IFRS 7 *Financial Instruments: Disclosures*.

Impairment

For the impairment of financial assets, an 'expected loss' model in IFRS 9 replaces the 'incurred loss' model in IAS 39. The new impairment requirements affect all entities with financial assets measured at amortised cost and FVTOCI, and bring significant changes. Provisions for trade receivables need to be determined using a forward looking approach, which is significantly different from, and more complex in comparison with, the incurred loss model, meaning that new systems and processes may be needed. For financial institutions, the changes are very significant and require major changes to internal systems and processes in order to capture the required information. Because of the complexity, the IASB formed a Transition Resource Group for Impairment of Financial Instruments (the ITG). Entities, in particular those in the financial services sector, need to be aware of the issues discussed by the ITG and their implications for adoption of the expected loss model.

Hedge accounting

The hedge accounting requirements of IFRS 9 are also significantly different from those set out in IAS 39, and are designed to align hedge accounting more closely with entities' risk management processes. In practice, it is significantly more straightforward to apply hedge accounting under the new model. For those entities that have previously applied hedge accounting, there is an option to continue with the approach required by IAS 39. Although this might not initially appear to be an attractive option, in practice some entities have internal systems that are designed for an IAS 39 approach.

3.2. IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers*, which is almost fully converged with equivalent US GAAP, contains comprehensive requirements for accounting for revenue and replaces existing requirements previously set out in two standards (IAS 18 *Revenue* and IAS 11 *Construction Contracts*) and related interpretations (IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*).

IFRS 15 contains significantly more prescriptive and precise requirements in comparison with existing standards. Revenue is recognised from the application of the following five steps:

1. Identify the contract;
2. Identify the performance obligation(s);
3. Determine the transaction price;
4. Allocate the transaction price to each performance obligation;
5. Recognise revenue when each performance obligation is satisfied.

The introduction of the new requirements means that for many entities the timing and profile of revenue recognition has changed. In some areas the changes are very significant, including for commercial effects (such as compliance with bank covenants, performance based remuneration and earnings based contingent consideration payable on business combinations).

4. AMENDMENTS TO IFRSs AND IFRIC INTERPRETATIONS

The IASB has issued a range of amendments to standards and one IFRIC Interpretation that is effective for the 31 December 2018 year-end. Key requirements of the amendments and interpretation are discussed below.

4.1. Annual Improvements to IFRSs 2014-2016 Cycle

There were three amendments as part of the 2014-2016 Annual Improvements Cycle. These were made to IFRS 1, IFRS 12 and IAS 28.

IFRS 1

A number of short-term exemptions in IFRS 1 *First Time Adoption of International Financial Reporting Standards* were deleted. The relief provided by these exemptions was no longer applicable.

IFRS 12

The scope of IFRS 12 *Disclosure of Interests in Other Entities* was clarified to make it clear that the disclosure requirements in this Standard, except for those in Paragraphs B10-B16, apply to interests irrespective of whether they are classified as held for sale, as held for distribution to owners or as discontinued operations in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The IASB noted that the disclosure objective of IFRS 12 is relevant to interests in other entities regardless of whether or not they are classified as held for sale, as held for distribution to owners or as discontinued operations.

IAS 28

IAS 28 *Investments in Associates and Joint Ventures*, permits an investment in an associate or joint venture to be measured at fair value through profit or loss, instead of the equity method being applied, if the investment is held directly or indirectly through a venture capital organisation, unit trust or similar entities. IAS 28 was amended to specify that a qualifying entity may elect to measure investments in associates and joint ventures at fair value through profit or loss on an investment-by-investment basis, upon initial recognition.

4.2. Amendment to IAS 40 – Transfers of Investment Property

This amendment clarifies that a transfer of a property to, or from, investment property is made when, and only when, there is change in use. It also clarifies that the transfers included in IAS 40.57 are examples of evidence that may support a change in use and not the only possible circumstances in which there is a change in use:

- Commencement of owner-occupation, or of development with a view to owner-occupation, for a transfer from investment property to owner-occupied property;
- Commencement of development with a view to sale, for a transfer from investment property to inventories;
- End of owner-occupation, for a transfer from owner-occupied property to investment property; and
- Commencement inception of an operating lease to another party, for a transfer from inventories to investment property.

4.3. Amendment to IFRS 2 *Share-Based Payments* (Amendment – Classification and Measurement of Share-Based Payment Transactions)

These amendments address the classification and measurement of share-based payment transactions for a number of situations where existing guidance is not clear. The following is a summary of the clarifications and additional guidance:

- The effects of vesting and non-vesting conditions on the measurement of a cash-settled share-based payment transaction are accounted for in accordance with the guidance for equity-settled share-based payments.
- Share-based payment transactions with certain net settlement features are classified as equity-settled if they would have been classified as equity settled without the net settlement feature. This applies to certain arrangements where an employer is required to withhold an amount for an employee's tax obligation related to a share-based payment, and pays the tax authority in cash.
- Accounting for a modification that changes the classification of a share-based payment agreement from cash-settled to equity-settled has been clarified with regard to the measurement of, and accounting for, the replacement equity-settled share-based payment, derecognition of the liability, and accounting for any difference between the carrying amount of the liability and the amount recognised for the equity-settled award (these amounts will reflect the extent to which goods and services have been received at the date of modification).

4.4. IFRS 4 *Insurance Contracts* (Amendment – Applying IFRS 9 *Financial Instruments*)

In September 2016, the IASB issued an amendment to address concerns about the different effective dates of IFRS 9 and IFRS 17. These concerns relate mainly to the potential for insurers to produce financial statements that contain two very significant changes in accounting in a short period of time, and volatility that might arise in financial statements during the period between the effective date of IFRS 9 and the new insurance standard, due to changes in measurement requirements. The amendments permit either the deferral of the adoption of IFRS 9 for entities whose predominant activity is issuing insurance contracts or an overlay approach which moves the additional volatility created by having non-aligned effective dates from profit or loss to other comprehensive income. An entity choosing to apply the overlay approach retrospectively to qualifying financial assets does so when it first applies IFRS 9. An entity choosing to apply the deferral approach does so for annual periods beginning on or after 1 January 2018.

4.5. IFRIC Interpretation 22 – *Foreign Currency Transactions and Advance Consideration*

IFRIC 22 addresses how to determine the date of transaction for the purpose of determining the spot exchange rate used to translate foreign currency transactions on initial recognition in circumstances when an entity pays or receives some or all of the foreign currency consideration in advance of the recognition of the related asset, expense or income.

The interpretation states that the date of the transaction, for the purpose of determining the spot exchange rate used to translate the related asset, expense or income (or part of it) on initial recognition, is the earlier of:

- (a) The date of initial recognition of the non-monetary prepayment asset or the non-monetary deferred income liability; and
- (b) The date that the asset, expense or income (or part of it) is recognised in the financial statements.

5. AGENDA DECISIONS

The Interpretations Committee issued nine agenda decisions during 2018.

5.1. Contributing property, plant and equipment to associates (IAS 28 *Investments in Associates and Joint Ventures*)

The Interpretations Committee received a request about how an entity accounts for a transaction in which it contributes property, plant and equipment (PPE) to a newly-formed associate. The request asked:

- Whether IFRS Standards provide a general exception or exemption from applying the requirements in a particular standard to common control transactions (Question A);
- Whether an investor recognises any gain or loss on contributing PPE to an associate to the extent of other investors' interests in the associate (Question B); and
- How an investor determines the gain or loss on contributing PPE to the associate and whether cost of its resulting interest should be based on the fair value of the PPE contributed or the fair value of the acquired interest (Question C).

Question A

The Interpretations Committee observed that Paragraph 7 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires an entity to apply an IFRS Standard to a transaction when that Standard applies specifically to the transaction. Therefore, unless a Standard specifically excludes common control transactions from its scope, an entity should apply the applicable requirements in the Standard to common control transactions.

Question B

Paragraph 28 of IAS 28 requires an entity to recognise gains and losses from transactions with associates only to the extent of unrelated investors' interests. The Interpretations Committee observed that the term 'unrelated investors' refers to investors other than the entity (including its consolidated subsidiaries) and does not mean the opposite of 'related' as used in the definition of a related party in IAS 24 *Related Party Disclosures*.

Accordingly, the Interpretations Committee concluded that an entity recognises any gain or loss on contributing PPE to an associate to the extent of other investors' interests in the associate.

Question C

The Interpretations Committee:

- Noted that this question is only relevant if it is determined that the fair value of PPE contributed differs from the fair value of the equity interest in the associate received in exchange. If there is initially any indication that the fair values differ, the investor should first assess the reasons for the difference and review the procedures and assumptions it has used to determine fair value;
- Observed that an entity is required to recognise a gain or loss on contributing PPE, and a carrying amount for the investment in the associate, based on the fair value of the PPE contributed (unless the transaction provides objective evidence that the entity's interest in the associate might be impaired, in which case it considers the impairment requirements in IAS 36 *Impairment of Assets*); and
- Noted that if it is determined that the fair value of the PPE is more than the fair value of the acquired interest in the associate, this would provide objective evidence that the entity's interest in the associate might be impaired.

For all three questions, the Interpretations Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to account for the contribution of PPE to an associate. Consequently, it decided not to add this matter to its standard-setting agenda.

The Interpretations Committee also noted that the Board has a research project on Business Combinations under Common Control (BCUCC). Although transactions involving the contribution of PPE to a newly formed associate in return for shares in the associate are outside the scope of that project, it was noted that the Board will consider the interaction with other transactions under common control.

5.2. Revenue recognition in a real estate contract that includes the transfer of land (IFRS 15 *Revenue from Contracts with Customers*)

The Interpretations Committee received a request to clarify how an entity accounts for the sale of land and a building to be constructed on the land. Specifically, the request asked whether:

- (a) The sale of land and construction represents one or two performance obligations; and
- (b) For each performance obligation whether revenue is recognised at a point in time or over time.

In the fact pattern described in the request, the contract includes the following features:

- The entity and the customer enter into a non-cancellable contract for the sale of a building yet to be constructed by the entity.
- At contract inception, the entity irrevocably transfers to the customer legal title to the land on which the entity will construct the building. The contract specifies a price for the land, which the customer pays on signing the contract.
- The entity and the customer agree upon the structural design and specification of the building before the contract is signed. As the building is being constructed:
 - If the customer requests changes to the structural design or specification, the entity prices the proposed changes based on a methodology specified in the contract; the customer then decides whether to proceed with the changes. The entity can reject the customer's request for changes only for a limited number of reasons, such as when the change would breach planning permission.
 - The entity can request changes to the structural design or specification only if not doing so would lead to an unreasonable increase in costs or delay to construction. The customer must approve those changes.
- The customer is required to make milestone payments throughout the construction period. However, these payments do not necessarily correspond to the amount of work completed to date.

Issue 1: What are the performance obligations in the contract?

An entity identifies performance obligations by applying Paragraphs 22-30 of IFRS 15. A performance obligation is a good or service (or bundle of goods or services) that is distinct, or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Paragraph 27 of IFRS 15 specifies that a good or service promised to a customer is distinct if:

- a) The customer can benefit from the good or service on its own or together with other resources readily available to the customer (i.e. the good or service is capable of being distinct); and
- b) The entity's promise to transfer the good or service is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).

The Interpretations Committee noted that the assessment of these criteria requires judgement.

In a contract for the transfer of an area of land and of an entire building to be constructed on the land, the Interpretations Committee concluded that land and the building are each capable of being distinct and therefore the condition in Paragraph 27(a) of IFRS 15 is met. This is because the customer could hire another developer to construct a building were the land to have been purchased on its own. In reaching this conclusion, the Interpretations Committee noted that Paragraph BC100 explains that an entity disregards any contractual limitations that might preclude the customer from appointing a different contractor to carry out the construction.

The Interpretations Committee then considered the criterion in Paragraph 27(b), noting that its underlying objective (explained in Paragraph 29) is to consider whether the nature of the entity's promise is to transfer the land and building individually or, instead, to transfer a combined item to which the land and buildings are inputs. The Interpretations Committee noted Paragraphs BC105, BC116J and BC116K, which explain that the notion of whether two or more promises are distinct within the context of a contract is influenced by whether the risk an entity assumes to fulfil one obligation is separable from the risk relating to others. This requires an assessment of the level of integration, interrelation or interdependence among the promises. Rather than considering whether one item by its nature, depends on the other, it is necessary to evaluate whether there is a transformative relationship between two promises in the process of fulfilling a contract.

In the context of a contract for the sale of land and construction services, and drawing on two of the three examples of factors in Paragraph 29 of IFRS 15, the Interpretations Committee observed that it is necessary to consider if:

- The entity provides a significant service of integrating the land and building into a combined output. This might be the case if there is a transformative relationship between the transfer of land and the construction of the building in the process of fulfilling the contract or if the entity's performance in constructing the building would have been any different if it had not transferred the land, and vice versa. Although there is a functional relationship between the land and the building (the building cannot exist without the land because its foundations will be built into the land) this does not necessarily mean the risks to which the entity is exposed in transferring the land to the customer are inseparable from the risks of constructing the building.
- The land and building are highly interdependent or interrelated. For example, would the entity be able to fulfil its promise to transfer the land even if the customer purchased the construction services from another developer, and would the entity be able to fulfil its promise to construct the building had the customer purchased the land from another party?

The Interpretations Committee concluded that the promise to transfer land would be distinct in the context of the contract, and therefore the criterion in Paragraph 27(b) would be met, if the entity concluded that:

- Its performance in constructing the building would be the same regardless of whether it had transferred the land;
- It would be able to fulfil its promise to construct the building even if the customer had purchased the land from another party; and
- It would be able to fulfil its promise to transfer the land even if the customer had purchased the construction services from other providers.

The Interpretations Committee also observed that Paragraph BC116N notes that the factors in Paragraph 29 are not intended to be a series of criteria that are evaluated independently from the 'separately identifiable' principle in Paragraph 27. In some cases, one or more of the factors in Paragraph 29 may be less relevant in the context of the overall objective of the principle.

Issue 2: Should revenue be recognised at a point in time or over time?

Paragraph 35 sets out three circumstances when revenue should be recognised over time:

- a) The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- b) The entity's performance creates or enhances an asset (for example work-in-progress) that the customer controls as the asset is created or enhanced; or
- c) The entity's performance does not create an asset with alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Regarding the promise to transfer the land, the land is not consumed immediately (hence the criterion in Paragraph 35(a) is not met), and the entity's performance does not create or enhance the land (hence the criteria in Paragraphs 35(b) and 35(c) are not met). Therefore, assuming the entity concludes that the sale of land is a separate performance obligation, revenue from the transfer of land is recognised at a point in time.

Regarding the construction services, the Interpretations Committee concluded that the criterion in Paragraph 35(b) is met because the customer has the ability to:

- Direct the use of the building as it is being constructed through its control of the previously transferred land, by being able to change the structural design and specification of the building as it is constructed. The customer is also able to prevent others from directing the use of the building; and
- Obtain substantially all of the remaining economic benefits from the building as a result of signing the contract because the entity cannot redirect the building for another use or to another entity.

It was also noted that, in Paragraph BC129, the Board observed that 'in the case of a construction contract in which the entity is building on the customer's land, the customer generally controls any work in progress arising from the entity's performance.'

5.3. Revenue recognition in a real estate contract (IFRS 15 Revenue from Contracts with Customers)

The Interpretations Committee received a request to clarify whether revenue from the sale of a residential unit in a multi-unit complex (real estate unit) should be recognised over time as construction progresses.

Paragraph 35 of IFRS 15 specifies that an entity transfers control of a good or service over time, and therefore recognises revenue over time when one or more of three criteria are met. The assessment in any particular circumstance requires an analysis of the rights and obligations created by the contract, taking into account the legal environment within which the contract is enforceable. The conclusion will, therefore, ultimately depend on the particular facts and circumstances that apply to the contract.

In the fact pattern considered by the Interpretations Committee, the contract for the real estate unit includes the following features:

- (i) The real estate developer (entity) and the customer enter into a contract for the sale of a real estate unit in a residential multi-unit complex before the entity begins construction.
- (ii) The entity's obligation under the contract is to construct and deliver the completed real estate unit as specified in the contract, i.e. it cannot change or substitute the specified unit in the contract. The entity retains legal title to the real estate unit (and any land attributed to it) until the customer has paid the purchase price after construction is complete.
- (iii) The customer pays a portion of the purchase price for the real estate unit as it is constructed, and pays the remainder (a majority) after construction is complete.
- (iv) The contract gives the customer an undivided interest in the land and the multi-unit complex under construction. The customer cannot cancel the contract, except as noted in (vii) below, nor can it change the structural design of the unit. The customer can resell or pledge its right to the undivided interest in land and the complex as it is being constructed, subject to the entity performing a credit risk analysis of the new buyer of the right.
- (v) The customer, and the other customers who have agreed to buy units, have the right to together decide to change the structural design and negotiate such change with the entity.
- (vi) If the entity is in breach of its obligations under the contract, the customer and other customers have the right to together decide to replace the entity or otherwise stop the construction of the complex.
- (vii) Although the contract is irrevocable, the courts have accepted requests to cancel contracts in specific circumstances, for example when it has been proven that the customer is not financially able to fulfil the terms of the contract, e.g. if the customer becomes unemployed or has a major illness that affects their ability to work. In these situations, the contract has been cancelled and the customer has received most, but not all, of the payments it has already made to the entity. The remainder has been retained by the entity as a termination penalty.

Applying these facts to the three circumstances in Paragraph 35 of IFRS 15 when revenue should be recognised over time, the Interpretations Committee concluded as follows.

- The customer does not simultaneously receive and consume the benefits of the real estate unit during its construction. Therefore the condition for recognising revenue over time, as specified in Paragraph 35(a) of IFRS 15, is not met.
- Paragraph 35(b) of IFRS 15 requires revenue to be recognised over time if control of the real estate unit passes to the customer during construction. In order to decide if this applies, it is necessary to assess whether the customer has the ability to direct the use of, and obtain substantially all the remaining benefits from, the partly-constructed real estate unit. Paragraph BC129 explains that this criterion was included 'to address situations in which an entity's performance creates or enhances an asset that the customer clearly controls as the asset is created or enhanced'. In this case the Interpretations Committee observed that:
 - Although the customer can resell or pledge the its contractual right to the undivided interest in the land and multi-unit complex, it is unable to sell or pledge the real estate unit itself before construction is complete;
 - The customer has no ability change the structural design of the retail unit as it is being constructed, nor can it use the part-constructed real estate unit in any other way. The customer's right together with other customers to decide to change the structural design does not provide the customer with the ability to direct the use of the retail unit because the agreement of other customers is needed to negotiate any changes;
 - The customer's right (together with other customers) to replace the entity, only in the event of the entity's failure to perform as promised, is protective in nature and is not indicative of control; and
 - The customer's exposure to changes in the market value of the real estate unit may indicate that the customer has the ability to obtain substantially all of the remaining benefits from the real estate unit. However, it does not give the customer the ability to direct the use of the unit as it is constructed.

Therefore the condition for recognising revenue over time, as specified in Paragraph 35(b) of IFRS 15, is not met.

- The third criterion in Paragraph 35(c) was developed for recognising revenue over time because in some cases it may be unclear whether the asset that is created or enhanced is controlled by the customer (see Paragraph BC131 and BC143). Paragraph 35(c) requires revenue to be recognised over time if the asset created by the entity's performance does not have an alternative use to the entity, and the entity has an enforceable right to payment for performance completed to date. In this case, the entity cannot change or substitute the real estate unit specified in the contract with the customer, and therefore the customer could enforce its right to the unit if the entity sought to direct the asset for another use. Consequently, the contractual restriction is substantive and the real estate unit does not have an alternative use. Therefore one of the two conditions specified in Paragraph 35(c) of IFRS 15 necessary for recognising revenue over time is met. However, the entity does not have an enforceable right to payment for performance completed to date (the second necessary condition specified in Paragraph 35(c) of IFRS 15). This is because there is legal precedent indicating the entity is not entitled to an amount that at least compensates it for performance completed to date in the event of cancellation for reasons other than the entity's failure to perform (see Paragraph 37). In the event of the courts accepting requests to cancel contracts, the entity is entitled only to a termination penalty that does not compensate it for performance completed to date (see Paragraph B12). The Interpretations Committee observed that, although it is not necessary to carry out an exhaustive search for evidence, it would be inappropriate either to ignore evidence of relevant legal precedent, or to anticipate evidence that may or may not become available in future. It was also noted that the assessment of enforceable rights is based on their existence and enforceability. The likelihood that a right (including a right to terminate) will be enforced or exercised is not relevant to this assessment. In this case, the Interpretations Committee concluded that the conditions in Paragraph 35(c) are not met.

Based on the fact pattern described, therefore, the Committee observed that none of the three criteria set out in Paragraph 35 of IFRS 15 apply and that the entity should recognise revenue at a point in time by applying Paragraph 38 of IFRS 15.

5.4. Presentation of interest revenue for particular financial instruments (IFRS 9 *Financial Instruments* and IAS 1 *Presentation of Financial Statements*)

The Interpretations Committee received a request concerning the consequential amendment that IFRS 9 made to Paragraph 82(a) of IAS 1. This amendment requires an entity to present interest revenue calculated using the effective interest rate method separately from other sources of revenue. Specifically, the request asked whether that requirement prohibits an entity from presenting particular cash flows on derivatives that are not part of a designated and effective hedging relationship (for example, the accrued and realised cash flows on an interest rate swap) as 'interest revenue' in profit or loss, separately from other movements in fair value.

The Interpretations Committee noted that amortised cost accounting, including interest revenue calculated using the effective interest method and credit losses calculated using the expected credit loss impairment model, is only applied to financial assets that are subsequently measured at either amortised cost or fair value through other comprehensive income. It is not applied to financial assets that are subsequently measured at fair value through profit or loss.

Therefore, the Interpretations Committee decided that the requirement in Paragraph 82(a) of IAS 1 does not apply to derivatives or other financial assets that are subsequently measured at fair value through profit or loss. It only applies to those assets that are measured at amortised cost or fair value through other comprehensive income (subject to any effect of a qualifying hedging relationship applying the hedge accounting requirements in IFRS 9 or IAS 39).

5.5. Right to payment for performance completed to date (IFRS 15 Revenue from Contracts with Customers)

The Interpretations Committee received a request relating to the sale of a residential unit in a multi-unit complex. Specifically it was asked to clarify whether, in a specified fact pattern, the vendor has an enforceable right to payment for performance completed to date resulting in revenue being recognised over time in accordance with Paragraph 35(c) of IFRS 15.

Relevant facts to the analysis are:

- The contract is for the sale of a real estate unit in a residential multi-unit complex, with the contract entered into before the unit is constructed.
- The customer pays 10% of the purchase price for the real estate unit at contract inception, and pays the remainder of the purchase price to the entity after construction is complete.
- The customer has the right to cancel the contract at any time before construction is complete. If the customer cancels the contract the vendor is legally required to make reasonable efforts to resell the real estate unit to a third party. On resale, the vendor enters into a new contract with the third party, i.e. the original contract is not novated to the third party. If the resale price to be obtained from the third party is less than the original purchase price (plus selling costs), the original customer is legally obliged to pay the difference to the vendor.

The Interpretations Committee observed that, based on the fact pattern, the nature of the payment from the customer to which the entity has a right under the contract is a payment for the difference between the resale price and the original purchase price (i.e. compensation for loss of profit).

The Interpretations Committee also observed the following requirements of IFRS 15:

- Paragraph 37 states that to have an enforceable right to payment, an entity must be entitled at all times throughout the duration of the contract to an amount that compensates it for performance to date if the contract is terminated for reasons other than the vendor's failure to perform as promised; and
- Paragraph B9 states that an amount that would compensate an entity for performance completed to date would be an amount that approximates the selling price of the goods/services transferred to date. Therefore, a right to compensation for loss of profit would not constitute an enforceable right to payment for performance completed to date.

Consequently, the Interpretations Committee concluded that the criteria in Paragraph 35(c) for recognising revenue over time were not met.

5.6. Classification of short-term loans and credit facilities (IAS 7 Statement of Cash Flows)

The Interpretations Committee received a request asking about the types of borrowings an entity includes in its statement of cash flows as a component of cash and cash equivalents. In the fact pattern described in the request:

- The entity has short-term loans and credit facilities (short-term arrangements) that have a short contractual notice period (e.g. 14 days);
- The entity uses the short-term arrangements for cash management; and
- The balance of the short-term arrangements does not often fluctuate from being negative to positive.

The Committee observed that:

- Applying Paragraph 8 of IAS 7, an entity generally considers bank borrowings to be financing activities. An entity, however, includes a bank borrowing as a component of cash and cash equivalents only in the particular circumstances described in Paragraph 8 of IAS 7, i.e. the banking arrangement is a bank overdraft that is both repayable on demand, and forms an integral part of the entity's cash management.
- Cash management includes managing cash and cash equivalents for the purpose of meeting short-term cash commitments rather than for investment or other purposes (Paragraphs 7 and 9 of IAS 7). Assessing whether a banking arrangement is an integral part of an entity's cash management is a matter of facts and circumstances.
- If the balance of a banking arrangement does not often fluctuate from being negative to positive, then this indicates that the arrangement does not form an integral part of the entity's cash management and, instead, represents a form of financing.

In the fact pattern described in the request, the Interpretations Committee concluded that the entity does not include the short-term arrangements as components of cash and cash equivalents because they are not repayable on demand. Additionally, the short-term arrangements are a form of financing rather than an integral part of the entity's cash management because the balance does not often fluctuate from being negative to positive.

The Committee also noted that Paragraphs 45 and 46 of IAS 7 require an entity to:

- Disclose the components of cash and cash equivalents and present a reconciliation of the amounts in its statement of cash flows with the equivalent items reported in its statement of financial position; and
- Disclose the policy which it adopts in determining the composition of cash and cash equivalents.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to assess whether to include in its statement of cash flows the short-term arrangements described in the request as components of cash and cash equivalents. Therefore, it tentatively decided not to add this matter to its standard-setting agenda.

5.7. Determination of the exchange rate when there is a long-term lack of exchangeability (IAS 21 *The Effects of Changes in Foreign Exchange Rates*)

The Interpretations Committee considered the determination of the exchange rate an entity uses to translate the results and financial position of a foreign operation into its presentation currency applying IAS 21. Specifically it considered whether an entity is required to use an official rate in the following circumstances (which are currently applicable to Venezuela):

- The exchangeability of the foreign operation's functional currency with other currencies is administered by jurisdictional authorities. This exchange mechanism incorporates the use of an exchange rate(s) set by the authorities (official exchange rate(s));
- The foreign operation's functional currency is subject to a long-term lack of exchangeability with other currencies—i.e. the exchangeability is not temporarily lacking as described in Paragraph 26 of IAS 21 and has not been restored after the end of the reporting period; and
- The lack of exchangeability with other currencies has resulted in the foreign operation being in effect unable to access foreign currencies using the exchange mechanism described in (a) above.

The Interpretations Committee observed that in the circumstances described above an entity assesses whether the official exchange rate meets the definition of the closing rate in IAS 21 for the purposes of translating the assets and liabilities of the foreign operation in accordance with Paragraph 39 of IAS 21, i.e. is it the rate to which the entity would have access at the end of the reporting period? Similarly, if the foreign operation's functional currency is not the currency of a hyperinflationary economy, the entity also assesses whether the official exchange rate represents the exchange rates at the dates of the transactions for the purposes of retranslating the foreign operation's income and expenses in accordance with Paragraph 39 of IAS 21.

The Interpretations Committee also noted that in the circumstances described above:

- Economic conditions are in general constantly evolving. Therefore it is important to reassess at each reporting date whether the official exchange rate meets the definition of the closing rate and, if applicable, the exchange rates at the dates of the transactions; and
- The following disclosure requirements may be relevant to an understanding of an entity's financial statements and how it determined the exchange rate used to retranslate the foreign operations net assets and results:
 - Significant accounting policies, and judgements made in applying those policies that have the most significant effect on the amounts recognised in the financial statements (Paragraphs 117-124 of IAS 1);
 - Sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, which may include sensitivity analysis (Paragraphs 125-133 of IAS 1); and
 - The nature and extent of significant restrictions on an entity's ability to access or use assets and settle liabilities of the group, or in relation to its joint ventures or associates (Paragraphs 10, 13, 20 and 22 of IFRS 12 *Disclosures of Interests in Other Entities*).

The Interpretations Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to assess whether, in the circumstances described above, it uses the official exchange rate to translate into its presentation currency the results and financial position of a foreign operation. Consequently, it decided not to add this matter to its standard setting agenda. However, it also noted that those principles and requirements do not include explicit requirements on the exchange rate a reporting entity uses when the spot exchange rate (as defined in IAS 21) is not observable. Therefore it decided to research possible narrow-scope standard-setting aimed at addressing this matter.

5.8. Borrowing costs on land (IAS 23 *Borrowing Costs*)

The Interpretations Committee received a request about when an entity ceases capitalising borrowing costs on land.

In the fact pattern described in the request:

- An entity acquires and develops land and thereafter constructs a building on that land (the land represents the area on which the building will be constructed);
- Both the land and the building meet the definition of a qualifying asset; and
- The entity uses general borrowings to fund the expenditures on the land and construction of the building.

The request asked whether the entity continues or ceases capitalising borrowing costs incurred in respect of expenditures on the land while it constructs the building.

The Interpretations Committee observed that in applying IAS 23 to determine when to cease capitalising borrowing costs incurred on land expenditures an entity considers:

- The intended use of the land, which is not simply for the construction of a building, but rather to use it for one of three purposes:
 - Owner-occupation (recognised as property, plant and equipment applying IAS 16 *Property, Plant and Equipment*);
 - Rent or capital appreciation (recognised as investment property applying IAS 40 *Investment Property*); or
 - For sale (recognised as inventory applying IAS 2 *Inventories*).
- Applying Paragraph 24 of IAS 23, whether the land is capable of being used for its intended purpose while construction continues on the building. If the land is not capable of being used for its intended purpose while construction continues on the building, the entity considers the land and building together to assess when to cease capitalising borrowing costs on the land expenditures. In this situation, the land would not be ready for its intended use or sale until substantially all the activities necessary to prepare both the land and building for that intended use or sale are complete.

The Interpretations Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine when to cease capitalising borrowing costs on land expenditures. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

5.9. Expenditures on a qualifying asset (IAS 23 Borrowing Costs)

The Interpretations Committee received a request about the amount of borrowing costs eligible for capitalisation when an entity uses general borrowings to obtain a qualifying asset.

In the fact pattern described in the request:

- An entity constructs a qualifying asset;
- The entity has no borrowings at the start of the construction of the qualifying asset;
- Partway through construction, the entity borrows funds generally and uses them to finance the construction of the qualifying asset; and
- The entity incurs expenditures on the qualifying asset both before and after it incurs borrowing costs on the general borrowings.

The request asked whether an entity includes expenditures on a qualifying asset incurred before obtaining general borrowings in determining the amount of borrowing costs eligible for capitalisation.

The Interpretations Committee observed that the entity would not begin capitalising borrowing costs until it incurs them because one of the three conditions in Paragraph 17 of IAS 23 must be met before capitalisation begins (i.e. interest cannot be capitalised in relation to periods before the date on which borrowings were drawn down and on which borrowing costs were actually incurred).

The Interpretations Committee also observed that in determining the expenditures to which an entity applies the capitalisation rate, an entity is not restricted by Paragraph 14 of IAS 23 to include only those expenditures on the qualifying asset incurred after it incurs borrowing costs. It therefore does not disregard expenditures on the qualifying asset incurred before the entity obtains the general borrowings.

The Interpretations Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine the amount of borrowing costs eligible for capitalisation in the fact pattern described in the request. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

6. IFRSs AND AMENDMENTS EFFECTIVE IN PERIODS AFTER 31 DECEMBER 2018 YEAR-ENDS

The following tables summarise new standards and amendments to standards which are mandatorily effective for year-ends subsequent to 31 December 2018. The first table identifies the new and amended standards, and IFRICs, that are effective for annual periods beginning on or after 1 January 2019, 2020, and 2021. The second table has more detail, including links to BDO's *global publications* and, for those entities that report in accordance with EU-endorsed IFRS, a note of the current endorsement status.

The introduction of IFRS 16 *Leases* will lead to an increase in leased assets and financial liabilities recorded on the balance sheets lessees, with associated effects on the performance statements (including EBITDA if a lessee reports this as an additional performance measure). Accordingly, entities that currently have material off-balance sheet lease commitments will encounter significant changes in their key financial metrics such as leverage ratio, return on invested capital and valuation multiples. These effects need be quantified and communicated to primary financial statement users on a timely basis.

6.1. Timing of Mandatory Adoption

For an entity with a 31 December year-end, new standards, amendments to standards, IFRICs and agenda decisions will need to be adopted in the following financial years at the latest:

2019	2020	2021
IFRS 16 <i>Leases</i>	IAS 1 <i>Presentation of Financial Statements</i> and IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> (Amendment – Definition of Material)	IFRS 17 <i>Insurance Contracts</i> (Note: in November 2018, the IASB tentatively decided to propose a deferral of the effective date to p/b on or after 1 January 2022)
	IFRS 3 <i>Business Combinations</i> (Amendment – Definition of Business)	
IFRS 9 (2014) <i>Financial Instruments</i> (Amendment – Prepayment Features with Negative Compensation and Modifications of Financial Liabilities)	<i>Conceptual Framework for Financial Reporting</i> (Revised)	
IAS 28 – <i>Investments in Associates and Joint Ventures</i> (Amendment – Long-term Interests in Associates and Joint Ventures)		
Annual Improvements to IFRSs 2015-2017 Cycle (IFRS 3 <i>Business Combinations</i> and IFRS 11 <i>Joint Arrangements</i> , IAS 12 <i>Income Taxes</i> , and IAS 23 <i>Borrowing Costs</i>)		
IAS 19 <i>Employee Benefits</i> (Amendment – Plan Amendment, Curtailment or Settlement)		
IFRIC Interpretation 23 – <i>Uncertainty over Income Tax Treatments</i>		

The following table set out a list of forthcoming standards, amendments to standards, IFRICs and agenda decisions, including their EU-endorsement status, if applicable, and links to BDO's applicable global publications.

IFRSs, Amendments, IFRICs and Agenda Decisions	IASB Effective Date (Early Adoption permitted)*	EU-Endorsement status*	BDO IFR Publications
IFRSs			
IFRS 16 <i>Leases</i> <i>Issued: January 2017</i>	1 January 2019	Endorsed	IFRS at a Glance: IFRS 16 <i>Leases</i> (click here) IFRS in Practice – IFRS 16 (click here)
IFRS 17 <i>Insurance Contracts</i> <i>Issued: May 2017</i>	1 January 2021	To be determined	BDO IFR Bulletin 2018/06 (click here) IFRS at a Glance: IFRS 17 <i>Insurance Contracts</i> (click here)
IFRICs			
IFRIC Interpretation 23 – <i>Uncertainty over Income Taxes</i> <i>Treatments</i> <i>Issued: June 2017</i>	1 January 2019	Endorsed	BDO IFR Bulletin 2017/08 (click here) IFRS at a Glance: IFRIC 23 – <i>Uncertainty over Income Tax</i> <i>Treatments</i> (click here)
Amendments to IFRSs			
IFRS 9 (2014) <i>Financial</i> <i>Instruments</i> (Amendment – Prepayment Features with Negative Compensation and Modifications of Financial Liabilities) <i>Issued: October 2017</i>	1 January 2019	Endorsed	
IAS 28 <i>Investments in</i> <i>Associates and Joint Ventures</i> (Amendment – Long-term Interests in Associates and Joint Ventures) <i>Issued: October 2017</i>	1 January 2019	Expected 2018	
Annual Improvements to IFRSs 2015-2017 Cycle <i>Issued: December 2017</i>	1 January 2019	Expected 2018	BDO IFR Bulletin 2017/16 (click here)
IAS 19 <i>Employee Benefits</i> (Amendment – Plan Amendment, Curtailment or Settlement) <i>Issued: February 2018</i>	1 January 2019	Expected 2018	

IFRSs, Amendments, IFRICs and Agenda Decisions	IASB Effective Date (Early Adoption permitted)*	EU-Endorsement status*	BDO IFR Publications
Amendments to IFRSs (continued)			
IFRS 3 <i>Business Combinations</i> (Amendment – Definition of Business) <i>Issued: October 2018</i>	1 January 2020	Expected 2019	BDO IFR Bulletin 2018/07 (click here)
IAS 1 <i>Presentation of Financial Statements</i> and IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> (Amendment – Definition of Material)	1 January 2020	Expected 2019	
<i>Conceptual Framework for Financial Reporting</i> (Amendments to References to the Conceptual Framework in IFRS Standards)	1 January 2020	Expected 2019	
Agenda Decisions			
Investments in a subsidiary accounted for at cost: Step acquisition (IAS 27 <i>Separate Financial Statements</i>) <i>Issued: January 2019</i>			
Investments in a subsidiary accounted for at cost: Partial disposal (IAS 27 <i>Separate Financial Statements</i>) <i>Issued: January 2019</i>			
Assessment of promised goods or services (IFRS 15 <i>Revenue from Contracts with Customers</i>) <i>Issued: January 2019</i>			
Deposits relating to taxes other than income tax (IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>) <i>Issued: January 2019</i>			

* IASB effective date and EU-Endorsement status are not applicable to Interpretations Committee Agenda Decisions.

7. FUTURE IFRS STANDARDS

There are two major standards that will be effective in the coming years. These are IFRS 16 *Leases* (IFRS 16) and IFRS 17 *Insurance Contracts* (IFRS 17). IFRS 16 will affect most entities and will often result in very significant changes to financial statements.

Key changes from existing guidance are discussed below.

7.1. IFRS 16 Leases

In January 2016 the IASB issued IFRS 16 *Leases*. IFRS 16 supersedes IAS 17 *Leases*, 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*.

The accounting requirements for lessors have largely been carried forward unchanged from IAS 17. The major changes are for lessees, with IFRS 16 setting out a single model for lessees which eliminates the distinction between operating and finance leases, and results in the statement of financial position reflecting a 'right of use' asset and a corresponding liability for most lease contracts. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate implicit in the lease. However, entities have an option not to bring onto the statement of financial position short-term leases (i.e. those with of 12 months or less) and leases of low value items.

As a result, a key question changes from whether a lease is an operating or a finance lease under current guidance, to whether an arrangement gives rise to something that meets the definition of a lease. The scope of IFRS 16 is wide, and some arrangements involving the use of assets that might be viewed as service contracts (which are executory and not recorded on the statement of financial position) may in fact result in a lease within the scope of IFRS 16. Significant changes to systems and processes may be required in order to comply with the new requirements.

For many entities the effect of bringing all leases onto the statement of financial position will be very significant and will require careful planning, including for commercial effects (such as compliance with bank covenants, performance based remuneration and earnings based contingent consideration payable on business combinations).

IFRS 16 is converged in certain significant respects with new guidance covering accounting for leases under US GAAP. Convergence has been reached for the definition of a lease and the measurement of lease liabilities.

Substantial convergence was reached for a requirement to include almost all leases on balance sheet. However, IFRS 16 contains an exemption for leases of low value assets which is not included in the equivalent US GAAP. Although IFRS 16 does not specify a threshold for what is regarded as 'low value', the discussion in the Basis for Conclusions notes that in 2015 when it reached its decisions about the exemption, the IASB had in mind leases of assets which, when new, had a value of US\$5,000 or less.

Other differences relate to a requirement in IFRS 16 for a lessee to reassess variable lease payments which depend on an index or rate when the reference index or rate changes and affects future lease payments (there is no equivalent requirement in US GAAP), the requirements for the recognition of gains and losses arising from sale and leaseback transactions, and in determining the classification of subleases.

There will also be differences between IFRS and US GAAP for the presentation of:

- Lease expenses in the income statement; and
- The cash flow statement.

In the income statement, the application of IFRS 16 will result in a depreciation charge (within operating expenses) and an interest expense. Assuming depreciation is charged on a straight line basis, the total expense will be higher in the first part of a lease in comparison with later periods, because the lease liability and related interest expense will be higher. Under US GAAP, for leases which meet the existing definition of an operating lease, a single charge will be included within operating results. The depreciation charge will be adjusted in each period so that the total expense is the same throughout the lease period.

Consistent with the differences in the income statement presentation, in the cash flow statement under IFRS the cash flows will be split into principal repayments and interest, while under US GAAP the cash flows will appear in a single line item.

IFRS 16 has an effective date of 1 January 2019, with early application permitted only if IFRS 15 has also been adopted.

7.2. IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*. The standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts.

The scope of IFRS 17 includes insurance contracts, including reinsurance contracts that the entity issues, reinsurance contracts held by an entity, and investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts. Some contracts meet the definition of an insurance contract but have as their primary purpose the provision of services for a fixed fee. Such issued contracts are in the scope of the standard, unless an entity chooses to apply IFRS 15 *Revenue from Contracts with Customers*, provided certain conditions are met.

On initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows ("FCF") and the contractual service margin ("CSM"). The fulfilment cash flows comprise of estimates of future cash flows, an adjustment to reflect the time value of money and the financial risks associated with the future cash flows.

On subsequent measurement, the carrying amount of a group of insurance contracts at the end of each reporting period is the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage comprises of the FCF related to future services and the CSM of the group at that date.

The standard provides three methods to measure the liability for remaining coverage of a group of insurance contracts. The general measurement model, the premium allocation approach and the variable fee approach; however, the method that is used is not a free accounting policy choice in most situations. An entity's ability to use the simplified, premium allocation approach is only applicable for short-term insurance contracts, typically contracts for terms of a year or less, and to those contracts where the entity can demonstrate that utilising the premium allocation approach would not differ materially from using the general measurement model. The variable fee approach is applicable to a narrow subset of contracts with discretionary participation features and modifies the subsequent accounting for the CSM.

IFRS 17 also now explicitly requires claims liabilities to be discounted. This discount can no longer be based on the return on the investment portfolio, but must be linked to the characteristics inherent in the claims liabilities cash flows (e.g. duration, risk, etc.).

Finally, IFRS 17 changes accounting for policy acquisition costs. Policy acquisition costs are netted against insurance liabilities, however, an entity also has the choice of simply expensing all acquisitions costs as incurred for short duration contracts utilising the premium allocation approach, which may simplify accounting.

While the effective date for IFRS 17 is 1 January 2021 (subject to a tentative decision of the IASB to propose a one year extension of the original effective date – see below), an entity must restate its comparative figures once it adopts the standard. This is a key difference in comparison with IFRS 15 and 16 which do both contain an option of not restating the comparative period. So for an insurance entity with a December year-end, their 31 December 2021 financial statements will be the first ones presented under IFRS 17. However, the comparative period must also be restated, which requires an entity to transition its comparative period as well. As such, in order to determine the opening balance as at 1 January 2020, which affects the determination of figures for the 31 December 2020 year-end, in addition to being required to present a third column on the statement of financial position, an entity must also determine its 31 December 2019 balance sheet under IFRS 17 standards.

Entities that will apply IFRS 17 should therefore be starting the process of determining the impact of the new standard on its financial statements.

In November 2018, the Board decided to propose the deferral of the effective dates of IFRS 17 and IFRS 9 for insurance entities to provide preparers the time necessary to incorporate any of the revisions that the IASB ultimately does decide to incorporate into IFRS 17. The IASB voted to propose the following amendments to IFRS 17 and IFRS 4 *Insurance Contracts* (the existing insurance contracts standard):

1. To defer the effective date of IFRS 17, delaying it from 1 January 2021 by one year to 1 January 2022.
2. To defer the fixed expiry date for the optional temporary exemption from IFRS 9 by one year to 1 January 2022 to correspond with the new effective date of IFRS 17.

This means that IFRS 9 is still a future standard for many insurers that used the deferral in IFRS 4.

8. FUTURE AMENDMENTS TO IFRSs AND IFRIC INTERPRETATIONS

The IASB has issued a range of amendments to standards and a new IFRIC Interpretation. Key requirements of the amendments and interpretation are discussed below.

8.1. Amendment to IFRS 9 – Prepayment Features with Negative Compensation and Modifications of Financial Liabilities

The amendment was issued to address the concerns about how IFRS 9 classifies particular pre-payable financial assets. It amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. However, the calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain. The final amendments also contain (in the Basis for Conclusions) a clarification regarding the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. The amendments to the Basis for Conclusions clarify that an entity recognises any adjustment to the amortised cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange. The amendments are to be applied retrospectively for fiscal years beginning on or after 1 January 2019 with early application permitted.

Although these amendments are mandatorily effective in 2019, it is expected that most entities will have early adopted these amendments in 2018, when adopting IFRS 9.

8.2. Amendment to IAS 28 – Long-term Interests in Associates and Joint Ventures

This amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (ie adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28). The amendments are accompanied by an example illustrating how the requirements of IAS 28 and IFRS 9 interact.

Although these amendments are mandatorily effective in 2019, it is expected that most entities will have early adopted these amendments in 2018, when adopting IFRS 9.

8.3. Annual Improvements to IFRSs 2015-2017 Cycle

There were four amendments as part of the 2015-2017 Annual Improvements Cycle. These were made to IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.

- IFRS 3: A company remeasures its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11: A company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12: A company accounts for all income tax consequences of dividend payments in the same way.
- IAS 23: A company treats as part of general borrowings any borrowing originally made to develop a specific asset when that asset is ready for its intended use or sale.

The amendments are effective from 1 January 2019, with early application permitted.

8.4. Amendment to IAS 19 – Plan Amendment, Curtailment or Settlement

This amendment clarifies that it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement for a plan amendment, curtailment or settlement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

The amendments are effective from 1 January 2019, with early application permitted.

8.5. IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments

IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments, addressing four specific issues:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity should make about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

This interpretation is effective for annual reporting periods beginning on or after 1 January 2019.

8.6. IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material)

The amendments revise the definition of material included in IAS 1 and IAS 8 to:

'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

Three new aspects of the new definition should be noted:

- It is noted that information is obscured if it is communicated in a way that has a similar effect to misstating or omitting information. The amendments include the following five examples of ways in which material information can be obscured:
 - If the language regarding a material item, transaction or other event is vague or unclear;
 - If information regarding a material item, transaction or other event is scattered in different places in the financial statements;
 - If dissimilar items, transactions or other events are inappropriately aggregated;
 - If similar items, transactions or other events are inappropriately disaggregated; and
 - If material information is hidden by immaterial information to the extent that a primary user of the financial statements is unable to determine what information is material;
- The addition of 'could reasonably be expected to influence' is narrower than the previous definition of material which referred to 'could influence' which might be understood as requiring too much information as almost anything 'could' influence the decisions of some users even if the possibility is remote;
- The definition of users as primary users is narrower than the previous definition of material which referred only to 'users' which might be understood too broadly as requiring to consider all possible users of financial statements when deciding what information to disclose.

The amendments are effective for annual reporting periods beginning on or after 1 January 2020.

8.7. IFRS 3 Business Combinations (Amendment – Definition of Business)

The amendments make changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only. They clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The definitions of a business and of outputs focus on goods and services provided to customers and the reference to an ability to reduce costs has been removed. The amendments add guidance and illustrative examples to help entities assess whether a substantive process has been acquired. The assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs has been removed. An optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is a business has been added.

The amendments are effective for 1 January 2020, with early application permitted.

9. AGENDA DECISIONS FINALISED IN JANUARY 2019

The Interpretations Committee finalised a number of tentative agenda decisions at its meeting in January 2019.

9.1. Investment in a subsidiary accounted for at cost: Step acquisition (IAS 27 *Separate Financial Statements*)

The Interpretations Committee received a request about how an entity applies the requirements in IAS 27 *Separate Financial Statements* (IAS 27) to a fact pattern involving an investment in a subsidiary.

In the fact pattern described in the request, the entity preparing separate financial statements:

- Elects to account for its investments in subsidiaries at cost applying Paragraph 10 of IAS 27;
- Holds an initial investment in another entity (investee). The investment is an investment in an equity instrument as defined in Paragraph 11 of IAS 32 *Financial Instruments: Presentation*. The investee is not an associate, joint venture or subsidiary of the entity and, accordingly, the entity applies IFRS 9 *Financial Instruments* in accounting for its initial investment (initial interest);
- Subsequently acquires an additional interest in the investee (additional interest), which results in the entity obtaining control of the investee – i.e. the investee becomes a subsidiary of the entity.

The request asked:

- a. Whether the cost of its investment in the subsidiary is determined as the sum of:
 - i. The fair value of the initial interest at the date of obtaining control of the subsidiary, plus any consideration paid for the additional interest (fair value as deemed cost approach); or
 - ii. The consideration paid for the initial interest (original consideration), plus any consideration paid for the additional interest (accumulated cost approach) (Question A).
- b. How the entity accounts for any difference between the fair value of the initial interest at the date of obtaining control of the subsidiary and its original consideration when applying the accumulated cost approach (Question B).

Question A

IAS 27 does not define 'cost', nor does it specify how an entity determines the cost of an investment acquired in stages. The Committee noted that cost is defined in other IFRS Standards (for example, Paragraph 6 of IAS 16 *Property Plant and Equipment*, Paragraph 8 of IAS 38 *Intangible Assets* and Paragraph 5 of IAS 40 *Investment Property*). The Committee observed that the two approaches outlined in the request arise from different views of whether the step acquisition transaction involves:

- a. The entity exchanging its initial interest (plus consideration paid for the additional interest) for a controlling interest in the investee; or
- b. Purchasing the additional interest while retaining the initial interest.

The Committee concluded that a reasonable reading of the requirements in IFRS Standards could result in the application of either one of the two approaches (ie fair value as deemed cost approach or accumulated cost approach).

An entity will apply its reading of the requirements consistently to step acquisition transactions (that is, as an accounting policy choice) and disclose the selected approach applying Paragraphs 117-124 of IAS 1 *Presentation of Financial Statements*.

Question B

In applying the accumulated cost approach, any difference between the fair value of the initial interest at the date of obtaining control of the subsidiary and its original consideration meets the definitions of income or expenses in the *Conceptual Framework for Financial Reporting*. Accordingly, it was concluded that, applying Paragraph 88 of IAS 1, the entity recognises this difference in profit or loss, regardless of whether, before obtaining control, the entity had presented subsequent changes in fair value of the initial interest in profit or loss or other comprehensive income.

For Question A, the Committee considered whether it should develop a narrow scope amendment to IAS 27 to address how an entity determines the cost of an investment acquired in stages. However, on balance, the Committee decided not to do so. In coming to this decision, it was noted that the Committee did not have evidence about whether the application of the two acceptable approaches would have a material effect on the financial statements of those entities affected. It was also noted that the issue could not be resolved without also considering the requirements in IAS 28 to measure an investment in an associate or joint venture, on initial recognition, at cost.

For Question B, it was concluded the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine its accounting.

Consequently, these matters were not added to the standard-setting agenda.

9.2. Investment in a subsidiary accounted for at cost: Partial disposal (IAS 27 Separate Financial Statements)

The Interpretations Committee received a request about how an entity applies the requirements in IAS 27 *Separate Financial Statements* to a fact pattern involving an investment in a subsidiary.

In the fact pattern described in the request, the entity preparing separate financial statements:

- Elects to account for its investments in subsidiaries at cost applying Paragraph 10 of IAS 27;
- Holds an initial investment in a subsidiary (investee). The investment is an investment in an equity instrument as defined in Paragraph 11 of IAS 32 *Financial Instruments: Presentation*;
- Subsequently disposes of part of its investment and loses control of the investee. After the disposal, the entity has neither joint control of, nor significant influence over, the investee.

Question A – Is the investment retained (retained interest) eligible for the presentation election in Paragraph 4.1.4 of IFRS 9 Financial Instruments? That election permits the holder of particular investments in equity instruments to present subsequent changes in fair value in other comprehensive income (OCI)

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

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

Question B – Does the entity present in profit or loss or OCI any difference between the cost of the retained interest and its fair value on the date of losing control of the investee?

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

The Committee also noted that its conclusion is consistent with the requirements in Paragraph 22(b) of IAS 28 *Investments in Associates and Joint Ventures* and Paragraph 11B of IAS 27, which deal with similar and related issues.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to account for a partial disposal transaction in its separate financial statements. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

9.3. Assessment of promised goods or services (IFRS 15 Revenue from Contracts with Customers)

The Committee received a request about the recognition of revenue by a stock exchange that provides a listing service to a customer. Specifically, the request asked whether the stock exchange promises to transfer an admission service that is distinct from the listing service. In the fact pattern described in the request, the stock exchange charges the customer a non-refundable upfront fee on initial listing and an ongoing listing fee. The upfront fee relates to activities the stock exchange undertakes at or near contract inception.

Paragraph 22 of IFRS 15 requires an entity to assess the goods or services promised in a contract with a customer and to identify performance obligations. A performance obligation is a promise to transfer to the customer either:

- a. A good or service (or a bundle of goods or services) that is distinct; or
- b. A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

In Paragraph BC87 of IFRS 15, the Board noted that before an entity can identify its performance obligations in a contract with a customer, the entity would first need to identify all the promised goods or services in that contract.

Paragraph 25 of IFRS 15 specifies that performance obligations do not include activities that an entity must undertake to fulfil a contract unless those activities transfer a good or service to a customer.

Paragraph B49 of IFRS 15 states that to identify performance obligations in contracts in which an entity charges a non-refundable upfront fee, the entity assesses whether the fee relates to the transfer of a promised good or service. In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near contract inception to fulfil the contract, that activity does not result in the transfer of a promised good or service to the customer.

Accordingly, the Committee noted that when an entity charges a customer a non-refundable upfront fee, the entity considers whether it transfers a promised good or service to the customer at or near contract inception or, instead, for example, whether any activities it performs at or near contract inception represent tasks to set up a contract.

Application of IFRS 15 to the fact pattern in the request

The assessment of the goods and services promised in a contract and the identification of performance obligations requires an assessment of the facts and circumstances of the contract. Accordingly, the outcome of an entity's assessment depends on those facts and circumstances.

In the fact pattern described in the request, the stock exchange charges the customer a non-refundable upfront fee and an ongoing listing fee. The stock exchange undertakes various activities at or near contract inception to enable admission to the exchange, such as:

- Performing due diligence for new applications;
- Reviewing the customer's listing application (including assessing whether to accept the application);
- Issuing reference numbers and tickers for the new security;
- Processing the listing and admission to the market;
- Publishing the security on the order book; and
- Issuing the dealing notice on the admission date.

The Committee observed that the activities performed by the entity at or near contract inception are required to transfer the goods or services for which the customer has contracted – i.e. the service of being listed on the exchange. However, the entity's performance of those activities does not transfer a service to the customer.

The Committee also observed that the listing service transferred to the customer is the same on initial listing and on all subsequent days for which the customer remains listed.

Based on the fact pattern described in the request, the Committee concluded that the stock exchange does not promise to transfer any good or service to the customer other than the service of being listed on the exchange.

The Committee concluded that the principles and requirements in IFRS 15 provide an adequate basis for an entity to assess the promised goods and services in a contract with a customer. Consequently, the Committee decided not to add this matter to its standard-setting agenda.

9.4. Deposits relating to taxes other than income tax (IAS 37 Provisions, Contingent Liabilities and Contingent Assets)

The Committee received a request about how to account for deposits relating to taxes that are outside the scope of IAS 12 *Income Taxes* (ie deposits relating to taxes other than income tax). In the fact pattern described in the request, an entity and a tax authority dispute whether the entity is required to pay the tax. The tax is not an income tax, so it is not within the scope of IAS 12. Any liability or contingent liability to pay the tax is instead within the scope of IAS 37. Taking account of all available evidence, the preparer of the entity's financial statements judges it probable that the entity will not be required to pay the tax – it is more likely than not that the dispute will be resolved in the entity's favour. Applying IAS 37, the entity discloses a contingent liability and does not recognise a liability. To avoid possible penalties, the entity has deposited the disputed amount with the tax authority. Upon resolution of the dispute, the tax authority will be required to either refund the tax deposit to the entity (if the dispute is resolved in the entity's favour) or use the deposit to settle the entity's liability (if the dispute is resolved in the tax authority's favour).

Whether the tax deposit gives rise to an asset, a contingent asset or neither

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

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

Recognising, measuring, presenting and disclosing the tax deposit

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

The Committee concluded that the requirements in IFRS Standards and concepts in the *Conceptual Framework for Financial Reporting* provide an adequate basis for an entity to account for deposits relating to taxes other than income tax. Consequently, the Committee decided not to add this matter to its standard-setting agenda

10. IASB PROJECTS IN PROGRESS

The IASB also has a number of projects in progress, the most significant of which is Financial Instruments with Characteristics of Equity (FICE). All other major research and standard setting projects are still in a preliminary phase with no exposure draft or discussion paper yet published.

10.1. Financial Instruments with Characteristics of Equity (FICE)

In June 2018, the International Accounting Standards Board (IASB) published a comprehensive discussion paper DP/2018/1 '*Financial Instruments with Characteristics of Equity*'. The discussion paper defines the principles for the classification of financial liabilities and equity instruments without generally changing the existing classification outcomes of IAS 32 *Financial Instruments: Presentation*. The IASB's proposed preferred approach is based on two features, timing and amount, and is accompanied by the provision of additional information through a separate presentation of expenses and income from certain financial liabilities in other comprehensive income and additional disclosures.

The paper proposes that equity is a residual that remains if the characteristics of a financial liability are not fulfilled. A financial instrument must be classified as a financial liability if its contractual terms contain an unavoidable obligation:

- a. To transfer cash or another financial asset at a specified time other than at liquidation (timing feature); and/or
- b. For an amount independent of the entity's available economic resources (amount feature).

The analysis of the timing feature enables the assessment of funding liquidity and cash flows, including whether an enterprise has the economic resources necessary to meet its obligations at maturity and to estimate the need for economic resources at specific times. The timing feature can be specified as a fixed date as another date such as for example dates of coupon or interest payments.

The amount feature, on the other hand, supports the assessment of the balance sheet solvency and returns. This concerns in particular the question of whether an entity has sufficient economic resources to meet its obligations in terms of amount. It is central to the amount feature that a change in the value of the issuer's available economic resources does not limit the amount of the obligation.

Issuers of financial instruments have consistently faced challenges in classifying derivatives on their own equity, applying the current guidance in IAS 32. The discussion paper proposes to change the presentation of derivatives to address this challenge. Essentially, if the settlement value (the net amount) of the derivative on own equity is affected by factors other than the entity's own share price or the time value of money, the derivative would be classified as a derivative financial asset or a derivative financial liability.

In an effort to provide more meaningful presentation and disclosures, the discussion paper proposes distinguishing financial liabilities with equity-like returns from other financial liabilities by:

- Presenting these liabilities separately from other financial liabilities as a separate line item in the statement of financial position; and
- Presenting separately income or expenses resulting from these liabilities in the statement of financial performance—outside the statement of profit or loss (P&L) in other comprehensive income (OCI).

The discussion paper focusses on presenting information about how returns are distributed among equity instruments to help investors understand returns on different types of equity instruments. It explores different methods of attributing total comprehensive income to derivative equity instruments using the following steps:

- Step 1: Present the amount of dividends arising from non-derivative equity instruments;
- Step 2: Present total comprehensive income attributable to derivative equity instruments using one of the three possible methods;
- Step 3: Present the remaining income and expenses attributable to ordinary shares.

In terms of disclosure requirements, the discussion paper suggests that issuers of financial instruments should be required to disclose:

- Each class of financial liabilities and equity instruments ranked in order of priority on liquidation;
- Potential dilution of ordinary shares, that is, any actual or potential increase in the number of issued ordinary shares as a result of settling a financial instrument regardless of whether the effect is dilutive or anti-dilutive; and
- Particular contractual terms of financial liabilities and equity instruments, for example, contractual terms that are relevant to understanding the amount and timing features of a financial instrument.

10.2. Onerous Contracts – Cost of Fulfilling a Contract

In December 2018, the IASB published for public comment proposed amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to specify which costs a company should include when assessing whether a contract will be loss-making. The proposed amendments originate from a request to the IFRS Interpretations Committee for clarification of which costs to include in this assessment in the context of contracts within the scope of IFRS 15 *Revenue from Contracts with Customers*.

A company determines that a contract will be loss-making – and describes it as onerous – if the costs the company expects to incur to fulfil the contract are higher than the economic benefits it expects to receive from it.

The Board has proposed to amend IAS 37 to specify that the costs of fulfilling a contract include both incremental costs, such as the costs of materials, and an allocation of other costs directly related to the contract, such as the depreciation charge for equipment the company uses to fulfil contracts. The amendments are intended to provide greater clarity and help ensure the Standard is applied consistently. The changes are most relevant for companies in the manufacturing, construction and services sectors, and may result in some companies recognising provisions for onerous contracts earlier than under current requirements.

The comment deadline on the proposals is 15 April 2019.

10.3. IASB Workplan

The following is a complete list of research projects at 31 December 2018:

Project	Next Milestone	Expected Date
Business Combinations under Common Control	Discussion Paper	H1 2020
Disclosure Initiative – Principles of Disclosure	Project Summary	March 2019
Discount Rates	Project Summary	February 2019
Dynamic Risk Management	Core Model	H2 2019
Extractive Activities	Review Research	
Financial Instruments with Characteristics of Equity	Discussion Paper Feedback	March 2019
Goodwill and Impairment	Discussion Paper	H2 2019
IBOR Reform and the Effects on Financial Reporting	Decide Project Direction	December 2018
Pension Benefits that Depend on Asset Returns	Review Research	H2 2019
Post-implementation Review of IFRS 13 Fair Value Measurement	Feedback Statement	December 2018
Primary Financial Statements	Discussion Paper or Exposure Draft	H1 2018
Principles of Disclosure	Discussion Paper Feedback	Q1 2018
Share-Based Payment	Research Summary	H1 2018
Primary Financial Statements	Discussion Paper or Exposure Draft	H2 2019
Management Commentary	Exposure Draft	H1 2020
Rate-regulated Activities	Discussion Paper or Exposure Draft	H2 2019

11. CONCLUSION

2018 has seen significant changes in accounting from the adoption of IFRS 9 and IFRS 15. The coming years will continue to bring significant changes to accounting requirements. For IFRS 16 *Leases*, if implementation projects are not already well under way, there is a considerable risk that they will not be adopted satisfactorily and that investors, lenders and other primary users of financial statements will not be adequately informed in advance of the related effects. While on the face, IFRS 16 seems to be a simple standard, there are numerous complexities that are coming to light as the guidance begins to be applied. There is also an increased emphasis on providing meaningful and robust disclosures where significant judgement in the implementation of the new standard has been applied.

As we progress through the 2018 year-end reporting season, this is the time to discuss how the changes will affect your organisation with your BDO contact.

CONTACT

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below.

Alternatively, please visit www.bdo.global where you can find full lists of regional and country contacts.

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