Technical Update

A summary of recent changes to financial reporting requirements applicable for years ending on 31 December 2019

This Technical Update Includes:

Summary tables of:

- International Financial Reporting Standards and IFRIC Interpretations mandatory for 31 December 2019; and
- International Financial Reporting Standards and IFRIC Interpretations issued but not yet effective for 31 December 2019.

Discussion of significant[1]:

- International Financial Reporting Standards and IFRIC Interpretations mandatory for 31 December 2019; and
- International Financial Reporting Standards and IFRIC Interpretations issued but not yet effective for 31 December 2019.

[1] Discussion based on extracts from each amending standard.

International Financial Reporting Standards and IFRIC Interpretations mandatory for 31 December 2019

The following standards and interpretations are mandatorily applicable for the first time for entities with years ending 31 December 2019.

Reference	**Title**	**Applicable for reporting periods beginning on or after**
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over income tax treatments	1 January 2019
Amendments to IFRS 9	Amendment to IFRS 9, Financial instruments', on prepayment features with negative compensation	1 January 2019
Amendments to IAS 28	Amendments to IAS 28 'Investments in associates', on long term interests in associates and joint ventures	1 January 2019
Annual improvements	Annual improvements 2015–2017	1 January 2019
Amendments to IAS 19	Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement'	1 January 2019

IFRS 16 Leases
Under IFRS 16 there is no longer a distinction between finance and operating leases. Lessees will now bring to account a right-to-use asset and lease liability onto their balance sheets for all leases. Effectively this means the vast majority of operating leases as defined by the current IAS 17 Leases which currently do not impact the balance sheet will be required to be capitalised on the balance sheet once IFRS 16 is adopted.

IFRIC 23 Uncertainty over income tax treatments

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

Amendment to IFRS 9, Financial instruments', on prepayment features with negative compensation

This Standard amends IFRS 9 to permit entities to measure at amortised cost or fair value through other comprehensive income particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature. This is subject to meeting other conditions, such as the nature of the business model relevant to the financial asset. Otherwise, the financial assets would be measured at fair value through profit or loss.

Amendments to IAS 28 'Investments in associates', on long term interests in associates and joint ventures

This Standard amends IAS 28 to clarify that an entity is required to account for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture but to which the equity method is not applied, using IFRS 9 Financial Instruments before applying the loss allocation and impairment requirements in IAS 28.

Annual improvements 2015–2017

The Standard amends:

a) IFRS 3 to clarify that an entity remeasures its previously held interest in a joint operation when it obtains control of the business;
b) IFRS 11 to clarify that an entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the business;
c) IAS 12 to clarify that an entity accounts for all income tax consequences of dividend payments according to where the entity originally recognised the past transactions or events that generated the distributable profits; and
d) IAS 2323 to clarify that an entity treats any borrowing originally made to develop a qualifying asset as part of general borrowings when the asset is ready for its intended use or sale.

Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement'

The Standard amends IAS 19 to specify how an entity accounts for defined benefit plans when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments require an entity to use the assumptions used for the remeasurement of the net defined benefit liability or asset to determine the current service cost and the net interest for the remainder of the reporting period after a plan event occurs. The Standard also clarifies that, when a plan event occurs, an entity recognises the past service cost or a gain or loss on settlement separately from its assessment of the asset ceiling.

International Financial Reporting Standards and IFRIC Interpretations issued but not yet effective for 31 December 2019

The following standards and interpretations have been issued but are not yet effective for entities with years ending 31 December 2019.

Reference	Title	Applicable for reporting periods beginning on or after
IFRS 17	Insurance Contracts	1 January 2021
Amendments to IFRS 3	Amendments to IFRS 3 – definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8	Amendments to IAS 1 and IAS 8 on the definition of material	1 January 2020
Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of the entity.

Amendments to IFRS 3 – definition of a business

The Standard amends IFRS 3 to clarify the definition of a business, assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments:

a) 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;
b) remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs;
c) add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
d) narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; and
e) add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to IAS 1 and IAS 8 on the definition of material

The Standard principally amends IAS 1 and IAS 8. The amendments refine the definition of material in IAS 1. The amendments clarify the definition of material and its application by improving the wording and aligning the definition across IFRSs and other publications. The amendment also includes some supporting requirements in IAS 1 in the definition to give it more prominence and clarifies the explanation accompanying the definition of material.

Revised conceptual Framework

The revised Conceptual Framework for Financial Reporting (Conceptual Framework) was issued in March 2018 and is effective immediately for the International Accounting Standards Board (Board) and the IFRS Interpretations Committee. For companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

The 2018 revised Conceptual Framework sets out:

- the objective of general purpose financial reporting;
- the qualitative characteristics of useful financial information;
- a description of the reporting entity and its boundary;
- definitions of an asset, a liability, equity, income and expenses and guidance supporting these definitions;
- criteria for including assets and liabilities in financial statements (recognition) and guidance on when to remove them (derecognition);
- measurement bases and guidance on when to use them;
- concepts and guidance on presentation and disclosure; and
- concepts relating to capital and capital maintenance.