MOORE STEPHENS

Technical Update

A summary of recent changes to financial reporting requirements applicable for years ending on 30 June 2019

May 2019

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This Technical Update Includes:

Summary tables of:

- International Financial Reporting Standards and IFRIC Interpretations mandatory for 30 June 2019; and
- International Financial Reporting Standards and IFRIC Interpretations issued but not yet effective for 30 June 2019.

Discussion of significant[1]:

- International Financial Reporting Standards and IFRIC Interpretations mandatory for 30 June 2019; and
- International Financial Reporting Standards and IFRIC Interpretations issued but not yet effective for 30 June 2019.

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

International Financial Reporting Standards and IFRIC Interpretations mandatory for 30 June 2019

The following standards and interpretations are mandatorily applicable for the first time for entities with years ending 30 June 2019.

Reference	Title	Applicable for reporting periods beginning on or after
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018
Annual improvements	Annual improvements 2014–2016	1 January 2018
Amendments to IFRS 2	Amendments to IFRS 2, 'Share based payments', on clarifying how to account for certain types of share-based payment transactions	1 January 2018
Amendments to IFRS 4	Amendments to IFRS 4, 'Insurance contracts' regarding the implementation of IFRS 9, 'Financial instruments'	1 January 2018
Amendments to IAS 40	Amendment to IAS 40, 'Investment property' relating to transfers of investment property	1 January 2018

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39: Financial Instruments: Recognition and Measurement. The key changes that may affect the Group on initial application of IFRS 9 and associated amending Standards include:

- simplifying the general classifications of financial assets into those carried at amortised cost and those carried at fair value;
- permitting entities to irrevocably elect on initial recognition to present gains and losses on an equity instrument that is not held for trading in other comprehensive income (OCI);
- simplifying the requirements for embedded derivatives, including removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in OCI, except when it would create an 'accounting mismatch';
- introducing a new model for hedge accounting that permits greater flexibility in the ability to hedge risk, particularly with respect to non-financial items; and
- requiring impairment of financial assets carried at amortised cost based on an expected loss approach.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 will provide (except in relation to some specific exceptions, such as lease contracts and insurance contracts) a single source of accounting requirements for all contracts with customers, thereby replacing all current accounting pronouncements on revenue.

These Standards provide a revised principle for recognising and measuring revenue. Under IFRS 15, revenue is recognised in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the provider of the goods or services expects to be entitled. The give effect to this principle, IFRS 15 requires the adoption of the following 5-step model:

- identify the contract(s) with a customer;
- identify the performance obligations under the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations under the contract(s); and
- recognise revenue when (or as) the entity satisfies the performance obligations.

IFRS 15 also provides additional guidance to assist entities in applying the revised principle to licences of intellectual property, warranties, rights of return, principal/agent considerations and options for additional goods and services.

IFRIC 22 Foreign currency transactions and advance consideration

This Interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a nonmonetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it). The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

Annual improvements 2014–2016

This Standard amends:

a) IFRS 1 to delete some short-term exemptions for first-time adopters that were available only for reporting periods that have passed and to add exemptions arising from IFRIC 22 Foreign Currency Transactions and Advance Consideration;
b) IAS 28 to clarify that:
    i. a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture; and
    ii. an entity that is not an investment entity may elect to retain the fair value measurement applied by its associates and joint ventures that are investment entities when applying the equity method. This choice is available separately for each investment entity associate or joint venture.

Amendments to IFRS 2, 'Share based payments', on clarifying how to account for certain types of share-based payment transactions

This Standard amends IFRS 2 Share-based Payment to address:

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

Amendments to IFRS 4, 'Insurance contracts' regarding the implementation of IFRS 9, 'Financial instruments'

This Standard amends IFRS 4 Insurance Contracts to permit issuers of insurance contracts to:

a) choose to apply the 'overlay approach' that involves applying IFRS 9 Financial Instruments and also applying IAS 39 Financial Instruments: Recognition and Measurement to eligible financial assets to calculate a single line item adjustment to profit or loss so that the overall impact on profit or loss is the same as if IAS 39 had been applied; or

b) choose to be temporarily exempt from IFRS 9 when those issuers' activities are predominantly connected with insurance, provided they make additional disclosures to enable users to make comparisons with issuers applying IFRS 9.

Amendment to IAS 40, 'Investment property' relating to transfers of investment property

This Standard amends IAS 40 to reflect the principle that an entity transfers a property to, or from, investment property when, and only when, there is a change in use of the property supported by evidence that a change in use has occurred.

International Financial Reporting Standards and IFRIC Interpretations issued but not yet effective for 30 June 2019

The following standards and interpretations have been issued but are not yet effective for entities with years ending 30 June 2019.

Reference	Title	Applicable for reporting periods beginning on or after
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
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
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

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.

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.

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.

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.