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IFRS NEWS IN BRIEF

Publications & Announcements

IFRS 9 supplemented with a chapter on general hedge accounting

The new hedge accounting model incorporated into IFRS 9 by the IASB on 19 November 2013 (with corresponding disclosures in IFRS 7) represents a substantial overhaul of hedge accounting that is now designed to be more closely aligned to entities' risk management activities for hedging financial and non-financial risk exposures. Key changes include increased eligibility of hedged items and of hedging instruments, more flexibility in demonstrating a hedging relationship (eg removal of quantitative thresholds for hedge effectiveness), and expanded disclosures.

For more information: http://www.ifrs.org/Alerts/ProjectUpdate/Pages/IASB-completes-important-steps-in-reform-of-financial-instruments-accounting-November-2013.aspx

IFRS 9 amended for its effective date and early application of 'own credit'

The amendments published by the IASB on 19 November 2013 remove the mandatory effective date from IFRS 9 (initially set to 1 January 2013 then postponed to 1 January 2015, it would not be earlier than 1 January 2017 as tentatively decided by the Board), leaving it open pending the finalisation in particular of the impairment requirements; however, entities may still choose to apply it immediately. In addition, an entity is allowed to apply IFRS 9 requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss (the 'own credit' issue) in isolation, ie while continuing to measure its financial instruments in accordance with IAS 39 and without applying the other requirements of IFRS 9.

For more information: http://www.ifrs.org/Alerts/ProjectUpdate/Pages/IASB-completes-important-steps-in-reform-of-financial-instruments-accounting-November-2013.aspx

IAS 19 simplified for employee contributions to defined benefit plans

The narrow-scope amendments to IAS 19 published by the IASB on 21 November 2013 (effective from 1 July 2014 with early application allowed) permit an entity to recognise contributions from employees or third parties to defined benefit plans that are independent of the number of years of employee service (eg contributions that are a fixed percentage of the employee's salary, a fixed amount throughout the service period or dependent on the employee's age) as a reduction in the service cost in the period in which the related service is rendered, instead of attributing them to the periods of service.

For more information: http://www.ifrs.org/Alerts/ProjectUpdate/Pages/IASB-publishes-narrow-scope-amendments-to-IAS-19-Employee-Benefits-November-2013.aspx

IFRS Interpretations Committee (IC) Latest Decisions Summary

The following is a summarised update on some of the main provisional decisions taken by the IC at its meeting on 12 – 13 November 2013. For more detailed and comprehensive information on the IC's discussions:

For more information: http://media.ifrs.org/2013/IFRIC/November/IFRIC-Update-November-2013.html

- Employee benefit plans with a guaranteed return on contributions or notional contributions (IAS 19) – Despite a few tentative decisions (eg scope would encompass benefit promises with vesting conditions and demographic risks and exclude benefit promises with salary risk; different recognition and measurement approaches for the variable and non-variable components of the plans), the direction to be given to this project is still unclear as its scope might prove broader than initially envisaged.
- Definition of investment-related services or activities (IFRS 10) – The IC clarified that a wholly-owned intermediate subsidiary, which owns all or part of the portfolio of investments in the group structure and that is established by an investment entity for the sole purpose of 'tax optimisation' with no other activity, should not be consolidated because it does not provide investment-related services or activities.
- Topics for consideration by the IASB – The IC will recommend development of guidance on:
    - Determination of the rate to discount post-employment benefit obligations (eg do corporate bonds with a rating lower than 'AA' qualify as high quality?).
    - Distinguishing a change in accounting policy from a change in accounting estimate, including clarification on how to deal with changes in the method of estimation (as a change in accounting estimate may encompass a change in method used to develop the estimate, as well as a change in inputs to the method).
    - The impact of a performance condition on the measurement of a cash-settled share-based payment (currently, IFRS 2 does not address the impact of any vesting conditions on cash-settled share-based payment transactions).

International Accounting Standards Boards (IASB) Latest Decisions Summary

The following is a summarised update on some of the main provisional decisions taken by the IASB at its meeting on 20 – 23 November 2013, sometimes jointly with the FASB. For more detailed and comprehensive information on the Board's discussions:

For more information: http://media.ifrs.org/2013/IASB/November/IASB-Update-November-2013.html

Financial Instruments: Classification and Measurement (amendments to IFRS 9 due H1/2014)

- Business model assessment should refer to the way financial assets are actually managed in order to generate cash flows and create value for the entity.
- Sales do not drive the business model assessment: sales volume should not be considered in isolation and the underlying reason for these sales should be considered.
- A change in the business model would occur only when an entity has either stopped or started doing something on a level that is significant to its operations (eg acquisition / disposal of a business line).
- An entity should consider all relevant and objective information that is available at the date of the business model assessment but should not consider every 'what if' or worse-case scenario if this is not reasonably expected to occur.

- If cash flows realisation is different from the entity's expectations at the date that the business model assessment was made, it would not trigger restatement of prior period financial statements or a change in the classification of the remaining financial assets, as long as the entity considered all relevant and objective information that was available at the time that it made the assessment.
- Application guidance would reinforce the 'hold to collect' business model: insignificant and/or infrequent sales may not be inconsistent with the model, sales information should not be considered in isolation and is not determinative, credit risk management activities are integral to the model, and sales made in managing concentration of credit risk should be assessed in the same way as any other sales made in the business model.
- Two fair value measurement categories would be retained: fair value through other comprehensive income (FVOCI) that would be defined, and fair value through profit or loss (FVPL) that would be the residual category. Application guidance would clarify that:
    - Financial instruments managed and evaluated on a fair value basis or held for trading purposes should be measured at FVPL.
    - Entity's activities in the FVPL measurement category would be primarily focused on fair value information: it is used by key management personnel for decision making, and by users of the financial statements to assess the entity's performance.
    - In the FVOCI business model, managing financial assets both to collect contractual cash flows and for sale is the outcome of the way in which financial assets are managed to achieve a particular objective rather than the objective itself, ie assets classified in FVOCI are managed to achieve the business model objectives (such as liquidity management, interest rate risk management, yield management and duration mismatch management) by both collecting contractual cash flows and selling.
    - Both collection of contractual cash flows and realisation of cash flows through selling are integral to the performance of the FVOCI business model (key performance indicators would include the contractual interest yield, impairment charges and fair value changes) and there should be no threshold for the frequency or amount of sales.

Financial Instruments: Impairment (IFRS due H1/2014)

Although the Board has not decided yet whether to proceed to finalise its exposure draft Financial Instruments: Expected Credit Losses, some of the proposals were confirmed (treatment of expected credit losses for financial assets measured at FVOCI, calculation and presentation of interest revenue, treatment of purchased or originated credit-impaired financial assets, simplified approach for trade receivables and lease receivables, etc.) while redeliberations continued on clarifications and enhancements.

- For revolving credit facilities:
    - Expected credit losses (including those on the undrawn facility) should be estimated for the period over which an entity is exposed to credit risk and future drawdowns cannot be avoided.
    - The same effective interest rate should be used for expected credit losses on both drawn and undrawn facilities.
    - If expected credit losses associated with the undrawn facility cannot be separately identified, they should be presented together with the loss allowance for expected credit losses on the drawn facility.
- Expected credit losses should reflect management's expectations that should consider observable market information about credit risk.

Clarification of Acceptable Methods of Depreciation and Amortisation (amendments to IAS 16 and IAS 38 due Q1/2014)

The revised proposals of ED/2012/5 (see IFRS News in Brief December 2012) would:

- State in IAS 16 that revenue is an inappropriate basis for measuring depreciation, because revenue generated by an activity that includes the use of an asset generally reflects factors other than merely the consumption of the asset.
- Add a rebuttable presumption in IAS 38 that revenue is an inappropriate basis for measuring amortisation, unless either it can be demonstrated that there is a strong correlation between revenue and the consumption of the asset or there is an unusual circumstance in which the intangible right is expressed as a measure of revenue. Also, guidance would be added on choosing an amortisation method.
- Clarify that expected reductions in the selling price of goods or services could indicate the existence of commercial obsolescence, which in turn could reflect a reduction in the economic benefits remaining in the asset.

Upcoming Comment Deadlines

14 January 2014	DP/2013/1 - A review of the Conceptual Framework for Financial Reporting
3 March 2014	ED/2013/9 - IFRS for SMEs: Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities

About RSM

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Please contact Ellen Costa in the RSM Executive Office for more information on IFRS services provided by RSM member firms:

Ellen Costa
E ellen.costa@rsmi.com
T +44 (0)20 7601 1080