Issue 36 | March 2014

RSM
Audit • Tax • Advisory

IFRS NEWS IN BRIEF

Publications and Announcements

Proposals for narrow-focus clarifying amendments to IAS 1 open for comment until 23 July 2014

In the context of its Disclosure Initiative - a package of several projects aimed at improving the disclosure of financial information - the IASB published, on 25 March 2014, an exposure draft with a view to helping entities use judgement when preparing their financial statements and addressing some of the existing issues related to presentation and disclosure requirements (eg materiality, disaggregation of line items, presentation of subtotals, order of notes, etc.).

For more information: http://www.ifrs.org/Alerts/ProjectUpdate/Pages/IASB-publishes-proposals-as-part-of-Disclosure-Initiative-March-2014.aspx

IFRS Interpretations Committee Latest Decisions Summary

The following is a summarised update on some of the main discussions or provisional decisions taken by the Interpretations Committee (IC) at its meeting on 25 March 2014.

For more detailed and comprehensive information on the IC's discussions: http://media.ifrs.org/2014/IFRIC/March/IFRIC-Update-March-2014.html

- **Assessing 'other facts and circumstances' for classifying a joint arrangement (JA) under IFRS 11 -** Having noted that the purpose of assessing 'other facts and circumstances' is to consider whether the substance of a JA that is structured through a separate vehicle gives the parties rights to the assets and obligations for the liabilities relating to the JA, when neither the legal form of that vehicle nor the contractual agreement result in the parties having such direct rights and obligations, the IC observed that in order for 'other facts and circumstances' to result in the parties having obligations for the liabilities of a JA, the parties' intention to support the JA is insufficient; there should be legal or contractual obligations to ensure the settlement of the JA's liabilities on a continuous basis. The IC will consult the IASB before progressing this matter further.

- **Clarifications on changes in accounting estimates –** Having noted that a change in an accounting estimate may encompass both a change in the method used to develop the estimate and a change in inputs to the method, the IC will recommend to the IASB to add clear guidance and disclosure requirements to IAS 8 on the circumstances in which a change in the method of estimation is permitted, for example only if that change produces a reliable and equally or more relevant estimate.

- **Recognition of deferred tax for a single asset in a corporate wrapper -** When a subsidiary has only one asset within it (the asset inside) and the parent expects to recover the carrying amount of the asset inside by selling the shares in the subsidiary (the shares), IAS 12 requires the parent to recognise in its consolidated financial statements both the deferred tax related to the asset inside (paragraph 11) and the deferred tax related to the shares (paragraph 38), if certain conditions are met. The IC will recommend to the IASB to deal with this issue in its research project on Income Taxes.
- **Topics for which neither an Interpretation nor an amendment to a Standard are necessary:**
  - » A subsidiary that is incorporated solely for tax optimisation purposes, with no other activities, should not be consolidated by an investment entity parent; it should instead be accounted for at fair value.
  - » Internal fixed costs, such as salary costs of permanent staff involved in negotiating and arranging new leases, do not qualify as 'incremental costs' within the context of IAS 17.
  - » A three line condensed statement of cash flows showing only a total for each of operating, investing and financing cash flow activities would generally not meet the requirements in IAS 34 to include all information that is relevant in understanding the entity's ability to generate cash flows and its needs to utilise those cash flows.

International Accounting Standards Board (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 13–21 March 2014, sometimes jointly with the FASB.

For more detailed and comprehensive information on the Board's discussions: http://media.ifrs.org/2014/IASB/March/IASB-Update-March-2014.html

Leases (redeliberations on the 2013 ED)

- The proposed dual model approach for lessee accounting would be abandoned in favour of a single approach, whereby a lessee would account for all leases as Type A leases (ie amortisation of the right-of-use (ROU) asset recognised separately from interest on the lease liability).

- A lessor would classify a lease as Type A or Type B based on assessing whether the lease is effectively a financing arrangement or a sale, rather than an operating lease, ie whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset (similar to IAS 17).

- The proposed receivable and residual approach for lessor's accounting of Type A leases would not be retained. Instead, a lessor would be required to adopt an approach substantially equivalent to existing IFRS finance lease accounting.

- An explicit recognition and measurement exemption for leases of small assets would be provided to lessees. Also, lessees and lessors would be able to apply the leases guidance at a portfolio level.

- An entity would include an option to extend / not to terminate a lease in the lease term only if it is reasonably certain (ie a high threshold) that the lessee will exercise the option, having considered all relevant factors that create an economic incentive to exercise it. Purchase options would be treated similarly as renewal and termination options.

- While the lease term would not be reassessed by a lessor, it should be reassessed by the lessee only upon the occurrence of a significant event or a significant change in circumstances that is within the lessee's control.

- The proposed recognition and measurement exemption for a lessee's short-term leases (ie for lease terms of 12 months or less) would be retained, with related disclosure requirements.

Investment Entities (exposure draft to amend IFRS 10 and IAS 28 due Q2/2014)

- All investment entity subsidiaries of an investment entity parent should be measured at fair value through profit or loss, even when the subsidiary provides investment-related services to third parties.

- The existing exemption from preparing consolidated financial statements in IFRS 10 (paragraph 4(a)) would be available to a non-investment intermediate parent entity that is a subsidiary of an investment entity.

- While a non-investment joint venturer would not be allowed to retain the fair value accounting applied by an investment entity joint venture, a non-investment entity investor should retain the fair value accounting applied by an investment entity associate (for cost-benefit reasons).

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments to IFRS 10 and IAS 28 due Q2/2014)

- The portion of gain / loss relating to assets received by an investor in exchange for the contribution of an asset to its associate or joint venture should be recognised only to the extent of unrelated investors' interests in the associate or joint venture (amendment of paragraph 31 of IAS 28).

- The forthcoming amendments would become effective on 1 January 2016.

Equity Method in Separate Financial Statements (redeliberations of amendments to IAS 27)

The Board would proceed with the proposal to re-introduce the equity method as one of the options to account for an entity's investments in subsidiaries, joint ventures and associates in its separate financial statements.

Agriculture: Bearer Plants (amendments to IAS 41 due Q2/2014)

The revaluation model in IAS 16 should be permitted for bearer plants, with no specific guidance on its application, no additional disclosure requirements, and no changes to the proposed transition requirements (except for a minor clarification).

Insurance Contracts (redeliberations on the 2013 ED)

- Concerning the unlocking of the contractual service margin on non-participating contracts after inception:
    - » Differences between current and previous estimates of the present value of cash flows or of the risk adjustment that relate to future coverage and other future services would be added to / deducted from the contractual service margin; however, the contractual service margin could not be negative.
    - » Differences between current and previous estimates of the present value of cash flows or of the risk adjustment that relate to the coverage and other services provided in the current and past periods would be recognised immediately in profit or loss.
    - » Favourable changes in estimates that arise after losses were previously recognised in profit or loss would be recognised in profit or loss, to the extent that they reverse losses that relate to coverage and other services in the future at the time of the reversal.
- The effects of changes in the discount rate for non-participating contracts would be presented either in profit or loss or in other comprehensive income depending on the entity's accounting policy choice to be applied rigorously to all groups of similar portfolios.
    - » If the entity chooses to present the effect of changes in discount rates in other comprehensive income, only the difference between the carrying amounts of the insurance contract measured using the discount rates that applied (i) at the reporting date and (ii) at the date the contract was initially recognised would be recognised in other comprehensive income; the interest expense determined using the discount rates that applied at the date that the contract was initially recognised would be recognised in profit or loss.
    - » As disclosure on the effect of changes in discount rate, the entity would need to provide an analysis (in accordance with specific disaggregation requirements) of total interest expense included in total comprehensive income.

Upcoming Comment Deadlines

30 May 2014	RfI - Post-implementation Review: IFRS 3 Business Combinations
23 July 2014	ED/2014/1 - Disclosure Initiative (Proposed amendments to IAS 1)

RSM International Comment Letters

On 12 March 2014, RSM International submitted a letter of comment to the IASB on ED/2013/11 *Annual Improvements to IFRSs 2012-2014 Cycle* http://www.ifrs.org/Current-Projects/IASB-Projects/Annual-Improvements/Exposure-Draft-December-2013/Pages/Comment-letters.aspx

About RSM

RSM is a global network of independently owned and managed professional service firms, united by a common desire to provide the highest quality of services to their clients. High standards, common work ethic and clear focus make our members valuable partners for a varied client base worldwide. RSM spans the globe, with more than 700 member and correspondent firm offices, in 100 countries worldwide and more than 32,500 people on hand to serve clients.

We have member firms in North and South America, across Europe, in Africa and the Middle East and throughout the Asia Pacific region. For a full list of member firms visit www.rsmi.com.

RSM member firms will work in partnership with clients to address the impact of IFRS developments on their business. They bring knowledge of local markets, an understanding of the business issues to be addressed when expanding internationally and excellence in the application of IFRS.

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