



IFRS NEWS IN BRIEF

Publications and Announcements

Discussion paper on accounting for macro hedging open for comment until 17 October 2014

On 17 April 2014, the IASB published a discussion paper aimed at exploring an accounting approach to better reflect in an entity's financial statements its macro hedging activities (ie dynamic risk management on a portfolio basis rather than on an individual contract basis).

For more information: <http://www.ifrs.org/Alerts/ProjectUpdate/Pages/IASB-publishes-Discussion-Paper-on-accounting-for-macro-hedging-April-2014.aspx>

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 22-25 April 2014, sometimes jointly with the FASB.

For more detailed and comprehensive information on the Board's discussions (eg strategy for redeliberations on the *Conceptual Framework* project to start in May 2014 and scoping of the *Principles of Disclosure* research project): <http://media.ifrs.org/2014/IASB/April/IASB-Update-April-2014.html>

Leases (redeliberations on the 2013 ED)

- A lease modification would be defined as any change to the contractual terms and conditions of a lease that was not part of its original terms and conditions, the substance of the modification taking precedence over its form.
- A lease modification would be accounted for by lessor and lessee as a new lease when it grants the lessee an additional right-of-use (ROU) that was not included in the original lease and that is priced commensurate with its stand-alone price.
- For a lease modification that is not accounted for as a separate new lease and that results in a change in the scope or consideration of the lease:
 - » A lessee should remeasure the lease liability using a discount rate determined at the effective date of the modification, with a corresponding adjustment to the ROU asset for modifications that increase the scope

of, or change the consideration paid for, the lease. For modifications that decrease the scope of the lease, the lessee should decrease the carrying amount of the ROU asset to reflect the partial or full termination with a gain or a loss on a proportionate basis to the decrease in scope.

- » A lessor should account for modifications to a Type B lease as a new lease from the effective date of the modification (considering any prepaid or accrued lease rentals relating to the original lease as part of the lease payments for the modified lease), and for modifications to a Type A lease in accordance with IFRS 9.
- Guidance on contract combination - similar to that in the forthcoming Revenue Recognition Standard - would indicate when two or more contracts should be considered a single transaction.
- Only variable lease payments that depend on an index or a rate should be included in the initial measurement of lease assets and lease liabilities, using the index or rate at lease commencement.
- While a lessor would not be required to reassess variable lease payments that depend on an index or a rate, a lessee should perform such reassessment when the lease liability is remeasured for other reasons (eg because of a reassessment of the lease term) and when there is a change in the cash flows resulting from a change in the reference index or rate (ie when an adjustment to the lease payments takes effect).
- Guidance would clarify the principle that variable lease payments that are in-substance fixed payments should be included in the definition of lease payments.
- The discount rate the lessor charges the lessee (ie the rate implicit in the lease) would include the lessor's initial direct costs.
- While a lessor would not be required to reassess the discount rate, a lessee should perform such reassessment only when there is a change to either the lease term or the assessment of whether the lessee is (or is not) reasonably certain to exercise an option to purchase the underlying asset.

Clarifications of Classification and Measurement of Share based Payment Transactions (proposed amendment to IFRS 2 due Q3/2014)

In case of a change in the classification of a share-based payment (SBP) from cash-settled to equity-settled due to a modification to the terms and conditions of a cash-settled SBP, the transaction would be measured by reference to the modification date fair value of the equity instruments granted as a result of the modification. The liability recognised in respect of the original cash-settled SBP should be derecognised upon the modification and the equity-settled SBP should be recognised to the extent that the services have been rendered up to the modification date; any difference between the two amounts should be immediately recognised in profit or loss. Entities would apply the proposed amendments on a prospective basis, with the option to choose retrospective application if necessary information is available.

Insurance Contracts (redeliberations on the 2013 ED)

The ED proposals on presentation of insurance contract revenue and expense in the statement of comprehensive income with related disclosure are confirmed. In addition, presentation of premium information in the statement of comprehensive income would be prohibited if that information is not consistent with commonly understood notions of revenue.

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)
17 October 2014	DP/2014/1 - Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging

For the second year, RSM International is co-sponsoring the IFRS Foundation annual conference (London, 23-24 June 2014)

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