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IFRS NEWS IN BRIEF

Publications and Announcements

Release of the final standard on revenue recognition

On 28 May 2014, the IASB issued the long-awaited IFRS 15 Revenue from *Contracts with Customers*, to supersede IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18) effective for annual periods beginning on or after 1 January 2017 (earlier application permitted). IFRS 15 - which is converged (except for some minor differences) with Accounting Standards Codification Topic 606 released simultaneously by the FASB - establishes a single, comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle, enhanced disclosures, and new or improved guidance.

For more information: http://www.ifrs.org/Alerts/ProjectUpdate/Pages/IASB-and-FASB-issue-converged-Standard-on-revenue-recognition-May-2014.aspx

IAS 16 and IAS 38 clarified for acceptable methods of depreciation and amortisation

The amendments published by the IASB on 12 May 2014 (effective from 1 January 2016 with early application allowed) clarify that revenue is generally an inappropriate basis for measuring the consumption of the economic benefits embodied in an asset.

For more information: http://www.ifrs.org/Alerts/Publication/Pages/IASB-publishes-amendments-to-IAS-16-and-IAS-38-May-2014.aspx

IFRS 11 amended for acquisitions of interests in joint operations

The amendments published by the IASB on 6 May 2014 (effective from 1 January 2016 with early application allowed) specify the appropriate accounting treatment for the acquisition of an interest in a joint operation that constitutes a business, in particular application of IFRS 3.

For more information: http://www.ifrs.org/Alerts/ProjectUpdate/Pages/IASB-publishes-amendments-to-IFRS-11-Joint-Arrangements-May-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 IFRS Interpretations Committee (IC) at its meeting on 13-14 May 2014.

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

Topics for further consideration by the IC and/or IASB

» Accounting by a joint operation that is a separate vehicle (not in the scope of IFRS 11)

» Implementation issues relating to the classification of joint arrangements under IFRS 11

» Recognition and measurement of joint operations when the parties' interests in the assets and liabilities differ from their ownership interest in the joint operation

» Recognition of assets and liabilities in situations where the tax position is uncertain (e.g. if an entity expects, but is not certain, to recover some or all of the amount paid pursuant to a tax examination)

» Accounting treatment under IAS 19 for issues related to the remeasurement of the net defined benefit liability/asset in the event of a plan amendment or curtailment

» Accounting treatment of "core inventories" held in an entity's own facilities (whether to account for them as inventories or as property, plant and equipment)

Annual Improvements to IFRSs (2012-2014 Cycle)

Based on an analysis of the comment letters received, the IC would recommend to the IASB to finalise the five proposed amendments, with some minor edits or further clarifications.

Topics for which neither an Interpretation nor an amendment to a Standard are necessary

» A combining entity in a business combination achieved by contract alone (e.g. a stapling arrangement where no combining entity obtains control of the other combining entities) that is identified as the acquirer for the purpose of IFRS 3 is the parent for the purpose of IFRS 10 and should prepare consolidated financial statements of the combined entity.

» Application of IAS 12 to the (i) calculation of deferred tax related to goodwill as a consequence of an entity's internal reorganisation, and (ii) recognition and measurement of deferred tax assets when an entity is loss-making.

» An entity is required to reflect the capitalisation of borrowing costs to meet the disclosure requirement in IAS 16 (i.e. the amount at which qualifying assets would have been carried at under the cost model) for assets stated at revalued amounts.

» An instrument that is mandatorily convertible into a variable number of shares, subject to a cap and floor, is a liability in its entirety under IAS 32; the cap and the floor are embedded derivatives.

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 20-22 May 2014, sometimes jointly with the FASB.

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

Leases (redeliberations on the 2013 ED)

• A contract would contain a lease when its fulfillment depends on the use of an identified asset and it conveys the right to control the use of the identified asset for a period of time in exchange for consideration (confirmation of the ED principle), with the following additional clarifications:

» Fulfillment depends on the use of an identified asset if the supplier has no practical ability to substitute an alternative asset or would not benefit from such a substitution.

» A customer would presume that fulfillment of the contract depends on the use of an identified asset if it is impractical to determine whether the supplier has the practical ability to substitute an alternative asset or would benefit from the substitution.

- To separate lease from non-lease components and allocate consideration in a contract to those components, lessors would apply the IFRS 15 guidance on allocating the transaction price to separate performance obligations and reallocate the consideration in case of a contract modification that is not accounted for as a new contract.

- Lessees would be permitted, as an accounting policy choice by class of underlying assets, to not separate lease from non-lease components but to account for them together as a single lease component. Otherwise, to separate lease from non-lease components, a lessee should allocate consideration in a contract to those components on a relative standalone price basis (maximising the use of observable information) and reallocate the consideration in cases of a contract modification that is not accounted for as a new contract or reassessment of the lease term or of the purchase option.

- Initial direct costs should include only incremental costs that a lessor / lessee would not have incurred if the lease had not been executed and would be accounted for as follows:

» Included in the initial measurement of the lessee's right-of-use asset and amortised over the lease term.

» In a Type B lease, expensed by the lessor over the lease term on the same basis as lease income.

» In a Type A lease, expensed at lease commencement by a lessor who recognises selling profit at lease commencement; otherwise, included in the initial measurement of the lease receivable when determining the rate implicit in the lease.

Insurance Contracts (redeliberations on the 2013 ED)

- The remaining contractual service margin should be recognised in profit or loss over the coverage period in the systematic way that best reflects the remaining transfer of the services that are provided under the insurance contract (confirmation of the ED principle).

- For contracts with no participating features, the service represented by the contractual service margin would be insurance coverage that is provided on the basis of the passage of time and reflects the expected number of contracts in force.

- Revenue from fixed-fee service contracts that meet specific criteria could be recognised under IFRS 15.

- Significant insurance risk would occur only when there is a possibility that an issuer will incur a loss on a present value basis.

- Contracts acquired through a portfolio transfer or a business combination would be accounted for as if they had been issued by the entity at the date of the portfolio transfer or business combination.

Conceptual Framework (exposure draft due Q4/2014)

- Assets should be viewed as rights or bundles of rights, rather than as underlying physical objects. An entire bundle of rights would be accounted for as a single asset, unless separate accounting provides a relevant and faithful representation at a cost that does not exceed the benefits.

- The definition of an economic resource would capture any know-how that is controlled by keeping it secret.

- An economic resource must be capable of generating economic benefits, ie the economic benefits must arise from some feature that already exists within the economic resource without imposing a minimum probability threshold.

- The term 'present' would be retained in the definition of a liability and added to the definition of an asset. Both definitions would retain the phrase 'as a result of past events' while not retaining the notion that an inflow or outflow needs to be 'expected'.

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- The *Conceptual Framework* would only describe factors to consider in deciding whether to recognise an asset or liability (e.g. whether the resulting information would be relevant and provide a faithful representation, and the costs of providing information relative to the benefits), without establishing criteria for recognition in all circumstances.

- Income and expense would continue to be defined by reference to changes in assets and liabilities.

- A reporting entity - being an entity that chooses / is required to present general purpose financial statements - needs not be a legal entity; it could be an unincorporated entity, a portion of an entity, or two or more entities. There would be no mention of which combinations of entities constitute a reporting entity that could legitimately prepare combined financial statements.

- Unconsolidated financial statements presented by an entity that is required to present consolidated financial statements should disclose how users may obtain its consolidated financial statements.

- The going concern assumption should continue to be treated as an underlying assumption, without any additional guidance neither for the preparation of financial statements by entities that are not going concerns, nor for disclosures about going concern.

- It should be emphasised that an estimate with a sufficiently large level of uncertainty might not provide relevant information.

- Reference to prudence would be reintroduced and described as the exercise of caution when making judgements under conditions of uncertainty, consistently with neutrality not to allow the overstatement or understatement of assets, liabilities, income or expenses.

- When the legal form of an item is different from its underlying economic substance, reporting that item in accordance with its legal form would not result in a faithful representation.

Recognition of Deferred Tax Assets for Unrealised Losses (exposure draft amending IAS 12 due Q3/2014

The proposed amendments should address / illustrate the following application aspects of IAS 12 existing principles to debt instruments measured at fair value in accordance with IAS 39 and IFRS 9.

- An unrealised loss on a debt instrument measured at fair value gives rise to a deductible temporary difference even if the debt instrument's holder expects to recover its carrying amount by holding it to maturity and collecting all of the contractual cash flows, and the loss is not tax deductible until realised.

- An entity assesses the utilisation of deductible temporary differences related to unrealised losses on debt instruments measured at fair value in combination with other deductible temporary differences, while taking account of any restriction by tax law (e.g. capital losses deductible only against capital gains).

- For recognising deferred tax assets (DTA), an entity's estimate of future taxable profit should assume that it will recover an asset for more than its carrying amount if such recovery is probable.

- An entity excludes the tax deductions represented by existing deductible temporary differences from the probable future taxable profit against which those differences are assessed for utilisation.

- Assessment of the utilisation of deductible temporary differences when all three sources of taxable profits (ie future reversal of existing taxable temporary differences, future taxable profit and tax planning opportunities) are available but are insufficient in total to support the recognition of DTA for all of the deductible temporary differences would be illustrated.

- When an entity cannot recognise all DTA because it has insufficient future taxable profits, determining the amount of deferred tax to recognise in other comprehensive income vs profit or loss would be explained.

Equity Method: Share of Other Net Asset Changes (proposed amendments to IAS 28 abandoned)

The IASB decided not to finalise the proposals in its November 2012 ED (that were not supported then by RSM International's comment letter: http://www.ifrs.org/Current-Projects/IASB-Projects/equity-accounting/Exposure-Draft-November-2012/Comment-letters/Pages/Comment-letters.aspx) which attempted to address the diversity in practice for the recognition issue by investors of their share of the changes in the net assets of an investee that are not recognised in profit or loss or other comprehensive income of the investee and are not distributions received.

Upcoming Comment Deadlines

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

Ellen (Costa) O'Sullivan
E ellen.osullivan@rsmi.com
T +44 (0)20 7601 1080

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