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IFRS NEWS IN BRIEF

Publications and Announcements

IAS 16 and IAS 41 amended for bearer plants

The amendments published by the International Accounting Standards Board (IASB) on 30 June 2014 (effective from 1 January 2016 with early application allowed) define bearer plants – ie living plants which are used solely to grow produce over several periods and usually scrapped at the end of their productive lives (eg grape vines, rubber trees, oil palms) - and include them within IAS 16's scope while the produce growing on bearer plants remains within the scope of IAS 41.

For more information: http://www.ifrs.org/Alerts/Publication/Pages/IASB-issues-amendments-to-IAS-16-and-IAS-41-for-bearer-plants-June-2014.aspx

Proposals for amendments to IFRS 10 and IAS 28 open for comment until 15 September 2014

On 11 June 2014, the IASB published an exposure draft aimed at confirming that the exemption from presenting consolidated financial statements continues to apply to subsidiaries of an investment entity that are themselves parent entities, clarifying when an investment entity parent should consolidate a subsidiary that provides investment-related services instead of measuring that subsidiary at fair value, and simplifying the application of the equity method for an entity that is not itself an investment entity but that has an interest in an associate that is an investment entity.

For more information: http://www.ifrs.org/Alerts/Publication/Pages/Exposure-Draft-Investment-Entities-Applying-the-Consolidation-Exception-June-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 17-19 June 2014, sometimes jointly with the FASB.

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

Leases (redeliberations on the 2013 ED)

- In subleases, an intermediate lessor (ie an entity that is both lessee and lessor of the same underlying asset) would
    - » account separately for the head lease and the sublease in accordance with the lessee's and the lessor's accounting requirements respectively (unless the contract combinations guidance is met)

» determine the sublease's classification with reference to the right-of-use (ROU) asset arising from the head lease

» not offset lease assets and lease liabilities arising from a head lease and a sublease (unless the financial instruments offsetting requirements are met)

» not offset lease income and lease expense related to a head lease and a sublease (unless it acts as an agent under IFRS 15 and recognises sublease income as revenue).

• If a lessee chooses not to present ROU assets and lease liabilities as separate line items in its Statement of Financial Position (SoFP), it should disclose them in the notes indicating in which line items in the SoFP they are included; for ROU assets, that should be the same line item in which the corresponding underlying assets would be presented if they were owned.

• In the Statement of Cash Flows, a lessor would classify cash receipts from leases within operating activities, whereas a lessee would classify cash payments for the principal portion of the lease liability within financing activities and those for the interest portion in accordance with IAS 7 requirements relating to interest paid and disclose a single figure for lease cash outflows elsewhere in the financial statements.

Insurance Contracts (redeliberations on the 2013 ED)

• In determining the discount rates to adjust the cash flows in an insurance contract for the time value of money, an entity would use judgement to ensure that appropriate adjustments are made to observable inputs to accommodate any differences between observed transactions and the insurance contracts being measured and to develop unobservable inputs that should not contradict any available and relevant market data.

• Changes in estimates of fulfilment cash flows for a held reinsurance contract that result from changes in estimates of fulfilment cash flows for an underlying direct insurance contract that are recognised immediately in profit or loss would also be recognised in profit or loss.

• The principles for the measurement of an individual insurance contract could be applied to a portfolio of insurance contracts (ie insurance contracts that provide coverage for similar risks and are managed together as a single pool). However, onerous contracts should not be aggregated with profit-making contracts when determining the contractual service margin or loss at initial recognition.

• The accounting policy choice for the effect of changes in discount rates (in profit or loss or in other comprehensive income) should be applied consistently for similar contracts, considering the portfolio in which the contract is included, the assets that the entity holds and how those assets are accounted for.

Conceptual Framework (exposure draft due Q4/2014)

• While profit or loss (P/L) - required as a total or subtotal whose objectives would be to depict the return that an entity has made on its economic resources during the period and to provide information that is helpful in assessing prospects for future cash flows - is the primary source of information about an entity's performance for the period, other comprehensive income (OCI) items also provide information about the entity's performance.

• As a rebuttable presumption, all items of income and expense should be included in P/L, unless the IASB concludes in a particular case that inclusion in OCI would enhance the relevance of P/L (eg when one measurement basis is appropriate for an asset or a liability in the SoFP and another measurement basis is appropriate for P/L, the resulting difference being reported in OCI). All items of income and expense included in OCI would be recycled to P/L (rebuttable presumption).

• Guidance (broadly consistent with the one in the Discussion Paper) would be provided on economic resources and benefits. In particular, the purpose of depreciation and amortisation would be to depict consumption of the economic resource that constitutes an asset.

• Under an enforceable executory contract, the combined right and obligation to exchange economic resources would constitute a single asset or liability. Under existing Standards, unless onerous, many executory contract assets and liabilities would not be recognised (because measured at zero).

- Under a forward contract to purchase a resource at a future date, the asset would normally be the entity's right to buy the underlying resource, not the underlying resource itself. However, if the terms of such a contract gives the purchaser control of that resource, the purchaser should identify both an asset (the underlying resource that it already controls) and a liability (its obligation to pay for the resource).

- Determining the unit of account should be a Standards-level decision, although the Conceptual Framework would describe possible units of account and include a list of factors to consider.

- Standards' disclosure requirements should (i) promote disclosure of useful information that is entity-specific, (ii) result in disclosures that are clear, balanced and understandable, (iii) avoid duplication of the same information in different parts of the financial statements, and (iv) optimise comparability without compromising the usefulness of the information disclosed.

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

- Guidance would clarify application of existing requirements to circumstances where there is an unrealised loss on a fixed-rate debt instrument that pays interest each year and the principal is repaid on maturity when the holder also deducts the tax base of the asset.

- If temporary differences are deductible only against the taxable profits of a specific type (due to tax law restrictions), utilisation of such deductible temporary differences would be assessed in combination with other deductible temporary differences only of the appropriate type.

- An entity should assume it recovers an asset for more than its carrying amount if this is probable, which would not be the case in many instances (eg for assets measured at fair value or impaired).

- Estimate of probable future taxable profit against which deductible temporary differences are assessed for utilisation should exclude tax deductions represented by those deductible temporary differences.

- Application of IAS 12 to debt instruments that are classified as available-for-sale financial assets (under IAS 39) or as financial assets that are measured at fair value through OCI (under forthcoming amended IFRS 9) would be illustrated.

- Entities would be able to choose between a full and a limited retrospective application of the proposed amendments, but no exemption / exception would be proposed for first-time adopters of IFRS.

Annual Improvements to IFRSs 2012–2014 Cycle (final amendments due Q3/2014)

Based on the comments received on its December 2013 ED, the IASB tentatively decided to finalise all the proposed improvements that would become effective on 1 July 2016: changes in methods of disposal in IFRS 5, servicing contracts and continuing involvement in IFRS 7, applicability of the IFRS 7 offsetting amendments to condensed interim financial statements, discount rate's regional market issue in IAS 19, and disclosure of information 'elsewhere in the interim financial report' in IAS 34.

Business Combinations under Common Control (research project)

The project would give priority to transactions that involve third parties (eg those undertaken in preparation for an initial public offering) encompassing business combinations under common control – description of such transactions and meaning of common control might need to be clarified - that are currently excluded from IFRS 3 and group restructurings.

Upcoming Comment Deadlines

23 July 2014	ED/2014/1 - Disclosure Initiative (Proposed amendments to IAS 1)
15 September 2014	ED/2014/2 - Investment Entities: Applying the Consolidation Exception (Proposed amendments to IFRS 10 and IAS 28)
17 October 2014	DP/2014/1 - Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging

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