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RSM
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IFRS NEWS IN BRIEF

Publications and Announcements

Release of the final comprehensive standard on financial instruments

On 24 July 2014, the IASB issued the completed IFRS 9 *Financial Instruments* that supersedes all previous versions of the Standard and comes into effect on 1 January 2018 with early application permitted. The reform of financial instruments accounting introduced by IFRS 9 - to replace IAS 39 - includes a logical model for classification and measurement, a single forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.

For more information: http://www.ifrs.org/Alerts/PressRelease/Pages/IASB-completes-reform-of-financial-instruments-accounting-July-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 15-16 July 2014.

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

Topics for further consideration by the IC and/or IASB

- The financial statements of a joint operation (JO) that is a separate vehicle would be prepared in accordance with applicable Standards since they are not in the scope of IFRS 11.

- A specific type of joint arrangement (JA) structure where the parties have in substance no direct rights to the assets of the JA but have direct obligations for its liabilities would not be classified as a JO.

- The appropriate accounting for any difference arising between joint operators' share of output purchased and their ownership interest would be determined by judgement based on the contractual agreement's details.

- Measurement of assets and liabilities in the situation in which tax position is uncertain (IAS 12).

- Application of IFRIC 14 regarding the availability of refunds from a defined benefit plan managed by an independent trustee.

» IAS 19 would be amended to clarify that, in the event of a plan amendment or curtailment, an entity should take account of the remeasurement of the net defined benefit liability (asset) at the event date when determining net interest for the post-event period, and use the updated actuarial assumptions for the calculation of current service cost and net interest for the post-event period.

Explanations of existing requirements

» Price difference between the institutional and the retail offer prices for shares in an initial public offering is not a share-based payment transaction within the scope of IFRS 2.

» Judgements made by management in concluding, having considered all relevant information, that there remain no material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern should be disclosed under IAS 1 (paragraph 122).

» Current income tax on uncertain tax position (eg when the entity expects, but is not certain, to recover some or all of the additional charge paid pursuant to a tax examination) should be recognised under IAS 12.

» When a subsidiary has only one asset and the parent expects to recover that asset's carrying amount by selling its shares in the subsidiary, IAS 12 requires recognition in the parent's consolidated financial statements of deferred tax related both to the asset and to the shares.

» Presenting a three-line condensed statement of cash flows in an entity's interim financial statements - showing only a total for each of operating, investing and financing cash flow activities - would not meet IAS 34 requirements.

» Summarised financial information on material joint ventures and associates required by IFRS 12 should be disclosed on an individual basis (ie with no aggregation) for each joint venture or associate that is material to the reporting entity.

» The amount by which net proceeds received from selling items produced while testing whether an item of property, plant and equipment is functioning properly exceed the costs of testing would be recognised in profit or loss and not as a deduction from the cost of the asset (IAS 16).

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 22-24 July 2014, sometimes jointly with the FASB.

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

Leases (redeliberations on the 2013 ED)

- In a sale and leaseback transaction:

  » Determining whether a sale has occurred should be based on IFRS 15 (the new revenue recognition standard), with additional clarifications: the presence of a leaseback does not preclude the seller-lessee from concluding that it has sold the underlying asset; if the seller-lessee has a substantive repurchase option, then no sale has occurred. In this latter case, the 'failed' sale and leaseback transaction should be accounted for by both parties as a financing transaction.

  » Accounting for the underlying asset bought by the buyer-lessor should follow the guidance that would apply to any other purchase of a non-financial asset (ie without the presence of the leaseback).

  » Accounting for any loss on a completed sale by the seller-lessee should follow the guidance that would apply to any other similar sale, whereas recognised gain should be restricted to the amount that relates to the residual interest in the underlying asset at the end of the leaseback.

  - » If a sale is completed, the leaseback should be accounted for by both parties in the same manner as for any other lease.
  - » Any potential 'off-market' adjustment should be determined as the difference between either (a) the sale price and the fair value of the underlying asset or (b) the present value of the contractual lease payments and the present value of fair market value lease payments, and accounted for in the same manner as a prepayment of rent (if deficiency) or as additional financing provided by the buyer-lessor to the seller-lessee (if excess).

- A lessor would be required to disclose in particular:
  - » Information about the nature of its leases, significant assumptions and judgements made in applying the leases requirements, and management of its risk associated with the residual value of leased assets.
  - » A table of lease income recognised in the reporting period.
  - » For Type A leases
    - › A maturity analysis of the undiscounted cash flows (reconciled to the balance of lease receivables) that comprise the lessor's lease receivables for each of the first five years following the reporting date and a total of the amount for the remaining years thereafter
    - › A qualitative and quantitative explanation of the significant changes in the net investment during the reporting period.
  - » For Type B leases
    - › A maturity analysis of the undiscounted future lease payments to be received for each of the first five years following the reporting date and a total of the amount for the remaining years thereafter
    - › The IAS 16 disclosures separately from owned assets held and used by the lessor.

Insurance Contracts (redeliberations on the 2013 ED)

  - » For contracts without participating features, the locked-in rate at inception of the contract would be used for accreting interest and for determining the change in the present value of expected cash flows that offsets the contractual service margin.
  - » Changes in accounting policy relating to the presentation of the effect of changes in discount rates should follow the requirements in IAS 8.

Conceptual Framework (exposure draft due Q1/2015)

Discussions and redeliberations on the Discussion Paper (DP) covered various topics, such as among others:

- When selecting a measurement basis, the following should be considered in particular:
  - » Nature and relevance of the resulting information produced in both the statement of financial position and the statement(s) of profit or loss (P/L) and other comprehensive income (OCI), with a certain number of clarifications (eg a high degree of measurement uncertainty does not preclude relevant information, a faithful representation by itself does not necessarily result in useful information, etc.).
  - » The cost-benefit constraint.

- For cash flow-based measurements, additional guidance would be provided on the different approaches to dealing with uncertain cash flows, the use of discount rates and when to reflect the time value of money, and how to decide when the measurement of a liability should include the effect of a reporting entity's own credit standing.

- Presumption for including items of income and expense in P/L could be rebutted only if including changes in current measures of assets and liabilities in OCI enhances the relevance of P/L as the primary source of information about an entity's performance for the period. Rebuttal of the presumption would not be possible when cost-based measures are used for related assets and liabilities.

- In defining a liability, there would be a present obligation to transfer an economic resource as a result of past events if the entity has no practical ability to avoid the transfer (except by liquidating the entity or ceasing trading) and the transfer's amount is determined by reference to benefits that the entity has received, or activities that it has conducted, in the past. Additional guidance would be provided on the meaning of 'no practical ability', such as:

  » Intention to make a transfer or probability of the transfer are not sufficient to conclude that the entity has no practical ability to avoid the transfer.

  » In the absence of legal enforceability, an entity might have a constructive obligation to transfer the resource (due to its customary practices, published policies or specific statements that create a valid expectation that it will transfer the resource).

  » When all courses of action that avoid the transfer would cause significant business disruption or would have economic consequences significantly more adverse than the transfer itself, the entity would have no practical ability to avoid the transfer.

- While the definition of an asset should continue to require an economic resource to be controlled by the entity (ie the entity has the present ability to direct the use of the economic resource and obtain the economic benefits that flow from it, consistently with terminology in IFRS 10), exposure to the significant risks and rewards of ownership would be identified as only an indicator of control.

- Derecognition requirements to portray the changes that result from a transaction in which an entity retains only a component of an asset or a liability (full derecognition, partial derecognition or continued recognition) and to account for modifications of contracts should be decided at the Standards level based on the *Conceptual Framework's* description of the approaches available and factors to consider.

- The notion of 'primary financial statements' introduced in the DP would not be retained.

- Disclosure of risks and forward-looking information would normally be required by the Standards.

- The only elements of financial statements would continue to be assets, liabilities and equity, and income and expenses; no elements would be defined for the statement of changes in equity and for the statement of cash flows

Upcoming Comment Deadlines

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

RSM International Comment Letters

On 23 July 2014, RSM International submitted a letter of comment to the IASB on ED/2014/1 *Disclosure Initiative (Proposed amendments to IAS 1)* http://www.ifrs.org/Current-Projects/IASB-Projects/Amendments-to-IAS-1/ED-March-2014/Pages/Comment-letters.aspx

As the IASB and IFRS IC will next meet in September and there is no significant activity expected in August, our next *IFRS News in Brief* will be issued beginning of October 2014

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.

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