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RSM
Audit • Tax • Advisory

IFRS NEWS IN BRIEF

Publications and Announcements

Proposals for amendments to IFRS 2 open for comment until 25 March 2015

On 25 November 2014, the IASB published an exposure draft aimed at providing guidance on three issues: accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment (SBP), classification of SBP transactions with net settlement features, and accounting for a modification to the terms and conditions of a SBP that changes the classification of the transaction from cash-settled to equity-settled.

For more information: http://www.ifrs.org/Alerts/Publication/Pages/IASB-publishes-Exposure-Draft-proposing-amendments-to-IFRS-2-Share-based-Payment-November-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 11 November 2014.

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

Measurement of current income tax on uncertain tax positions (draft Interpretation of IAS 12)

- The project's scope would not be limited to specific situations (eg when an entity has unresolved disputes with a tax authority); it should cover all uncertain tax positions (UTP).

- A current tax asset or liability should be recognised only if it is probable that the entity will pay the amount to, or recover the amount from, a tax authority.

- An entity should apply judgement to determine the unit of account that provides relevant information for each UTP (eg if a decision on a specific UTP is expected to affect, or be affected by, other UTP, those UTP should be accounted for as a single unit of account).

- The amount expected to be paid to (or recovered from) the taxation authorities should be estimated by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the amount.

Topics for further consideration by the IC and/or IASB

• Recognising the amount by which net proceeds received from selling items produced while testing the proper functioning of an item of property, plant and equipment exceed the costs of testing: in profit or loss versus as a deduction from the cost of the asset (IAS 16).

• Determining the transaction date and which exchange rate to use when reporting revenue transactions denominated in a foreign currency (IAS 21), eg when the customer paid for the goods or services by making a non-refundable payment in advance.

• IAS 28 should clarify that the choice given to an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, to measure investments in associates and joint ventures at fair value is to be applied on an investment-by-investment basis.

Shedding light on existing requirements

• The liability for prepaid cards issued by a bank would meet the definition of a financial liability, because the bank has a contractual obligation to deliver cash to the merchant that is conditional upon the cardholder using the prepaid card to purchase goods or services; the derecognition requirements of IAS 39/IFRS 9 would then apply.

• The assessment of IFRS 11's 'other facts and circumstances' in determining the type of a joint arrangement (JA) structured through a separate vehicle should focus on whether those facts and circumstances create enforceable rights to the assets and obligations for the liabilities. In particular:

  » In order to classify a JA structured through a separate vehicle as a joint operation, it is necessary to demonstrate that the parties to the JA have rights and obligations relating to economic benefits of the arrangement's assets, and that they provide cash to the arrangement - through legal or contractual obligations - which is used to settle its liabilities on a continuous basis.

  » The following factors, each on their own, are not determinative for the JA's classification:

    › The sale of output from the JA to the parties at market price

    › Financing from a third party, if the cash flows from the sale of output to the parties to the JA fund the repayment of the external financing

    › The nature of the output (ie fungible or bespoke) that is produced by a JA and purchased by the parties

  » The assessment of whether the parties to the JA are taking 'substantially all of the output' from the JA is based on the monetary value of the output, rather than on physical quantities.

• Without conflicting with the concept of economic substance, two joint arrangements that have apparently similar features would be classified differently under IFRS 11 if one is structured through a separate vehicle and the other is not, because the presence of a separate vehicle plays a significant role in determining the nature of the rights and obligations of the parties to the JA.

• If a joint arrangement structured through a separate vehicle is classified as a joint operation because the parties take all the output of the JA, a joint operator recognises revenue only when the joint operation sells its output to third parties.

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 19-20 November 2014.

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

Leases (IFRS due H2/2015)

A right-of-use asset arising from a lease of property would be within the scope of IAS 40 if the leased property meets the definition of investment property (confirmation of the ED).

Conceptual Framework (exposure draft due Q1/2015)

- Income (expenses) would be defined as increases (decreases) in assets or decreases (increases) in liabilities that result in increases (decreases) in equity, other than those relating to contributions from (distributions to) equity participants, thus aligned with the proposed definitions of assets and liabilities.

- The existing Conceptual Framework would be amended to remove any reference to ordinary activities, as well as to revenue and gains / expenses and losses when defining income/expenses.

- Transaction costs of acquiring an asset or incurring a liability should not be reflected in a measurement that depicts the asset's or liability's current value (ie fair value, value in use, fulfilment value).

- Transaction costs that would be incurred on ultimate disposal of an asset should be deducted in producing a measurement that depicts its value in use.

- Costs that would be incurred in fulfilling a liability should be added in producing a measurement that depicts its fulfilment value (transaction costs that would be incurred on transferring the liability to another party or on negotiating its settlement would be excluded).

- Fair value is not reduced (increased) by the costs of selling (transferring) an asset (liability); however, the IASB might decide to measure an asset/liability at fair value less costs to sell / fair value plus costs of transfer.

- A measurement that depicts the cost of an asset or liability (rather than its transaction price) should reflect the transaction costs of acquiring (incurring) it, and should not be decreased (increased) to reflect the transaction costs of realising the asset or settling/transferring the liability.

Disclosure Initiative

Topics to include in the Discussion Paper Principles of Disclosure (expected Q2/2015) cover format of information in the notes, disclosing IFRS information outside the financial statements with cross-referencing, and materiality.

Comprehensive review of the IFRS for SMEs (amendments due Q1/2015)

- Income taxes (Section 29) would be better aligned with IAS 12, in particular for the criteria to assess the probability that taxable profit will be available against which unused tax losses or credits can be utilised, and for rebutting the presumption that the carrying amount of investment property will be recovered through sale. The use of the undue cost or effort exemption for offsetting deferred tax assets and liabilities would be clarified.

- An SME should disclose when it has used any undue cost or effort exemption and its reasoning for doing so.

- The criterion for basic financial instruments would be clarified.

- The main recognition and measurement requirements for exploration and evaluation assets would be aligned with IFRS 6.

- Guidance would be added on how to account for a subsidiary acquired with the intention of sale or disposal within one year if the subsidiary is not sold or disposed of within that timeframe, and on when a price in a binding sale agreement may be a good estimate of fair value.

- Investment property measured under the cost model should be presented separately from investment property measured under the fair value model on the face of the statement of financial position.

- If it is not practicable to determine the carrying amount of a replaced part of an item of property, plant and equipment, an SME could use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed (same exemption than in IAS 16.70).

- An undue cost or effort exemption from the requirement to measure the liability to pay a non-cash dividend at the fair value of the non-cash assets to be distributed would be added.

- Transition provisions would allow limited retrospective application of the amendments in case of impracticability; also, an SME could choose to apply the amendments to Section 29 Income Tax prospectively.

Upcoming Comment Deadlines

18 December 2014	ED/2014/3 - Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to IAS 12)
15 January 2015	DP/2014/2 - Reporting the Financial Effects of Rate Regulation
16 January 2015	ED/2014/4 - Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value (Proposed amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13)
25 March 2015	ED/2014/5 - Classification and Measurement of Share-based Payment Transactions (Proposed amendments to IFRS 2)

About RSM

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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 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