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IFRS NEWS IN BRIEF

PUBLICATIONS AND ANNOUNCEMENTS

Proposals for amendments to IAS 1 open for comment until 10 June 2015

On 10 February 2015, the IASB published an exposure draft aimed at clarifying the criteria for classification of a liability in an entity's financial statements as either current or non-current. In particular, classification should be based on the entity's rights that are in existence at the end of the reporting period.
For more information:

http://bit.ly/1zT3ki4

IFRS INTERPRETATIONS COMMITTEE LATEST DECISIONS SUMMARY

The following is a summarised update on some of the main provisional decisions taken by the IFRS Interpretations Committee (IC) at its meeting on 27 January 2015. Also, interesting discussions of topics that either need further analyses by the staff, or not giving rise for now to change to existing IFRS include amongst others: classification of the liability for prepaid cards issued by a bank in the bank's financial statements; disclosures under IFRS 12; presentation in the statement of comprehensive income of income and expenses arising on financial instruments with a negative yield; assessment of significant influence by a fund manager acting as agent and holding own investment in the fund; etc.
For more detailed and comprehensive information on the IC's discussions:

http://bit.ly/1wJOwR9

- **Accounting for income tax assets and liabilities when there are tax uncertainties** – The forthcoming draft Interpretation of IAS 12 would include guidance on:
  - The impact of tax uncertainties on the accounting for both deferred tax and current tax
  - Disclosures - e.g. an entity should disclose the method used to reflect tax uncertainties in the measurement of current and deferred tax
  - Transition - an entity would not be required to restate comparatives, but still could choose restrospective application
- **Determining the date of a revenue transaction denominated in a foreign currency to identify the applicable exchange rate -** The forthcoming draft Interpretation of IAS 21 (paragraphs 21-22) would:
  - Apply to foreign currency transactions where foreign currency consideration is paid or received in advance of the recognition of the corresponding asset, expense or income (i.e. if there is some element of prepayment or deferred income), except when the asset, expense or income is measured at fair value on initial recognition (e.g. business combinations, financial instruments, share-based payments), and insurance contracts and income taxes

- Deal only with circumstances in which the advance consideration is denominated or priced in a foreign currency and gives rise to a non-monetary prepayment asset or deferred income liability

- Clarify that the date of the transaction is the date on which the transaction is initially recognised; thus, the date of a transaction that is initially recognised in stages also occurs in stages

- Require the date of the transaction be used to determine the exchange rate to translate the prepayment asset or deferred income liability, together with the corresponding asset, expense or income. The prepayment asset or deferred income liability that is recognised in relation to the advance consideration would subsequently be derecognised (under the applicable IFRS) on recognition of the corresponding asset, expense or income

- Be based on the principle that revenue should be recognised using the exchange rate at the date the advance payment is made or the advance payment is due (whichever is earlier)

- Not be effective earlier than 1 January 2017 (i.e. the effective date of IFRS 15), and entities would be given the choice between full and limited restrospectivity, with no specific relief for first-time adopters of IFRSs

INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) LATEST DECISIONS SUMMARY

The following is a summarised update on the main provisional decisions taken by the IASB at its meeting on 18-20 February 2015, sometimes jointly with the FASB.
For more detailed and comprehensive information on the Board's discussions:

http://bit.ly/1vS59NH

Leases (IFRS due H2/2015)

» On transition to the forthcoming new Standard, a lessee would be given the choice between a fully retrospective approach and a modified retrospective approach to be applied consistently across its entire portfolio of leases previously classified as operating leases. Under the modified retrospective approach, a lessee would:

  - Not restate comparative information

  - Recognise the cumulative effect of initial application as an adjustment to the opening balance of retained earnings (or other component of equity) at the date of initial application (i.e. the first day of the annual reporting period in which the new Standard is applied)

  - Measure the lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application

  - Choose, on a lease-by-lease basis, between two measurement approaches for the right of use (ROU) asset on transition: either as if the new Standard had always been applied (but using a discount rate based on the lessee's incremental borrowing rate at the date of initial application), or at an amount equal to the lease liability adjusted by the amount of any previously recognised prepaid or accrued lease payments

  - Not be required to include initial direct costs in the measurement of the ROU asset

  - Be permitted to adjust the ROU asset by the amount of any previously recognised onerous lease provision, instead of performing an impairment review

  - Be permitted, as an explicit recognition and measurement exemption, to account for leases for which the term ends within 12 months or less of the date of initial application in the same way as short-term leases; the cost associated with these leases would be included in the disclosure of short-term lease expense in the annual reporting period of initial application

› Be permitted to use hindsight in applying the new Standard (e.g. to determine the lease term if the contract contains options to extend or terminate the lease)

» A first-time adopter of IFRSs would be allowed the same modified retrospective approach as above (date of initial application being the date of transition to IFRSs), except for the explicit recognition and measurement exemption for leases for which the term ends within 12 months of the date of initial application.

» On transition to the forthcoming new Standard, a lessor should continue to apply its existing accounting for any leases that are ongoing at the date of initial application. However, an intermediate lessor in a sublease should reassess each ongoing operating sublease at the date of initial application to determine its new classification, based on the remaining contractual terms of the head lease and the sublease; a sublease classified as operating lease under IAS 17 but finance lease under the new Standard would be accounted for as a new finance lease entered into on the date of initial application.

» For a sublease classified as a finance lease, the intermediate lessor would be permitted to account for it using the discount rate of the head lease, if the rate implicit in the sublease cannot be readily determined.

» On transition to the forthcoming new Standard, an entity should not reassess historic sale and leaseback transactions to determine whether a sale occurred in accordance with IFRS 15.

» Without performing any retrospective accounting specific to sale and leaseback transactions that were classified as finance leases under IAS 17, a seller-lessee should account for the sale and leaseback on transition in the same way as for any other finance lease that is ongoing at the date of initial application, and continue amortising any gain on sale in accordance with IAS 17.

» Without performing any retrospective accounting specific to sale and leaseback transactions that were classified as operating leases under IAS 17, a seller-lessee should account for the leaseback on transition in the same way as for any other operating lease that is ongoing at the date of initial application, and account for any deferred gains or losses that relate to off-market terms as an adjustment to the leaseback ROU asset.

» The sale and leaseback partial-gain recognition approach should be applied only to sale and leaseback transactions entered into after the date of initial application of the new Leases Standard.

» An entity could choose to grandfather the definition of a lease, but only if it does so for all contracts that are ongoing at the date of initial application of the new Standard, and if it discloses that fact.

» A recognition and measurement exemption for leases of small assets would be permitted (an order of magnitude would be included in Basis for Conclusions); however, leased assets that are dependent on, or highly interrelated with, other leased assets would not qualify as small assets.

Clarifications to IFRS 15 *Revenue from Contracts with Customers* (exposure draft due Q2/2015)

This is a new project to address the issues emerging from the discussions of the IASB-FASB joint Transition Resource Group for Revenue Recognition (TRG), in particular to propose clarifying improvements to the guidance in the new Standard.

» The promise to a customer in granting a licence is to provide a right to access the entity's intellectual property (which is satisfied over time) when the contract requires or the customer reasonably expects the entity to undertake activities (that do not transfer a good or service to the customer) that significantly affect the utility of the intellectual property to which the customer has rights, i.e. when either the entity's activities are expected to change the form or the functionality of the intellectual property to which the customer has rights, or the value of the intellectual property to the customer is substantially derived from, or dependent upon, the expected activities of the entity.

- When intellectual property has significant standalone functionality, such as software or media content, a substantial portion of its utility is derived from that functionality and is unaffected by activities of the entity that do not change that functionality (such as promotional activities).

- A single royalty should not be split into a portion subject to the sales-based or usage-based royalties exception and a portion that is not subject to the royalties constraint; also, the sales-based or usage-based royalties exception should apply whenever the predominant item to which the royalty relates is a licence of intellectual property.

- Some additional illustrative examples should clarify the intended application of the guidance on identifying performance obligations.

Comprehensive review of the *IFRS for SMEs* (amendments due H1/2015)

- Comprehensive reviews of the *IFRS for SMEs* should generally begin with the issuance of a Request for Information, approximately two years after the effective date of amendments resulting from a previous comprehensive review.

- Whether there is a need for an interim review between two comprehensive reviews would be considered by the IASB (with input from the SME Implementation Group), in particular to address any new and revised IFRS not yet incorporated or urgent amendments.

Disclosure Initiative - Principles of Disclosure (discussion paper due Q2/2015)

- Disclosure of alternative performance measures (APMs) and information that has been identified as non-IFRS would not be prohibited from presentation in an entity's financial statements (most likely in the notes).

- Guidance on the depiction of non-recurring, unusual or infrequently occurring items in the statement of comprehensive income should be added.

- Including EBIT and EBITDA sub-totals (presented in accordance with IAS 1) in the statement of profit or loss presented 'by nature' is IFRS compliant.

UPCOMING COMMENT DEADLINES

25 March 2015	ED/2014/5 - Classification and Measurement of Share-based Payment Transactions (Proposed amendments to IFRS 2)
17 April 2015	ED/2014/6 - Disclosure Initiative (Proposed amendments to IAS 7)
10 June 2015	ED/2015/1 - Classification of Liabilities (Proposed amendments to IAS 1)

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 35,000 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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