KEY CONSIDERATIONS FOR 2017 IFRS FINANCIAL REPORTING

New and amended Standards and Interpretations that need to be considered by preparers and auditors of 2017 IFRS interim and annual financial statements.

THIS ARTICLE PROVIDES A HIGH LEVEL OVERVIEW OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS THAT NEED TO BE CONSIDERED BY PREPARERS AND AUDITORS OF 2017 IFRS INTERIM AND ANNUAL FINANCIAL STATEMENTS, WITH THE OBJECTIVE OF HIGHLIGHTING KEY ASPECTS OF THESE CHANGES (1).

Requirements mandatory for the first time for the financial year beginning 1 January 2017 (2)
Amendments to IAS 7 titled *Disclosure Initiative*
The amendments require entities to provide information (in the form of additional disclosure) that enable users of financial statements to evaluate changes in liabilities arising from their financing activities.
Amendments to IAS 12 titled *Recognition of Deferred Tax Assets for Unrealised Losses*
The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base (eg deferred tax asset related to unrealised losses on debt instruments measured at fair value), as well as certain other aspects of accounting for deferred tax assets.
Amendments to IFRS 12 titled *Clarification of the Scope of the Standard* *Annual Improvements to IFRS Standards 2014–2016 Cycle*
The amendments clarify that the disclosure requirements of IFRS 12 do apply to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations except for summarised financial information for those interests (ie paragraphs B10–B16 of IFRS 12).

Requirements available for early application for the financial year beginning 1 January 20172
AMENDMENTS TO EXISTING STANDARDS
Amendments to IAS 28 titled *Measuring an Associate or Joint Venture at Fair Value* *Annual Improvements to IFRS Standards 2014–2016 Cycle*
The amendments – mandatory for annual periods beginning on or after 1 January 2018 - clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, mutual fund, unit trust or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
Amendments to IAS 40 titled *Transfers of Investment Property*
The amendments – mandatory for annual periods beginning on or after 1 January 2018 - clarify that transfers to, or from, investment properties (including assets under construction and development) should be made when, and only when, there is evidence that a change in use of a property has occurred.
Amendments to IFRS 1 titled *Deletion of Short-term Exemptions for First-time Adopters* *Annual Improvements to IFRS Standards 2014–2016 Cycle*
The amendments – mandatory for annual periods beginning on or after 1 January 2018 - delete short-term exemptions covering transition provisions that were available to entities for past reporting periods and are therefore no longer applicable.

Amendments to IFRS 2 titled *Classification and Measurement of Share-based Payment Transactions*

The amendments – mandatory for annual periods beginning on or after 1 January 2018 - clarify the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments (SBP), the accounting for SBP transactions with a net settlement feature for withholding tax obligations, and the effect of a modification to the terms and conditions of a SBP that changes the classification of the transaction from cash-settled to equity-settled.

Amendments to IFRS 4 titled *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

The amendments - applicable to annual periods beginning on or after 1 January 2018 - give all insurers the option to recognise in other comprehensive income, rather than in profit or loss, the volatility that could arise when IFRS 9 is applied before implementing IFRS 17 ('the overlay approach'). Also, entities whose activities are predominantly connected with insurance are given an optional temporary exemption (until 2021) from applying IFRS 9, thus continuing to apply IAS 39 instead ('the deferral approach').

Amendments to IFRS 10 and IAS 28 titled *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address a current conflict between the two Standards and clarify that a gain or loss should be recognised fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after 1 January 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

NEW INTERPRETATIONS

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

The Interpretation – mandatory for annual periods beginning on or after 1 January 2018 - provides guidance clarifying that the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency is the one at the date of initial recognition of the non-monetary asset or liability.

IFRIC 23 *Uncertainty over Income Tax Treatments*

The Interpretation - mandatory for annual periods beginning on or after 1 January 2019 - provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under IAS 12, in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates, and (iv) effect of changes in facts and circumstances.

NEW STANDARDS

IFRS 9 *Financial Instruments*

The Standard will replace IAS 39 (and all the previous versions of IFRS 9) effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

- The Standard will replace IAS 39 (and all the previous versions of IFRS 9) effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.
- IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of each reporting period. All other debt and equity investments are measured at their fair value at the end of each reporting period.
- For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is applied: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability (the 'own credit risk') is recognised in other comprehensive income (with no subsequent reclassification to profit or loss), unless this creates an accounting mismatch.
- For the impairment of financial assets, IFRS 9 introduces an 'expected credit loss' model based on the concept of providing for expected losses at inception of a contract; it is no longer necessary for a credit event to have occurred before a credit loss is recognised.
- For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures. Key changes from the IAS 39 model include increased eligibility of hedged items and of hedging instruments, more flexibility in demonstrating a hedging relationship such as removal of quantitative thresholds for hedge effectiveness, and expanded disclosures.
- The derecognition provisions are carried over almost unchanged from IAS 39.

IFRS 15 ***Revenue from Contracts with Customers***
The Standard (amended for effective date and clarifications in September 2015 and April 2016 respectively) – effective for annual periods beginning on or after 1 January 2018 – replaces IAS 11, IAS 18 and their Interpretations. It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (eg the point at which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract, etc.).
IFRS 16 *Leases*
The Standard – effective for annual periods beginning on or after 1 January 2019 (earlier application permitted only if IFRS 15 also applied) – replaces IAS 17 and its Interpretations. The biggest change introduced is that almost all leases will be brought onto lessees' balance sheets under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained.
IFRS 17 *Insurance Contracts*
The Standard that replaces IFRS 4 – effective for annual periods beginning on or after 1 January 2021 (earlier application permitted only if IFRS 9 and IFRS 15 also applied) – requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of consistent, principle-based accounting for insurance contracts, giving a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

(1) This article reflects new and amended Standards and Interpretations issued up to 15 July 2017. Entities should also consider and disclose the potential impact of the application of any additional new or amended Standard or Interpretation that might be issued by the IASB up to the date the entity's financial reports are authorised for issue.

(2) Unless mentioned otherwise, all the new or amended requirements should be applied retrospectively (in accordance with IAS 8), sometimes with specific transitional provisions.

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