IFRS Core Tools

IFRS Update of standards and interpretations in issue at 30 June 2020

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Contents

Introduction	**2**
Section 1: New pronouncements issued as at 30 June 2020	**4**
Table of mandatory application	4
IFRS 17 *Insurance Contracts*	5
Definition of a Business – Amendments to IFRS 3	7
Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7	8
Definition of Material – Amendments to IAS 1 and IAS 8	10
Covid-19-Related Rent Concessions – Amendment to IFRS 16	11
Reference to the Conceptual Framework – Amendments to IFRS 3	12
Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16	12
Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37	13
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28	13
The Conceptual Framework for Financial Reporting	14
Classification of Liabilities as Current or Non-current - Amendments to IAS 1	15
Improvements to International Financial Reporting Standards	16
Section 2: Items not taken onto the IFRS Interpretations Committee's agenda in Q2 2020	**17**
Section 3: Active IASB projects	**23**

Introduction

Entities reporting under International Financial Reporting Standards (IFRS) continue to face a steady flow of new standards and interpretations. The resulting changes range from significant amendments of fundamental principles to some minor changes from the annual improvements process (AIP). They will affect different areas of accounting, such as recognition, measurement, presentation and disclosure.

Some of the changes have implications that go beyond matters of accounting, also potentially impacting the information systems of many entities. Furthermore, the changes may impact business decisions, such as the creation of joint arrangements or the structuring of particular transactions.

The challenge for preparers is to gain an understanding of what lies ahead.

Purpose of this publication

This publication provides an overview of the upcoming changes in standards and interpretations (pronouncements). It also provides an update on selected active projects. It does not attempt to provide an in-depth analysis or discussion of the topics. Rather, the objective is to highlight key aspects of these changes. Reference should be made to the text of the pronouncements before taking any decisions or actions.

This publication consists of three sections:

Section 1 provides a high-level overview of the key requirements of each pronouncement issued by the International Accounting Standards Board (IASB or the Board) and the IFRS Interpretations Committee (IFRS IC) as at 30 June 2020 that will be effective for the first-time for reporting periods ended at that date or thereafter. This overview provides a summary of the transitional requirements and a brief discussion of the potential impact that the changes may have on an entity's financial statements.

A table comparing mandatory application for different year ends is presented at the beginning of Section 1. In the table, the pronouncements are presented in order of their effective dates. Note that many pronouncements contain provisions that would allow entities to adopt in earlier periods.

When a standard or interpretation has been issued, but has yet to be applied by an entity, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires the entity to disclose any known (or reasonably estimable) information relevant to understanding the possible impact that the new pronouncement will have on the financial statements, or indicate the reason for not doing so. The table at the beginning of Section 1 is helpful in identifying the pronouncements that fall within the scope of this disclosure requirement.

Section 2 provides a summary of the agenda decisions published in the *IFRIC Update*[1] since 1 April 2020. For agenda decisions published before 1 April 2020, please refer to previous editions of *IFRS Update*. In some agenda decisions, the IFRS IC refers to the existing pronouncements that provide adequate guidance. These agenda decisions provide a view on the application of the pronouncements and fall within 'other accounting literature and accepted industry practices' in paragraph 12 of IAS 8.

Section 3 summarises the key features of selected active projects of the IASB. The 'Key projects' addressed are those initiated with the objective of issuing new standards and those involving overarching considerations across a number of standards. 'Other projects' include proposed amendments with narrower applicability. Generally, only those projects that have reached the exposure draft stage are included, but, in selected cases, significant projects that have not yet reached the exposure draft stage are also highlighted.

[1] The *IFRIC Update* is available on the IASB's website at http://www.ifrs.org/news-and-events/updates/ifric-updates/

IFRS Core Tools

EY's *IFRS Core Tools*[2] provide the starting point for assessing the impact of changes to IFRS. Our *IFRS Core Tools* include a number of practical building blocks that can help the user to navigate the changing landscape of IFRS. In addition to *IFRS Update*, EY's *IFRS Core Tools* include the publications described below.

International GAAP® Disclosure Checklist

Our 2020 edition of *International GAAP® Disclosure Checklist* captures disclosure requirements applicable to periods ended 30 June 2020, and disclosures that are permitted to be adopted early. These disclosure requirements are for all pronouncements issued as at 29 February 2020. This tool assists preparers to comply with the presentation and disclosure requirements of IFRS in their interim and year-end IFRS financial statements. Previous editions of this tool for earlier period-ends are available on EY's *IFRS Core Tools* webpage.

Good Group (International) Limited

Good Group (International) Limited is a set of illustrative financial statements, incorporating presentation and disclosure requirements that are in issue as at 30 June 2019 and effective for the year ended 31 December 2019. *Good Group (International) Limited – Illustrative interim condensed financial statements* for the period ended 30 June 2020, based on IFRS in issue at 29 February 2020, supplements *Good Group (International) Limited – Illustrative financial statements*. Among other things, these illustrative financial statements can assist in understanding the impact accounting changes may have on the financial statements.

Good Group (International) Limited is supplemented by illustrative financial statements that are aimed at specific sectors, industries and circumstances. These include:

- Good Group (International) Limited – Agriculture: Supplement to Illustrative Consolidated Financial Statements
- Good First-time Adopter (International) Limited
- Good Investment Fund Limited (Equity)
- Good Investment Fund Limited (Liability)
- Good Real Estate Group (International) Limited
- Good Mining (International) Limited
- Good Petroleum (International) Limited
- Good Bank (International) Limited
- Good Insurance (International) Limited
- Good Life Insurance (International) Limited
- Good General Insurance (International) Limited

Also available from EY:

Other EY publications

References to other EY publications that contain further details and discussion on these topics are included throughout the *IFRS Update*, all of which can be downloaded from our website.[2]

International GAAP® 2020[3]

Our *International GAAP® 2020* is a comprehensive guide to interpreting and implementing IFRS.[4] It includes pronouncements mentioned in this publication that were issued prior to September 2019, and it provides examples that illustrate how the requirements of those pronouncements are applied.

[2] EY's Core Tools are available on http://www.ey.com/en_gl/ifrs-technical-resources.

[3] International GAAP® is a registered trademark of Ernst & Young LLP (UK).

[4] http://www.igaap.info.

Section 1: New pronouncements issued as at 30 June 2020

Table of mandatory application

			First time applied in annual periods ending on the last day of these months**											
New pronouncement	Page	Effective date*	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Definition of a Business – Amendments to IFRS 3	7	1 Jan 2020	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2020
Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7	8	1 Jan 2020	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2020
Definition of Material – Amendments to IAS 1 and IAS 8	10	1 Jan 2020	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2020
The Conceptual Framework for Financial Reporting	14	1 Jan 2020	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2020
Covid-19-Related Rent Concessions – Amendment to IFRS 16	11	1 Jun 2020***	2021	2021	2021	2021	2021	2020	2020	2020	2020	2020	2020	2020
Classification of Liabilities as Current or Non-current - Amendments to IAS 1	15	1 Jan 2022****	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2022
Reference to the Conceptual Framework – Amendments to IFRS 3	12	1 Jan 2022	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2022
Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16	12	1 Jan 2022	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2022
Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37	13	1 Jan 2022	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2022
AIP IFRS 1 *First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter*	16	1 Jan 2022	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2022
AIP IFRS 9 *Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities*	16	1 Jan 2022	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2022
AIP IAS 41 *Agriculture – Taxation in fair value measurements*	16	1 Jan 2022	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2023	2022
IFRS 17 *Insurance Contracts*	5	1 Jan 2023	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2024	2023
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28	13	Note 1												

*Effective for annual periods beginning on or after this date. ** Assuming that an entity has not early adopted the pronouncement according to specific provisions in the standard, interpretation or amendment. *** Earlier application is permitted, including in financial statements not yet authorised for issue at 28 May 2020. **** The IASB has issued an exposure draft proposing to defer the effective date of the Amendments to IAS 1 to 1 January 2023.

Note 1: In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.

IFRS 17 *Insurance Contracts*

Effective for annual periods beginning on or after 1 January 2023.

Background

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts*.

In September 2017, the Board established a Transition Resource Group (TRG) for IFRS 17 to analyse implementation-related questions. The TRG met four times and while no further meetings have been scheduled, the TRG submission process remains open for stakeholders to send in questions they believe meet the TRG submission criteria.

Scope

IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

Key requirements

The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers.

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The main features of the new accounting model for insurance contracts are as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- Amounts that are paid to a policyholder in all circumstances, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts

Transition

IFRS 17 is effective for reporting periods starting on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 *Financial Instruments* on or before the date it first applies IFRS 17.

The Board decided on a retrospective approach for estimating the CSM on the transition date. However, if full retrospective application, as defined by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for a group of insurance contracts, is impracticable, an entity is required to choose one of the following two alternatives:

- *Modified retrospective approach* - based on reasonable and supportable information available without undue cost and effort to the entity, certain modifications are applied to the extent full retrospective application is not possible, but still with the objective to achieve the closest possible outcome to retrospective application
- *Fair value approach* - the CSM is determined as the positive difference between the fair value determined in accordance with IFRS 13 *Fair Value Measurement* and the fulfilment cash flows (any negative difference would be recognised in retained earnings at the transition date)

Both the modified retrospective approach and the fair value approach provide transitional reliefs for determining the grouping of contracts. If an entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it is required to apply the fair value approach.

Amendments to IFRS 17

In June 2020, the IASB issued amendments to IFRS 17. These amendments follow from the Exposure Draft (ED) on proposed *Amendments to IFRS 17 Insurance Contracts*.

As a result of its re-deliberations, the IASB has made changes to the following main areas of IFRS 17:

- Deferral of the effective date of IFRS 17 and IFRS 9 for qualifying insurance entities by two years to annual reporting periods beginning on or after 1 January 2023)
- Scope of the standard
- Expected recovery of insurance acquisition cash flows from insurance contract renewals
- CSM relating to investment activities
- Applicability of the risk mitigation option for contracts with direct participation features
- Reinsurance contracts held - expected recovery of losses on underlying onerous contracts
- Simplified presentation of insurance contracts in the statement of financial position
- Additional transition reliefs

In addition to the above changes, the amendments also include several other minor and editorial changes to IFRS 17.

Impact

IFRS 17, together with IFRS 9 *Financial Instruments*, will result in profound changes to the accounting in IFRS financial statements for insurance companies. This will have a significant impact on data, systems and processes used to produce information for financial reporting purposes. The new model is likely to have a significant impact on the profit and total equity of some insurance entities, resulting in increased volatility compared to today's models. Key performance indicators will also likely be affected.

Other EY publications

IASB issues amendments to IFRS 17 (June 2020) EYG No. 004475-20Gbl

Applying IFRS 17: A closer look at the new Insurance Contracts Standard (May 2018) EYG No. 01859-183Gbl

IASB issues proposed amendments to IFRS 17 (June 2019) EYG No. 003121-19Gbl

IASB agrees re-deliberation plan for amendments to IFRS 17 (November 2019) EYG No. 005476-19Gbl

Fourth meeting of the IASB's IFRS 17 Transition Resource Group (April 2019) EYG No. 001926-19Gbl

Third technical discussion of the IASB's IFRS 17 Transition Resource Group (October 2018) EYG No. 011564-18Gbl

Second technical discussion of the IASB's IFRS 17 Transition Resource Group (May 2018) EYG No. 02735-183Gbl

First technical discussion of the IASB's IFRS 17 Transition Resource Group (February 2018) EYG No. 00865-183Gbl

Definition of a Business - Amendments to IFRS 3

Effective for annual periods beginning on or after 1 January 2020.

Key requirements

The IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Minimum requirements to be a business

The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.

Market participants' ability to replace missing elements

Prior to the amendments, IFRS 3 stated that a business need not include all of the inputs or processes that the seller used in operating that business, 'if market participants are capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes'. The reference to such integration is now deleted from IFRS 3 and the assessment must be based on what has been acquired in its current state and condition.

Assessing whether an acquired process is substantive

The amendments specify that if a set of activities and assets does not have outputs at the acquisition date, an acquired process must be considered substantive only if: (a) it is critical to the ability to develop or convert acquired inputs into outputs; and (b) the inputs acquired include both an organised workforce with the necessary skills, knowledge, or experience to perform that process, and other inputs that the organised workforce could develop or convert into outputs. In contrast, if a set of activities and assets has outputs at that date, an acquired process must be considered substantive if: (a) it is critical to the ability to continue producing outputs and the acquired inputs include an organised workforce with the necessary skills, knowledge, or experience to perform that process; or (b) it significantly contributes to the ability to continue producing outputs and either is considered unique or scarce, or cannot be replaced without significant cost, effort or delay in the ability to continue producing outputs.

Narrowed definition of outputs

The amendments narrowed the definition of outputs to focus on goods or services provided to customers, investment income (such as dividends or interest) or other income from ordinary activities. The definition of a business in Appendix A of IFRS 3 was amended accordingly.

Optional concentration test

The amendments introduced an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. Entities may elect to apply the concentration test on a transaction-by-transaction basis. The test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the test is met, the set of activities and assets is determined not to be a business and no further assessment is needed. If the test is not met, or if an entity elects not to apply the test, a detailed assessment must be performed applying the normal requirements in IFRS 3.

Transition

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed.

Impact

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, most entities will likely not be affected by these amendments on transition. However, entities considering the acquisition of a set of activities and assets after first applying the amendments should update their accounting policies in a timely manner.

The amendments could also be relevant in other areas of IFRS (e.g., they may be relevant where a parent loses control of a subsidiary and has early adopted *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28)).

Other EY publications

IFRS Developments Issue 137: IASB issues amendments to the definition of a business in IFRS 3 (October 2018)
EYG No. 011864-18Gbl

Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7

Effective for annual periods beginning on or after 1 January 2020.

Key requirements

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting.

The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR).

The amendments to IFRS 9

The amendments include a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

Application of the reliefs is mandatory. The first three reliefs provide for:

- The assessment of whether a forecast transaction (or component thereof) is highly probable
- Assessing when to reclassify the amount in the cash flow hedge reserve to profit and loss
- The assessment of the economic relationship between the hedged item and the hedging instrument

For each of these reliefs, it is assumed that the benchmark on which the hedged cash flows are based (whether or not contractually specified) and/or, for relief three, the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of IBOR reform.

A fourth relief provides that, for a benchmark component of interest rate risk that is affected by IBOR reform, the requirement that the risk component is separately identifiable need be met only at the inception of the hedging relationship. Where hedging instruments and hedged items may be added to or removed from an open portfolio in a continuous hedging strategy, the separately identifiable requirement need only be met when hedged items are initially designated within the hedging relationship.

To the extent that a hedging instrument is altered so that its cash flows are based on an RFR, but the hedged item is still based on IBOR (or vice versa), there is no relief from measuring and recording any ineffectiveness that arises due to differences in their changes in fair value.

The reliefs continue indefinitely in the absence of any of the events described in the amendments. When an entity designates a group of items as the hedged item, the requirements for when the reliefs cease are applied separately to each individual item within the designated group of items.

The amendments also introduce specific disclosure requirements for hedging relationships to which the reliefs are applied.

The amendments to IAS 39

The corresponding amendments are consistent with those for IFRS 9, but with the following differences:

- For the prospective assessment of hedge effectiveness, it is assumed that the benchmark on which the hedged cash flows are based (whether or not it is contractually specified) and/or the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of IBOR reform.
- For the retrospective assessment of hedge effectiveness, to allow the hedge to pass the assessment even if the actual results of the hedge are temporarily outside the 80%-125% range, during the period of uncertainty arising from IBOR reform.
- For a hedge of a benchmark portion (rather than a risk component under IFRS 9) of interest rate risk that is affected by IBOR reform, the requirement that the portion is separately identifiable need be met only at the inception of the hedge.

Transition

The amendments must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight. Early application is permitted and must be disclosed.

Impact

In finalising the amendments, the IASB has provided reliefs that are essential to mitigate the hedge accounting issues that could arise during the period of uncertainty before IBOR contracts are amended to new benchmark rates.

The IASB is now finalising phase two of the IBOR reform project, which addresses issues that could affect financial reporting when an existing interest rate benchmark is replaced with an RFR. Further details on phase two are included below in Section 3: *Other Projects*.

Other EY publications

Good Bank (International) Limited (December 2019) EYG No. 005855-19Gbl. In this publication the amendments to IAS 39 have been early adopted for illustrative purposes.

IFRS Developments Issue 165: IBOR reform: IASB publishes phase two exposure draft (April 2020) EYG No. 002187-20Gbl

IFRS Developments Issue 162: IBOR reform: IASB discusses remaining phase two issues (March 2020)
EYG No. 000990-20Gbl

IFRS Developments Issue 160: IBOR reform: phase two (continued) (January 2020) EYG No. 000505-20Gbl

IFRS Developments Issue 156: IBOR reform: IASB discusses phase two hedge accounting issues (December 2019)
EYG No. 005777-19Gbl

IFRS Developments Issue 154: IBOR reform: IASB discusses phase two classification and measurement issues (October 2019)
EYG No. 004807-19Gbl

IFRS Developments Issue 152: IBOR reform: publication of the phase one amendments and commencement of phase two
(September 2019) EYG No. 004361-19Gbl

EY has also published a series of videos on the accounting impacts of the IBOR reform which is available on www.ey.com/ifrs and the EY channel on YouTube:

- 'Global IFRS: IBOR reform - IASB discusses phase two hedge accounting issues, December 2019'
- 'Global IFRS: IBOR transition discussions, January 2020'
- 'Global IFRS: IBOR reform - IASB publishes phase two exposure draft, April 2020'

Go to www.ey.com/ifrs to find out more

Definition of Material - Amendments to IAS 1 and IAS 8

Effective for annual periods beginning on or after 1 January 2020.

Key requirements

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

Obscuring information

The amendments explain that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information. Material information may, for instance, be obscured if information regarding a material item, transaction or other event is scattered throughout the financial statements or disclosed using a language that is vague or unclear. Material information can also be obscured if dissimilar items, transactions or other events are inappropriately aggregated, or conversely, if similar items are inappropriately disaggregated.

New threshold

The amendments replaced the threshold 'could influence', which suggests that any potential influence of users must be considered, with 'could reasonably be expected to influence' in the definition of 'material'. In the amended definition, therefore, it is clarified that the materiality assessment will need to take into account only reasonably expected influence on economic decisions of primary users.

Primary users of the financial statements

The current definition refers to 'users' but does not specify their characteristics, which can be interpreted to imply that an entity is required to consider all possible users of the financial statements when deciding what information to disclose. Consequently, the IASB decided to refer to primary users in the new definition to help respond to concerns that the term 'users' may be interpreted too widely.

Other amendments

The definition of material in the Conceptual Framework and IFRS Practice Statement 2: *Making Materiality Judgements* were amended to align with the revised definition of material in IAS 1 and IAS 8.

Transition

The amendments must be applied prospectively. Early application is permitted and must be disclosed.

Impact

Although the amendments to the definition of material is not expected to have a significant impact on an entity's financial statements, the introduction of the term 'obscuring information' in the definition could potentially impact how materiality judgements are made in practice, by elevating the importance of how information is communicated and organised in the financial statements.

Other EY publications

IFRS Developments Issue 138: IASB issues amendments to the definition of material (November 2018) EYG No. 011935-18Gbl

Covid-19-Related Rent Concessions – Amendment to IFRS 16

Effective for annual periods beginning on or after 1 June 2020.

Key requirements

In May 2020, the IASB amended IFRS 16 *Leases* to provide relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment does not apply to lessors.

As a practical expedient, a lessee may elect not to assess whether a covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments before 30 June 2021 and increased lease payments that extend beyond 30 June 2021).
- There is no substantive change to other terms and conditions of the lease.

Transition

Lessees will apply the practical expedient retrospectively, recognising the cumulative effect of initially applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the amendment is first applied.

The information required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* is not required to be disclosed.

A lessee will apply the amendment for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at 28 May 2020.

Impact

The amendment to IFRS 16 will provide relief to lessees for accounting for rent concessions from lessors specifically arising from the covid-19 pandemic. While lessees that elect to apply the practical expedient do not need to assess whether a concession constitutes a modification, lessees still need to evaluate the appropriate accounting for each concession as the terms of the concession granted may vary.

Other EY publications

Applying IFRS: Accounting for covid-19 related rent concessions (June 2020) EYG No. 004537-20Gbl

IFRS Developments Issue 170: IASB amends IFRS 16 Leases for covid-19 related rent concessions (May 2020) EYG No. 003577-20Gbl

Reference to the Conceptual Framework – Amendments to IFRS 3

Effective for annual periods beginning on or after 1 January 2022.

Key requirements

In May 2020, the IASB issued *Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework*. The amendments are intended to replace a reference to a previous version of the IASB's *Conceptual Framework* (the 1989 *Framework*) with a reference to the current version issued in March 2018 (the *Conceptual Framework*) without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the *Conceptual Framework*, to determine whether a present obligation exists at the acquisition date.

At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

Transition

The amendments must be applied prospectively. Earlier application is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in the *Amendments to References to the Conceptual Framework in IFRS Standards* (March 2018).

Impact

The amendments are intended to update a reference to the *Conceptual Framework* without significantly changing requirements of IFRS 3. The amendments will promote consistency in financial reporting and avoid potential confusion from having more than one version of the *Conceptual Framework* in use.

Other EY publications

IFRS Developments Issue 169: Amendments to IFRS 3 – Reference to the Conceptual Framework (May 2020) EYG No. 003151-20Gbl

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

Effective for annual periods beginning on or after 1 January 2022.

Key requirements

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

Transition

The amendment must be applied retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

There is no transition relief for first-time adopters

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

Effective for annual periods beginning on or after 1 January 2022.

Key requirements

In May 2020, the IASB issued amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a 'directly related cost approach'. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

Transition

The amendments must be applied prospectively to contracts for which an entity has not yet fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Earlier application is permitted and must be disclosed.

Impact

The amendments are intended to provide clarity and help ensure consistent application of the standard. Entities that previously applied the incremental cost approach will see provisions increase to reflect the inclusion of costs related directly to contract activities, whilst entities that previously recognised contract loss provisions using the guidance from the former standard, IAS 11 *Construction Contracts*, will be required to exclude the allocation of indirect overheads from their provisions. Judgement will be required in determining which costs are "directly related to contract activities", but we believe that guidance in IFRS 15 *Revenue from Contracts with Customers* will be relevant.

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

In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method. Early application of the amendments is still permitted.

Key requirements

The amendments address the conflict between IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

Transition

The amendments must be applied prospectively. Early application is permitted and must be disclosed.

Impact

The amendments are intended to eliminate diversity in practice and give preparers a consistent set of principles to apply for such transactions. However, the application of the definition of a business is judgemental and entities need to consider the definition carefully in such transactions.

The Conceptual Framework for Financial Reporting

Effective immediately for the IASB and the IFRS IC. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

Purpose

The revised *Conceptual Framework for Financial Reporting* (the Conceptual Framework) is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist the Board in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

Key provisions

The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards.

The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:

- Chapter 1 – The objective of financial reporting
- Chapter 2 – Qualitative characteristics of useful financial information
- Chapter 3 – Financial statements and the reporting entity
- Chapter 4 – The elements of financial statements
- Chapter 5 – Recognition and derecognition
- Chapter 6 – Measurement
- Chapter 7 – Presentation and disclosure
- Chapter 8 – Concepts of capital and capital maintenance

The Conceptual Framework is accompanied by a Basis for Conclusions. The Board has also issued a separate accompanying document, *Amendments to References to the Conceptual Framework in IFRS Standards,* which sets out the amendments to affected standards in order to update references to the Conceptual Framework. In most cases, the standard references are updated to refer to the Conceptual Framework. There are exemptions in developing accounting policies for regulatory account balances for two standards, namely, IFRS 3 and for those applying IAS 8.

Impact

The changes to the *Conceptual Framework* may affect the application of IFRS in situations where no standard applies to a particular transaction or event.

Other EY publications

Applying IFRS: IASB issues revised *Conceptual Framework for Financial Reporting* (April 2018) EYG No. 02013-183Gbl

Applying IFRS: IASB issues the *Conceptual Framework exposure draft* (June 2015) EYG No. AU3242

Classification of Liabilities as Current or Non-current - Amendments to IAS 1

Effective for annual periods beginning on or after 1 January 2022.[5]

Key requirements

In January 2020, the Board issued amendments to paragraphs 69 to 76 of IAS 1 *Presentation of Financial Statements* to specify the requirements for classifying liabilities as current or non-current.

The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification

Right to defer settlement

The Board decided that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date.

Existence at the end of the reporting period

The amendments also clarify that the requirement for the right to exist at the end of the reporting period applies regardless of whether the lender tests for compliance at that date or at a later date.

Management expectations

IAS 1.75A has been added to clarify that the 'classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period'. That is, management's intention to settle in the short run does not impact the classification. This applies even if settlement has occurred when the financial statements are authorised for issuance.

Meaning of the term 'settlement'

The Board added two new paragraphs (paragraphs 76A and 76B) to IAS 1 to clarify what is meant by 'settlement' of a liability. The Board concluded that it was important to link the settlement of the liability with the outflow of resources of the entity.

Settlement by way of an entity's own equity instruments is considered settlement for the purpose of classification of liabilities as current or non-current, with one exception.

In cases where a conversion option is classified as a liability or part of a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current. Only if the conversion option itself is classified as an equity instrument would settlement by way of own equity instruments be disregarded when determining whether the liability is current or non-current.

Unchanged from the current standard, a rollover of a borrowing is considered the extension of an existing liability and is therefore not considered to represent 'settlement'.

Transition

Many entities will find themselves already in compliance with the amendments. However, entities need to consider whether some of the amendments may impact their current practice. Entities need to carefully consider whether there are any aspects of the amendments that suggest that terms of their existing loan agreements should be renegotiated. In this context, it is important to highlight that the amendments must be applied retrospectively.

Other EY publications

IFRS Developments Issue 159: Amendments to classification of liabilities as current or non-current (January 2020)
EYG No. 000391-20Gbl

[5] The IASB has tentatively agreed to defer the effective date to 1 January 2023.

Improvements to International Financial Reporting Standards

Key requirements

The IASB's annual improvements process deals with non-urgent, but necessary, clarifications and amendments to IFRS.

2018-2020 cycle (issued in May 2020)

The following is a summary of the amendments from the 2018-2020 annual improvements cycle:

IFRS 1 *First-time Adoption of International Financial Reporting Standards*	**Subsidiary as a first-time adopter** ▸ The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. ▸ An entity applies the amendment for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.
IFRS 9 *Financial Instruments*	**Fees in the '10 per cent' test for derecognition of financial liabilities** ▸ The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39. ▸ An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. ▸ An entity applies the amendment for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.
Illustrative Examples accompanying IFRS 16 *Leases*	**Lease incentives** ▸ The amendment removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.
IAS 41 *Agriculture*	**Taxation in fair value measurements** ▸ The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. ▸ An entity applies the amendment to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022. Earlier application is permitted.

Section 2: Items not taken onto the IFRS Interpretations Committee's agenda in Q2 2020

Certain items deliberated by the IFRS IC are published within the 'Interpretations Committee agenda decisions' section of the IASB's *IFRIC Update*. Agenda decisions are issues that the IFRS IC decides not to add to its agenda and include the reasons for not doing so. For some of these items, the IFRS IC includes further information about how the standards should be applied. This guidance does not constitute an interpretation, but rather, provides additional information on the issues raised and the IFRS IC's views on how the standards and current interpretations are to be applied.

The table below summarises the topics that the IFRS IC decided not to take onto its agenda for the period from 1 April 2020 (since our previous edition of *IFRS Update*) to 30 June 2020. For agenda decisions published before 1 April 2020, please refer to previous editions of *IFRS Update*. All items considered by the IFRS IC during its meetings, as well as the full text of its conclusions, can be found in the *IFRIC Update* on the IASB's website.[6]

According to the IFRS IC, 'the process for publishing an agenda decision might often result in explanatory material that provides new information that was not otherwise available and could not otherwise reasonably have been expected to be obtained. Because of this, an entity might determine that it needs to change an accounting policy as a result of an agenda decision. The Board expects that an entity would be entitled to sufficient time to make that determination and implement any change (for example, an entity may need to obtain new information or adapt its systems to implement a change).'

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda

April 2020	IAS 12 – *Income taxes* – multiple tax consequences of recovering an asset	The IFRS IC received a request about deferred tax when the recovery of the carrying amount of an asset gives rise to multiple tax consequences. In the fact pattern described in the request:
		▸ An entity acquires an intangible asset with a finite useful life (a licence) as part of a business combination. The carrying amount of the licence at initial recognition is CU100. The entity intends to recover the carrying amount of the licence through use, and the expected residual value of the licence at expiry is nil.
		▸ The applicable tax law prescribes two tax regimes: an income tax regime and a capital gains tax regime. Tax paid under both regimes meets the definition of income taxes in IAS 12. Recovering the licence's carrying amount has both of the following tax consequences:
		  ▸ under the income tax regime, the entity pays income tax on the economic benefits it receives from recovering the licence's carrying amount through use, but receives no tax deductions in respect of amortisation of the licence (taxable economic benefits from use); and
		  ▸ under the capital gains tax regime, the entity receives a tax deduction of CU100 when the licence expires (capital gain deduction).
		▸ The applicable tax law prohibits the entity from using the capital gain deduction to offset the taxable economic benefits from use in determining taxable profit.
		The request asked how the entity determines the tax base of the asset and, consequently, how it recognises and measures deferred tax.
		The fundamental principle in IAS 12
		The fundamental principle upon which IAS 12 is based (as stated in paragraph 10 of IAS 12) is that 'an entity shall, with certain limited exceptions, recognise a deferred tax liability (asset) whenever recovery or settlement of the carrying amount of an asset or liability would make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences'.

[6] The *IFRIC Update* is available at http://www.ifrs.org/news-and-events/updates/ifric-updates/

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
		Applying the fundamental principle to the fact pattern The recovery of the asset's carrying amount gives rise to two distinct tax consequences; it results in taxable economic benefits from use of the asset and a capital gain deduction that cannot be offset in determining taxable profit. Accordingly, applying the fundamental principle in IAS 12, an entity reflects separately these distinct tax consequences of recovering the asset's carrying amount. An entity identifies temporary differences in a manner that reflects these distinct tax consequences by comparing: ▶ the portion of the asset's carrying amount that will be recovered under one tax regime To ▶ the tax deductions the entity will receive under that same tax regime (which are reflected in the asset's tax base) In the fact pattern described in the request, the IFRS IC concluded that the entity identifies both: ▶ a taxable temporary difference of CU100 — the entity will recover the licence's carrying amount (CU100) under the income tax regime, but will receive no tax deductions under that regime (that is, none of the tax base relates to deductions under the income tax regime) And ▶ a deductible temporary difference of CU100 — the entity will not recover any part of the licence's carrying amount under the capital gains tax regime, but will receive a deduction of CU100 upon expiry of the licence (that is, all of the tax base relates to deductions under the capital gains tax regime). The entity then applies the requirements in IAS 12 considering the applicable tax law in recognising and measuring deferred tax for the identified temporary differences. The IFRS IC concluded that the principles and requirements in IAS 12 provide an adequate basis for an entity to recognise and measure deferred tax in the fact pattern described in the request.
June 2020	IFRS 16 *Leases* – Sale and leaseback with variable payments	The IFRS IC received a request about a sale and leaseback transaction with variable payments. In the transaction described in the request: ▶ An entity (seller-lessee) enters into a sale and leaseback transaction whereby it transfers an item of property, plant and equipment (PPE) to another entity (buyer-lessor) and leases the asset back for five years. ▶ The transfer of the PPE satisfies the requirements in IFRS 15 *Revenue from Contracts with Customers* to be accounted for as a sale of the PPE. The amount paid by the buyer-lessor to the seller-lessee in exchange for the PPE equals the PPE's fair value at the date of the transaction. ▶ Payments for the lease (which are at market rates) include variable payments, calculated as a percentage of the seller-lessee's revenue generated using the PPE during the five-year lease term. The seller-lessee has determined that the variable payments are not in-substance fixed payments as described in IFRS 16.

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
		The request asked how, in the transaction described, the seller-lessee measures the right-of-use asset arising from the leaseback, and thus determines the amount of any gain or loss recognised at the date of the transaction. The IFRS IC observed that the requirements applicable to the transaction described in the request are in paragraph 100 of IFRS 16. Paragraph 100 states '… if the transfer of an asset by the seller-lessee satisfies the requirements of IFRS 15 to be accounted for as a sale of the asset: (a) the seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.' Consequently, to measure the right-of-use asset arising from the leaseback, the seller-lessee determines the proportion of the PPE transferred to the buyer-lessor that relates to the right of use retained. It does so by comparing, at the date of the transaction, the right of use it retains via the leaseback to the rights comprising the entire PPE. IFRS 16 does not prescribe a method for determining that proportion. In the transaction described in the request, the seller-lessee could determine the proportion by comparing, for example, (a) the present value of expected payments for the lease (including those that are variable), with (b) the fair value of the PPE at the date of the transaction. The gain or loss the seller-lessee recognises at the date of the transaction is a consequence of its measurement of the right-of-use asset arising from the leaseback. Because the right of use the seller-lessee retains is not remeasured as a result of the transaction (it is measured as a proportion of the PPE's previous carrying amount), the amount of the gain or loss recognised relates only to the rights transferred to the buyer-lessor. Applying paragraph 53(i) of IFRS 16, the seller-lessee discloses gains or losses arising from sale and leaseback transactions. The seller-lessee also recognises a liability at the date of the transaction, even if all the payments for the lease are variable and do not depend on an index or rate. The initial measurement of the liability is a consequence of how the right-of-use asset is measured — and the gain or loss on the sale and leaseback transaction determined — applying paragraph 100(a) of IFRS 16. *Illustrative example* *Seller-lessee enters into a sale and leaseback transaction whereby it transfers an asset (PPE) to Buyer-lessor, and leases that PPE back for five years. The transfer of the PPE satisfies the requirements in IFRS 15 to be accounted for as a sale of the PPE.* *The carrying amount of the PPE in Seller-lessee's financial statements at the date of the transaction is CU1,000,000, and the amount paid by Buyer-lessor for the PPE is CU1,800,000 (the fair value of the PPE at that date). All the payments for the lease (which are at market rates) are variable, calculated as a percentage of Seller-lessee's revenue generated using the PPE during the five-year lease term. At the date of the transaction, the present value of the expected payments for the lease is CU450,000. There are no initial direct costs.* *Seller-lessee determines that it is appropriate to calculate the proportion of the PPE that relates to the right of use retained using the present value of expected payments for the lease. On this basis, the proportion of the PPE that relates to the right of use retained is 25%, calculated as CU450,000 (present value of expected payments for the lease) ÷ CU1,800,000 (fair value of the PPE). Consequently, the proportion of the PPE that relates to the rights transferred to Buyer-lessor is 75%, calculated as (CU1,800,000 − CU450,000) ÷ CU1,800,000.*

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
		Applying paragraph 100(a), Seller-lessee: ▸ *Measures the right-of-use asset at CU250,000, calculated as CU1,000,000 (previous carrying amount of the PPE) × 25% (proportion of the PPE that relates to the right of use it retains)* ▸ *Recognises a gain of CU600,000 at the date of the transaction, which is the gain that relates to the rights transferred to Buyer-lessor. This gain is calculated as CU800,000 (total gain on sale of the PPE (CU1,800,000 – CU1,000,000)) × 75% (proportion of the PPE that relates to rights transferred to Buyer-lessor.* *Applying paragraph 100(a), the right-of-use asset would not be measured at zero at the date of the transaction because zero would not reflect the proportion of the previous carrying amount of the PPE (CU1,000,000) that relates to the right of use retained by Seller-lessee.* *At the date of the transaction, Seller-lessee accounts for the transaction, as follows:* *Dr. Cash* — *CU1,800,000* *Dr. Right-of-use asset* — *CU250,000* *Cr. PPE* — *CU1,000,000* *Cr. Liability* — *CU450,000* *Cr. Gain on rights transferred* — *CU600,000* The IFRS IC concluded that the principles and requirements in IFRS 16 provide an adequate basis for an entity to determine, at the date of the transaction, the accounting for the sale and leaseback transaction described in the request.

June 2020	IAS 12 *Income taxes* – Deferred tax related to an investment in a subsidiary	The IFRS IC received a request about how an entity, in its consolidated financial statements, accounts for deferred tax related to its investment in a subsidiary. In the fact pattern described in the request:
		▸ Undistributed profits of the subsidiary give rise to a taxable temporary difference associated with the entity's investment in the subsidiary.
		▸ The entity has determined that the conditions in paragraph 39 of IAS 12 for applying the exception from recognising a deferred tax liability related to its investment in the subsidiary are not satisfied because the entity expects the subsidiary to distribute its profits (which are available for distribution) in the foreseeable future.
		▸ The entity and subsidiary operate in a jurisdiction in which:
		  ▸ profits are taxable only when distributed, that is, the income tax rate applicable to undistributed profits is nil (undistributed tax rate)
		  ▸ a 20% tax rate applies to profit distributions (distributed tax rate). However, profit distributions made by the entity are not taxable to the extent that the subsidiary has already been taxed on that profit, that is, profit distributions are taxed only once
		The request asked whether the entity recognises a deferred tax liability for the taxable temporary difference associated with its investment in the subsidiary.
		Paragraph 39 of IAS 12 requires an entity to recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, except to the extent that: (a) the parent is able to control the timing of the

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
		reversal of the temporary difference; and (b) it is probable that the temporary difference will not reverse in the foreseeable future. In the fact pattern described in the request, there is a taxable temporary difference associated with the entity's investment in the subsidiary. The entity has also determined that the recognition exception in paragraph 39 of IAS 12 does not apply because it is probable that the temporary difference will reverse in the foreseeable future when the subsidiary distributes its undistributed profits. Accordingly, the IFRS IC concluded that the entity recognises a deferred tax liability for that taxable temporary difference. Paragraph 51 of IAS 12 requires an entity to reflect, in the measurement of deferred tax assets and deferred tax liabilities, '… the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities'. In the fact pattern described in the request, the entity expects to recover the carrying amount of its investment in the subsidiary through distributions of profits by the subsidiary, which would be taxed at the distributed tax rate. Accordingly, the IFRS IC concluded that, in applying paragraph 51 of IAS 12, the entity uses the distributed tax rate to measure the deferred tax liability related to its investment in the subsidiary. The IFRS IC observed that, in the fact pattern described in the request, the entity does not apply paragraph 57A of IAS 12; that paragraph applies only in the context of dividends payable by the reporting entity. Further, paragraph 52A of IAS 12 does not apply to the measurement of a current or deferred tax asset or liability that itself reflects the tax consequences of a distribution of profits. The IFRS IC concluded that the principles and requirements in IAS 12 provide an adequate basis for an entity to account for deferred tax in the fact pattern described in the request.
June 2020	IAS 38 *Intangible Assets* – Player transfer payments	The IFRS IC received a request about the recognition of player transfer payments received. In the fact pattern described in the request: ▸ A football club (entity) transfers a player to another club (receiving club). When the entity recruited the player, the entity registered the player in an electronic transfer system. Registration means the player is prohibited from playing for another club, and requires the registering club to have an employment contract with the player that prevents the player from leaving the club without mutual agreement. Together the employment contract and registration in the electronic transfer system are referred to as a 'registration right'. ▸ The entity had recognised costs incurred to obtain the registration right as an intangible asset applying IAS 38. As part of its ordinary activities, the entity uses and develops the player through participation in matches, and then potentially transfers the player to another club. ▸ The entity and the receiving club enter into a transfer agreement under which the entity receives a transfer payment from the receiving club. The transfer payment compensates the entity for releasing the player from the employment contract before the contract ends. The registration in the electronic transfer system is not transferred to the receiving club but, legally, is extinguished when the receiving club registers the player and obtains a new right.

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
		▸ The entity derecognises its intangible asset upon the receiving club registering the player in the electronic transfer system. The request asked whether the entity recognises the transfer payment received as revenue applying IFRS 15 *Revenue from Contracts with Customers* or, instead, recognises the gain or loss arising from the derecognition of the intangible asset in profit or loss applying IAS 38. Recognition of transfer payment received In the fact pattern described in the request, the entity recognised the registration right as an intangible asset applying IAS 38. Accordingly, the entity applies the derecognition requirements in IAS 38 on derecognition of that right. Paragraph 113 of IAS 38 states that '… the gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognised in profit or loss when the asset is derecognised … Gains shall not be classified as revenue.' Applying that paragraph, the entity recognises in profit or loss, but not as revenue, the difference between the net disposal proceeds and the carrying amount of the registration right. *Does the transfer payment represent disposal proceeds?* The transfer payment arises from the transfer agreement, which requires the entity to release the player from the employment contract. The entity is therefore required to undertake some action for the right to be extinguished. Accordingly, the transfer payment compensates the entity for its action in disposing of the registration right and, thus, is part of the net disposal proceeds described in paragraph 113 of IAS 38. The IFRS IC concluded that, in the fact pattern described in the request, the entity recognises the transfer payment received as part of the gain or loss arising from the derecognition of the registration right applying paragraph 113 of IAS 38. In the fact pattern described in the request (in which the entity recognises the registration right as an intangible asset), the entity does not recognise the transfer payment received, or any gain arising, as revenue applying IFRS 15. Statement of cash flows IAS 7 *Statement of Cash Flows* lists cash receipts from sales of intangibles as an example of cash flows arising from investing activities. Accordingly, in the fact pattern described in the request, the entity presents cash receipts from transfer payments as part of investing activities. The IFRS IC concluded that the principles and requirements in IFRS Standards provide an adequate basis for the entity to determine the recognition of player transfer payments received.

Section 3: Active IASB projects

The ability to stay current on the IASB's standard-setting activities is critical in a sea of change. The following pages summarise key features of selected active projects of the IASB, along with potential implications of the proposed standards. The 'Key projects' are those initiated with the objective of issuing new standards or that involve overarching considerations across a number of standards. 'Other projects' include proposed amendments with narrower applicability. Generally, only those projects that have reached the exposure draft stage are included, but in selected cases, projects that have not yet reached the exposure draft stage are also commented on.

Key projects

Better communication in financial reporting

Key developments to date

Background

The IASB is undertaking a broad-based initiative to explore how disclosures in IFRS financial reporting can be improved. The Board has identified implementation and research projects that will support better communication.

Disclosure initiative

In December 2014 and January 2016, amendments to IAS 1 and IAS 7 *Statement of Cash Flows*, respectively, were issued. Furthermore, the IASB released IFRS Practice Statement 2 *Making Materiality Judgement* (the PS) in September 2017 and the *Definition of Material* (Amendments to IAS 1 and IAS 8) in October 2018. For further details on the definition of material, please refer to Section 1 of this publication.

In addition, the Disclosure Initiative comprises the following projects:

Principles of disclosure

The objective of this project is to identify and better understand disclosure issues and either develop a set of new disclosure principles, or clarify the existing principles.

The IASB published a Discussion Paper (DP) in March 2017 which focused on the general disclosure requirements in IAS 1 and the concepts that were being developed in the *Conceptual Framework for Financial Reporting* (see page 14 above).

After considering the feedback received on the DP, the IASB decided that improving the way disclosure requirements are developed and drafted in the standards is the most effective way to address the disclosure problem. Therefore, the Board decided to prioritise a standard-level review of certain standards (see below).

The Board has also decided to address research findings relating to accounting policy disclosures (see below), the effect of technology on financial reporting (as part of a broader project) and the use of performance measures in financial statements as part of the primary financial statements project (see below). The remaining topics in the DP will not be pursued for the time being.

Targeted standards-level review of disclosures

The IASB has added a separate project to develop guidance to help improve the way the Board drafts disclosure requirements in IFRS standards and perform a targeted standards-level review of disclosure requirements. Currently, the draft guidance developed by the Board is being tested on IAS 19 and IFRS 13. The Board plans to publish an exposure draft in the first half of 2021.

Accounting policies

The IASB is developing guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The Board is developing amendments to IAS 1 that will require entities to disclose material accounting policies rather than significant accounting policies in their financial statements. It is also developing guidance and examples for inclusion in the PS. In August 2019, the Board issued an exposure draft for the proposed amendments to IAS 1 and the PS. Currently the Board is redeliberating the proposals in light of the comment letters received.

Subsidiaries that are SMEs

In January 2020, the Board decided to move the Subsidiaries that are SMEs project from the research programme to the standard-setting programme. The Board is developing a reduced disclosure IFRS standard that would apply on a voluntary basis to subsidiaries that do not have public accountability.

Primary financial statements

The project aims to improve the structure and content of the primary financial statements, with a focus on the statement(s) of financial performance. The project also includes requirements for management performance measures. The Board published an exposure draft in December 2019 which is open for comment until 30 September 2020.

Management commentary

The Board is working on a project to update IFRS Practice Statement 1 *Management Commentary*. As part of this project, the Board is considering how broader financial reporting could complement and support IFRS financial statements. The Board plans to publish an exposure draft in the second half of 2020.

IFRS taxonomy

The Better Communication in Financial Reporting initiative will also consider the IFRS taxonomy. The Taxonomy enables tagging of electronic financial information and allows computers to identify, read and extract the information. This facilitates analysis and comparison. Users may create tailored reports to meet their information needs.

Impact

The impact of the different projects is not clear, in particular since several of the measures being considered by the Board are behavioural in nature, and, thus, the impact may not be easily predicted. However, the different projects have the potential to provide clarifications and guidance that will help entities prepare more tailored and effective primary financial statements and disclosures.

Other EY publications

Applying IFRS: Impact of coronavirus on alternative performance measures and disclosures (May 2020) EYG No. 002897-20Gbl

Applying IFRS: Alternative Performance Measures (October 2018) EYG No. 011765-18Gbl

Applying IFRS: Enhancing communication effectiveness (February 2017) EYG No. 000662-173Gbl

IFRS Developments Issue 167: Supplementary IASB meeting - the impact of the COVID-19 pandemic (April 2020) EYG No. 002458-20Gbl

IFRS Developments Issue 161: Financing and investing entities: proposed changes to primary financial statements (February 2020) EYG No. 000962-20Gbl

IFRS Developments Issue 158: The IASB proposes major changes to primary financial statements (December 2019) EYG No. 005876-19Gbl

IFRS Developments Issue 138: IASB issues amendments to the definition of material (November 2018) EYG No. 011935-18Gbl

Other projects

The IASB has a number of projects on its work plan to amend existing standards and interpretations for specific matters. The following is a brief summary of selected projects. Refer to the IASB's website for its work plan, which includes the current status of all projects.

Other projects	Status/next steps

Financial Instruments – Accounting for Dynamic Risk Management
▸ The objective of this project is to address the specific accounting for risk management strategies relating to open portfolios rather than individual contracts. The hedge accounting requirements in IAS 39 and IFRS 9 do not provide specific solutions to the issues associated with macro hedging.
▸ The IASB intends to develop the accounting model for dynamic risk management (DRM) using cash flow hedge mechanics as a starting point in the following two phases:
  ▸ The first phase will focus on developing the 'core areas' that are central to the model that are comprised of: (i) target profile (liability side); (ii) asset profile; (iii) DRM derivative instruments; and (iv) performance assessment and recycling, to shape the fundamentals of the DRM accounting model.
  ▸ The second phase will address non-core areas that are extensions of concepts developed during the first phase.
▸ The IASB intends to gather external feedback on the core model developed in the first phase before progressing on to the second phase.
	▸ In October 2019, the Board discussed its plan to consult stakeholders on the core elements of the DRM accounting model. After that consultation, the Board will consider feedback received and decide how best to pursue the next phase of the project, which is to develop the DRM accounting model further. The core model outreach is planned for Q4 2020.
	▸ Key aspects of the core DRM model that the IASB has tentatively decided as of July 2019 are:
	  ▸ The model applies to the asset profile and target profile that meet the qualifying criteria on a portfolio (or percentage of portfolio) basis, consistently with the entity's risk management policies and procedures.
	  ▸ Core demand deposits could be included in the target profile, with certain conditions. Highly probable forecast transactions could also be eligible for inclusion in the asset profile and target profile (e.g., refinancing).
	  ▸ Designation and formal documentation will be required.
	  ▸ Changes to designated portfolios resulting in updates to the asset profile or target profile should not represent a designation or a de-designation event, but, instead, a continuation of the existing relationship.
	  ▸ Entities should measure imperfect alignment on an on-going basis. Imperfect alignment may result in volatility in profit or loss.
	  ▸ Application of the DRM accounting model should be optional.

Other projects	Status/next steps
Availability of a Refund (Amendments to IFRIC 14) ▶ The proposed amendments to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* address whether the powers of other parties (e.g., trustees) affect an entity's right to a refund of a surplus in a defined benefit plan.	▶ An ED was issued in June 2015. ▶ In September 2017, the Board tentatively decided to perform further work to assess whether it can establish a more principles-based approach in IFRIC 14 for an entity to assess the availability of a refund of a surplus. ▶ In February 2020, the Board was updated on the work performed on the proposed amendments to IFRIC 14. The Board decided not to finalise the proposed amendments and will consider the project's direction at a future meeting.
Accounting Policies and Accounting Estimates (Proposed amendments to IAS 8) ▶ The IASB issued an ED proposing narrow-scope amendments to IAS 8 that are intended to help entities distinguish between a change in accounting policies and a change in accounting estimates. ▶ This distinction is relevant because IAS 8 contains different requirements for changes in accounting policies and for changes in accounting estimates. ▶ The proposed amendments explain that an accounting policy is the overall objective and the accounting estimates are inputs used in achieving that objective. Furthermore, the proposed amendments include a definition of accounting estimates and clarify that selecting an estimation technique or valuation technique when an item in the financial statements cannot be measured with precision, constitutes selecting an accounting estimate whereas selecting a cost formula (i.e., first-in, first-out (FIFO) or weighted average cost) in applying IAS 2 constitutes selecting an accounting policy.	▶ The ED was issued in September 2017. ▶ In October 2019, the Board decided to finalise the proposed amendments to IAS 8, subject to certain modifications discussed at the meeting. ▶ In December 2019, the Board discussed the transition requirements and the effective date of the amendments, and tentatively decided to require entities to apply the amendments to annual periods beginning on or after 1 January 2022, with earlier application permitted. ▶ The Board expects to issue the final amendments in Q4 2020.

Other projects	Status/next steps
Financial Instruments with Characteristics of Equity ▸ The objective of the project is to improve the information that entities provide in their financial statements about financial instruments they have issued by: ▸ Investigating challenges with the classification of financial instruments applying IAS 32 *Financial Instruments: Presentation* And ▸ Considering how to address those challenges through clearer principles for classification and enhanced requirements for presentation and disclosure ▸ The Board published the Discussion Paper *Financial Instruments with Characteristics of Equity* in June 2018. ▸ In September 2019, taking into account the feedback received on the Discussion Paper, the Board tentatively decided to explore making clarifying amendments to IAS 32 to address common accounting challenges that arise in practice when applying IAS 32. ▸ In October 2019, the Board discussed the project plan for the Financial Instruments with Characteristics of Equity project. In particular, the Board discussed the practice issues that it could address in the scope of the project and an indicative project timeline outlining the expected commencement of Board deliberations on each issue. ▸ The Board is seeking to limit changes to classification outcomes to those in which sufficient evidence exists that such a change would provide more useful information to users of financial statements. In addition, the Board intends to further develop some of the presentation and disclosure proposals explored in the Discussion Paper.	▸ In April 2020, the Board continued their discussions on how to clarify the principles for classifying financial instruments settled in an entity's own equity instruments. The Board tentatively decided that for a derivative on own equity to meet the fixed-for-fixed condition, the number of functional currency units to be exchanged with each underlying equity instrument must be fixed or only vary with: ▸ Allowable preservation adjustments Or ▸ Allowable passage of time adjustments ▸ Preservation adjustments would be allowable if they require the entity to preserve the relative economic interests of future shareholders to an equal or a lesser extent than those of the existing shareholders. ▸ Passage of time adjustments would be allowable if they are pre-determined and vary only with the passage of time; and fix the number of functional currency units per underlying equity instrument in terms of a present value. ▸ At a future Board meeting, the Board will begin its discussions on other topics included in the project plan presented at the October 2019 Board meeting.

Other projects	Status/next steps

IBOR Reform and its effects on financial reporting – Phase two
▸ The IASB is finalising phase two of its project to amend IFRS in response to the financial reporting challenges posed by IBOR reform. This second phase focuses on assessing the potential financial reporting implications when an existing interest rate benchmark is replaced with an alternative interest rate.
▸ Topics covered include:
  ▸ Classification and measurement:
    ▸ Determining whether a modification has occurred
    ▸ Determining whether a modification is substantial
    ▸ Accounting for modifications related to IBOR reform
  ▸ Accounting implications from derecognition of a modified financial instrument
  ▸ Hedge accounting:
    ▸ Determining whether a modification should trigger a hedging relationship to be discontinued
    ▸ Changes to hedge documentation and effectiveness testing arising as a result of modifications required by IBOR reform
    ▸ Treatment of valuation adjustments due to modifications directly required by IBOR reform
    ▸ Hedges of a group of items
    ▸ IAS 39 fair value hedge accounting for a portfolio of interest rate risk
    ▸ How the 'separately identifiable' requirements will be met
    ▸ Treatment of hedges when the reliefs end
  ▸ Disclosures
  ▸ Related amendments to IFRS 4 and IFRS 16
  ▸ Transition
    ▸ Whether reliefs should be mandatory or voluntary
    ▸ Transition dates
	▸ The Board completed its discussions on phase two of the IBOR reform project in February 2020 and published an exposure draft of the proposed amendments in April 2020, which was open for comment until May 2020.
	▸ The Board met in May and June 2020 to discuss feedback received and some subsequent clarifications to the exposure draft.
	▸ The final amendments are expected to be issued in August 2020.

Other projects	Status/next steps
Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12) ▸ The IASB proposed amendments to IAS 12 that would require an entity to recognise deferred tax on initial recognition of particular transactions to the extent that the transaction gives rise to equal amounts of deferred tax assets and liabilities. The proposed amendments would apply to transactions such as leases and decommissioning obligations for which an entity recognises both an asset and a liability. ▸ The Board expects that applying the proposed amendments would increase comparability between entities and would result in useful information for users of financial statements. This is because it would align the accounting for the tax effects of particular transactions with the general principle in IAS 12 of recognising deferred tax for all temporary differences.	▸ The ED was issued in July 2019 and was open for comment until 14 November 2019. The Board discussed the feedback received in April 2020 and will decide the project direction in a future meeting.
Lease liability in a sale and leaseback ▸ The IASB intends to amend IFRS 16 to specify how a seller-lessee should apply the subsequent measurement requirements in IFRS 16 to the lease liability that arises in a sale and leaseback transaction.	▸ The Board plans to publish an exposure draft of the proposed amendment in September 2020.

Other projects	Status/next steps

Business Combinations: Disclosures, Goodwill and Impairment
▸ Based on the feedback received during the Post-implementation Review of IFRS 3, the Board decided to begin a research project to explore possible improvements to IFRS 3 and IAS 36 *Impairment of Assets*.
▸ In March 2020, the IASB published the Discussion Paper (DP) *Business Combinations: Disclosures, Goodwill and Impairment*. The Board's preliminary views are that it:
  ▸ Should develop proposals to enhance the disclosure objectives and requirements in IFRS 3 to improve the information provided to investors about an acquisition and its subsequent performance
  ▸ Cannot design a different impairment test for cash-generating units containing goodwill that is significantly more effective than the impairment test in IAS 36 at recognising impairment losses on goodwill on a timely basis and at a reasonable cost
  ▸ Should not reintroduce amortisation of goodwill
  ▸ Should develop a proposal to help investors better understand entities' financial positions by requiring them to present on their balance sheets the amount of total equity excluding goodwill
  ▸ Should develop proposals intended to reduce the cost and complexity of performing the impairment test by:
    ▸ Providing entities with relief from having to perform an annual quantitative impairment test for cash-generating units containing goodwill if there is no indication that an impairment may have occurred
    ▸ Extending the same relief to entities for intangible assets with indefinite useful lives and intangible assets not yet available for use
  ▸ Should develop proposals intended to reduce cost and complexity, and to provide more useful and understandable information by simplifying the requirements for estimating value in use by:
    ▸ Removing the restriction on including cash flows from a future uncommitted restructuring or from improving or enhancing an asset's performance
    ▸ Permitting the use of post-tax cash flows and post-tax discount rates
  ▸ Should not change the range of identifiable intangible assets recognised separately from goodwill in an acquisition
	▸ The DP was issued in March 2020 and is open for comment until 31 December 2020.

The table below sets out the estimated timeline for the remaining projects on the IASB's agenda as at the beginning of July 2020.

IASB projects	Next milestone	Expected date
Research projects		
Business Combinations under Common Control	Discussion Paper	September 2020
Extractive Activities	Review Research	
Pension Benefits that Depend on Asset Returns	Review Research	Q4 2020
Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12	Request for Information	Q4 2020
Standard-setting and related projects		
Disclosure Initiative – Subsidiaries that are SMEs	Discussion Paper or Exposure Draft Decision	October 2020
Rate-regulated Activities	Exposure Draft	Q4 2020
Maintenance projects		
Provisions – Targeted Improvements	Decide Project Direction	
2019 Comprehensive Review of the IFRS for SMEs Standard	Request for Information Feedback	

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EYG No. 004926-20Gbl

EY-000122434.indd (UK) 07/20.
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