



IFRS Core Tools
IFRS Update of
standards and
interpretations
in issue at
31 December 2019



EY

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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 31 December 2019 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 October 2019. For agenda decisions published before 1 October 2019, 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 2019 edition of *International GAAP® Disclosure Checklist* captures disclosure requirements applicable to periods ended 31 December 2019, and disclosures that are permitted to be adopted early. These disclosure requirements are for all pronouncements issued as at 31 August 2019. 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 2019, based on IFRS in issue at 28 February 2019, 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.³

International GAAP® 2020⁴

Our *International GAAP® 2020* is a comprehensive guide to interpreting and implementing IFRS.⁵ 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 These publications are available on <http://www.ey.com/ifrs>.

⁴ International GAAP® is a registered trademark of Ernst & Young LLP (UK).

⁵ <http://www.igaap.info>.

Section 1: New pronouncements issued as at 31 December 2019

Table of mandatory application

New pronouncement	Page	Effective date*	First time applied in annual periods ending on the last day of these months**											
			Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
IFRS 16 Leases	5	1 Jan 2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2019
IFRIC Interpretation 23 <i>Uncertainty over Income Tax Treatments</i>	8	1 Jan 2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2019
<i>Prepayment Features with Negative Compensation - Amendments to IFRS 9</i>	10	1 Jan 2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2019
<i>Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28</i>	15	1 Jan 2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2019
<i>Plan Amendment, Curtailment or Settlement - Amendments to IAS 19</i>	14	1 Jan 2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2019
AIP IFRS 3 <i>Business Combinations - Previously held Interests in a joint operation</i>	17	1 Jan 2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2019
AIP IFRS 11 <i>Joint Arrangements - Previously held Interests in a joint operation</i>	17	1 Jan 2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2019
AIP IAS 12 <i>Income Taxes - Income tax consequences of payments on financial instruments classified as equity</i>	17	1 Jan 2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2019
AIP IAS 23 <i>Borrowing Costs - Borrowing costs eligible for capitalisation</i>	17	1 Jan 2019	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2019
<i>Definition of a Business - Amendments to IFRS 3</i>	9	1 Jan 2020	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2020
<i>Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7</i>	11	1 Jan 2020	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2020
<i>Definition of Material - Amendments to IAS 1 and IAS 8</i>	13	1 Jan 2020	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2020
<i>The Conceptual Framework for Financial Reporting</i>	16	1 Jan 2020	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2020
IFRS 17 <i>Insurance Contracts</i>	6	1 Jan 2021***	2022	2022	2022	2022	2022	2022	2022	2022	2022	2022	2022	2021
<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28</i>	15	Note 1												

AIP: Annual IFRS Improvements Process. *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.

*** In June 2019 the IASB issued an exposure draft proposing a deferral of the effective date of IFRS 17 for one year to 1 January 2022.

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 16 Leases

Effective for annual periods beginning on or after 1 January 2019.

Key requirements

The scope of IFRS 16 includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17 *Leases*. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

Transition

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. Early application is permitted, but not before an entity applies IFRS 15 *Revenue from Contracts with Customers*.

Impact

The lease expense recognition pattern for lessees will generally be accelerated as compared to today. Key balance sheet metrics such as leverage and finance ratios, debt covenants and income statement metrics, such as earnings before interest, taxes, depreciation and amortisation (EBITDA), could be impacted.

Also, the cash flow statement for lessees could be affected as payments for the principal portion of the lease liability will be presented within financing activities. Lessor accounting will result in little change compared to today's lessor accounting. The standard requires lessees and lessors to make more extensive disclosures than under IAS 17.

Given the significant accounting implications, lessees will have to carefully consider the contracts they enter into to identify any that are, or contain, leases. This evaluation will also be important for lessors to determine which contracts (or portions of contracts) are subject to the new revenue recognition standard.

Other EY publications

Applying IFRS: A closer look at IFRS 16 Leases (December 2019) EYG No. 005895-19Gbl

Applying IFRS: Presentation and disclosure requirements of IFRS 16 Leases (December 2019) EYG No. 005571-19Gbl

Applying IFRS: Impairment considerations for the new leasing standard (November 2018) EYG No. 012452-18Gbl

Applying IFRS: Accounting for leases relating to a joint operation (September 2019) EYG No. 004078-19Gbl

IFRS Developments Issue 157: Lease term and useful life of leasehold improvements (December 2019) EYG No. 005864-19Gbl

IFRS Developments Issue 146: Subsurface rights (March 2019) EYG No. 001476-19Gbl

IFRS Developments Issue 117: IASB issues new leases standard (January 2016) EYG No. AU3676

IFRS Practical Matters: Leases make their way onto the balance sheet - Navigating the journey for a smooth landing (February 2016) EYG No. AU3725

Sector publications are also available on ey.com/ifrs covering the following:

- ▶ Consumer products and retail
- ▶ Telecommunications
- ▶ Financial services
- ▶ Real estate
- ▶ Mining and metals
- ▶ Engineering and construction
- ▶ Oilfield services
- ▶ Oil and gas
- ▶ Tank terminals

EY has published a series of podcasts and videos on the implementation of IFRS 16. These are available on ey.com/ifrs.



IFRS 17 Insurance Contracts

Effective for annual periods beginning on or after 1 January 2021.

Background

In May 2017, the IASB issued IFRS 17, 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 has since 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 the policyholder will always receive, 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 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 *Financial Instruments* and IFRS 15 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 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.



Impact

IFRS 17, together with IFRS 9, will result in a profound change 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.

Proposed amendments to IFRS 17

In June 2019, the IASB issued an exposure draft (ED) on proposed amendments to IFRS 17. The Board considered 25 concerns and implementation challenges raised by stakeholders and assessed whether to propose changes to the standard. The Board selected only those changes that, in its estimation, would not lead to a significant loss of useful information for investors, nor unduly disrupt implementation processes under way, nor risk undue delays in the effective date of IFRS 17.

The IASB proposes in the ED 12 targeted amendments to the standard in eight areas and asks stakeholders whether they agree with the proposed amendments. The eight areas of IFRS 17 subject to proposed changes are:

- ▶ Deferral of the effective date of IFRS 17 for one year, including an additional year of deferral for the application of IFRS 9 to qualifying insurance entities (i.e., qualifying insurers can apply IFRS 17 and IFRS 9 for the first time in reporting periods beginning on or after 1 January 2022)
- ▶ Additional scope exclusions
- ▶ 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 contracts
- ▶ Simplified presentation of insurance contracts in the statement of financial position
- ▶ Transition modifications and reliefs

In addition to the 12 proposed amendments, the ED also includes several minor amendments to IFRS 17.

In response to feedback and comment letters it received on the ED, the IASB agreed, in November 2019, to re-deliberate certain topics with the aim of finalising any amendments by mid-2020.

Other EY publications

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



IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*

Effective for annual periods beginning on or after 1 January 2019.

In June 2017, the IASB issued IFRIC Interpretation 23 which clarifies application of the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments.

Scope

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

Key requirements

The interpretation specifically addresses the following:

- ▶ Whether an entity considers uncertain tax treatments separately
- ▶ The assumptions an entity makes about the examination of tax treatments by taxation authorities
- ▶ How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- ▶ How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

Effective date and transition

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.

Impact

Applying the interpretation could be challenging for entities, particularly those that operate in more complex multinational tax environments. Entities may also need to evaluate whether they have established appropriate processes and procedures to obtain information on a timely basis that is necessary to apply the requirements in the interpretation and make the required disclosures.

Other EY publications

Applying IFRS: Uncertainty over income tax treatments (November 2017) EYG No. 06358-173Gbl

IFRS Developments Issue 153: Presentation of liabilities or assets related to uncertain tax treatments (October 2019) EYG No. 004492-19Gbl



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. 011864-18Gb1



Prepayment Features with Negative Compensation - Amendments to IFRS 9

Effective for annual periods beginning on or after 1 January 2019.

Key requirements

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The basis for conclusions to the amendments clarified that the early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract.

Transition

The amendments must be applied retrospectively; earlier application is permitted. The amendment provides specific transition provisions if it is only applied in 2019 rather than in 2018 with the rest of IFRS 9.

Impact

The amendments are intended to apply where the prepayment amount approximates to unpaid amounts of principal and interest plus or minus an amount that reflects the change in a benchmark interest rate. This implies that prepayments at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instrument, will normally satisfy the SPPI criterion only if other elements of the change in fair value, such as the effects of credit risk or liquidity, are small. Most likely, the costs to terminate a 'plain vanilla' interest rate swap that is collateralised, so as to minimise the credit risks for the parties to the swap, will meet this requirement.

Modification or exchange of a financial liability that does not result in derecognition

In the basis for conclusions to the amendments, the IASB also clarified that the requirements in IFRS 9 for adjusting the amortised cost of a financial liability, when a modification (or exchange) does not result in derecognition, are consistent with those applied to the modification of a financial asset that does not result in derecognition.

This means that the gain or loss arising on modification of a financial liability that does not result in derecognition, calculated by discounting the change in contractual cash flows at the original effective interest rate, is immediately recognised in profit or loss.

The IASB made this comment in the basis for conclusions to the amendments as it believes that the existing requirements in IFRS 9 provided an adequate basis for entities to account for modifications and exchanges of financial liabilities and that no formal amendment to IFRS 9 was needed in respect of this issue.

Impact

The IASB stated specifically that the clarification on modification or exchange of financial liabilities relates to the application of IFRS 9. As such, it would appear that this clarification does not need to be applied to the accounting for modification of liabilities under IAS 39 *Financial Instruments: Recognition and Measurement*. Any entities that have not applied this accounting under IAS 39 are therefore likely to have a change of accounting on transition. As there is no specific relief, this change needs to be made retrospectively.

Other EY publications

IFRS Developments Issue 130: IASB issues an Amendment to IFRS 9 (October 2017) EYG No. 05831-173Gbl



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 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.

With phase one completed, the IASB has now shifted its focus to consider those issues that could affect financial reporting when an existing interest rate benchmark is replaced with an RFR. This is referred to as phase two of the IASB's project.

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 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

IFRS Developments Issue 151: IBOR reform: finalisation of phase one (August 2019) EYG No. 003965-19Gbl

IFRS Developments Issue 145: IBOR reform: the IASB's proposals, part 2 (August 2019) EYG No. 001271-19Gbl

IFRS Developments Issue 144: IBOR reform: the IASB's proposals (February 2019) EYG No. 000538-19Gbl

EY has also published a video on the accounting impacts of the IBOR reform which is available on ey.com/ifrs.



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



Plan Amendment, Curtailment or Settlement - Amendments to IAS 19

Effective for annual periods beginning on or after 1 January 2019.

Key requirements

The amendments to IAS 19 *Employee Benefits* address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period.

Determining the current service cost and net interest

When accounting for defined benefit plans under IAS 19, the standard generally requires entities to measure the current service cost using actuarial assumptions determined at the start of the annual reporting period. Similarly, the net interest is generally calculated by multiplying the net defined benefit liability (asset) by the discount rate, both as determined at the start of the annual reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- ▶ Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- ▶ Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset)

Effect on asset ceiling requirements

A plan amendment, curtailment or settlement may reduce or eliminate a surplus in a defined benefit plan, which may cause the effect of the asset ceiling to change.

The amendments clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

This clarification provides that entities might have to recognise a past service cost, or a gain or loss on settlement, that reduces a surplus that was not recognised before. Changes in the effect of the asset ceiling are not netted with such amounts.

Transition

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Early application is permitted and should be disclosed.

Impact

As the amendments apply prospectively to plan amendments, curtailments or settlements 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 a plan amendment, curtailment or settlement after first applying the amendments might be affected.

Other EY publications

IFRS Developments Issue 134: IASB issues amendments to IAS 19 Employee Benefits (February 2018) EYG No. 00183-183Gbl



Long-term interests in associates and joint ventures - Amendments to IAS 28

Effective for annual periods beginning on or after 1 January 2019.

Key requirements

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The Board also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

To illustrate how entities apply the requirements in IAS 28 and IFRS 9 with respect to long-term interests, the Board also published an illustrative example when it issued the amendments.

Transition

Entities must apply the amendments retrospectively, with certain exceptions. Early application of the amendments is permitted and must be disclosed.

Impact

The amendments will eliminate ambiguity in the wording of the standard.

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 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

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.

2015-2017 cycle (issued in December 2017)

Following is a summary of the amendments from the 2015-2017 annual improvements cycle:

IFRS 3 <i>Business Combinations</i>	Previously held interests in a joint operation <ul style="list-style-type: none">▶ The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value.▶ In doing so, the acquirer remeasures its entire previously held interest in the joint operation.▶ An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.
IFRS 11 <i>Joint Arrangements</i>	Previously held interests in a joint operation <ul style="list-style-type: none">▶ A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.▶ An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.
IAS 12 <i>Income Taxes</i>	Income tax consequences of payments on financial instruments classified as equity <ul style="list-style-type: none">▶ The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.▶ An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.
IAS 23 <i>Borrowing Costs</i>	Borrowing costs eligible for capitalisation <ul style="list-style-type: none">▶ The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.▶ An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.▶ An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

Section 2: Items not taken onto the IFRS Interpretations Committee's agenda in Q4 2019

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 October 2019 (since our previous edition of *IFRS Update*) to 31 December 2019. For agenda decisions published before 1 October 2019, 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
November 2019	IFRS 16 <i>Leases</i> - Lease term and useful life of leasehold improvements	<p>The IFRS IC received a request about cancellable or renewable leases.</p> <p>The cancellable lease described in the request is one that does not specify a particular contractual term but it continues indefinitely until either party to the contract gives notice to terminate. The contract includes a notice period of, for example, less than 12 months and it does not oblige either party to make a payment on termination. The renewable lease described in the request is one that specifies an initial period and renews indefinitely at the end of the initial period unless terminated by either of the parties to the contract.</p> <p>The request asked two questions:</p> <ul style="list-style-type: none"> ▶ How to determine the lease term of a cancellable lease or a renewable lease. Specifically, the request asked whether, when applying paragraph B34 of IFRS 16 and assessing 'no more than an insignificant penalty', an entity considers the broader economics of the contract, and not only contractual termination payments. Such considerations might include, for example, the cost of abandoning or dismantling leasehold improvements. ▶ Whether the useful life of any related non-removable leasehold improvements is limited to the lease term determined applying IFRS 16. Non-removable leasehold improvements are, for example, fixtures and fittings acquired by the lessee and constructed on the underlying asset that is the subject of the cancellable or renewable lease. The lessee will use and benefit from the leasehold improvements only for as long as it uses the underlying asset. <p>Lease term</p> <p>Paragraph 18 of IFRS 16 requires an entity to determine the lease term as the non-cancellable period of a lease, together with both (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.</p>

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

In determining the lease term and assessing the length of the non-cancellable period of a lease, paragraph B34 of IFRS 16 requires an entity to determine the period for which the contract is enforceable. Paragraph B34 specifies that 'a lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty'.

Paragraph BC1.56 sets out the Board's view that 'the lease term should reflect an entity's reasonable expectation of the period during which the underlying asset will be used because that approach provides the most useful information'.

The IFRS IC observed that, in applying paragraph B34 and determining the enforceable period of the lease described in the request, an entity considers:

- ▶ The broader economics of the contract, and not only contractual termination payments. For example, if either party has an economic incentive not to terminate the lease such that it would incur a penalty on termination that is more than insignificant, the contract is enforceable beyond the date on which the contract can be terminated; and
- ▶ Whether each of the parties has the right to terminate the lease without permission from the other party with no more than an insignificant penalty. Applying paragraph B34, a lease is no longer enforceable only when both parties have such a right. Consequently, if only one party has the right to terminate the lease without permission from the other party with no more than an insignificant penalty, the contract is enforceable beyond the date on which the contract can be terminated by that party.

If an entity concludes that the contract is enforceable beyond the notice period of a cancellable lease (or the initial period of a renewable lease), it then applies paragraphs 19 and B37-B40 of IFRS 16 to assess whether the lessee is reasonably certain not to exercise the option to terminate the lease.

Useful life of non-removable leasehold improvements

Paragraph 50 of IAS 16 *Property, Plant and Equipment* requires an item of property, plant and equipment (asset) to be depreciated over its useful life.

IAS 16 defines the useful life of an asset as (emphasis added) '*the period over which an asset is expected to be available for use by an entity; or the number of production or similar units expected to be obtained from the asset by an entity*'.

Paragraphs 56 and 57 of IAS 16 provide further requirements on the useful life of an asset. In particular, paragraph 56(d) specifies that in determining the useful life of an asset, an entity considers any 'legal or similar limits on the use of the asset, such as the expiry dates of related leases'. Paragraph 57 specifies that the useful life of an asset 'is defined in terms of the asset's expected utility to the entity', and 'may be shorter than its economic life'.

An entity applies paragraphs 56-57 of IAS 16 in determining the useful life of non-removable leasehold improvements. If the lease term of the related lease is shorter than the economic life of those leasehold improvements, the entity considers whether it expects to use the leasehold improvements beyond that lease term. If the entity does not expect to use the leasehold improvements beyond the lease term of the related lease then, applying paragraph 57 of IAS 16, it concludes that the useful life of the non-removable leasehold improvements is the same as the lease term. The IFRS IC observed that, applying paragraphs 56-57 of IAS 16, an entity might often reach this conclusion for leasehold improvements that the entity will use and benefit from only for as long as it uses the underlying asset in the lease.

Final date considered	Issue	Summary of reasons given for not adding the issue to the IFRS IC's agenda
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Interaction between lease term and useful life

In assessing whether a lessee is reasonably certain to extend (or not to terminate) a lease, paragraph B37 of IFRS 16 requires an entity to consider all relevant facts and circumstances that create an economic incentive for the lessee. This includes significant leasehold improvements undertaken (or expected to be undertaken) over the term of the contract that are expected to have significant economic benefit for the lessee when an option to extend or terminate the lease becomes exercisable (paragraph B37(b)).

In addition, as noted above, an entity considers the broader economics of the contract when determining the enforceable period of the lease described in the request. This includes, for example, the costs of abandoning or dismantling non-removable leasehold improvements. If an entity expects to use non-removable leasehold improvements beyond the date on which the contract can be terminated, the existence of those leasehold improvements indicates that the entity might incur a more than insignificant penalty if it terminates the lease. Consequently, applying paragraph B34 of IFRS 16, an entity considers whether the contract is enforceable for at least the period of expected utility of the leasehold improvements.

The IFRS IC concluded that the principles and requirements in IFRS 16 provide an adequate basis for an entity to determine the lease term of cancellable and renewable leases. The IFRS IC also concluded that the principles and requirements in IAS 16 and IFRS 16 provide an adequate basis for an entity to determine the useful life of any non-removable leasehold improvements relating to such a lease.

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 the 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: *New pronouncements issued as at 31 December 2019*.

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 then ongoing project to revise the *Conceptual Framework for Financial Reporting* (now finalised, see page 15 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 second half of 2020.

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.

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

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

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

IFRS Developments Issue 129: Disclosure Initiative - Updates on the Materiality Project (September 2017) EYG No. 05342-173Gbl

IFRS Developments Issue 124: Disclosure Initiative - Principles of Disclosure (April 2017) EYG No. 01608-173Gbl

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
<p><i>Financial Instruments - Accounting for Dynamic Risk Management</i></p> <ul style="list-style-type: none">▶ 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:<ul style="list-style-type: none">▶ 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.	<ul style="list-style-type: none">▶ 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 decide how best to pursue the next phase of the project, which is to develop the DRM accounting model further. The Board will consider at a future meeting the feedback from its consultation on the core elements of the DRM accounting model. The core model outreach is planned for Q2 2020.▶ Key aspects of the core DRM model that the IASB has tentatively decided as of July 2019 are:<ul style="list-style-type: none">▶ 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 the 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 June 2018, the Board received an update on the work performed on the proposed amendments to IFRIC 14. The Board will continue its discussions at a future meeting.

Classification of Liabilities (Proposed amendments to IAS 1)

- ▶ The proposed amendments to IAS 1 aim to improve presentation in financial statements by clarifying the criteria for the classification of a liability as either current or non-current.
- ▶ The ED proposed to:
 - ▶ Clarify that the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period
 - ▶ Clarify the link between the settlement of the liability and the outflow of resources from the entity

- ▶ The ED was issued in March 2015.
- ▶ The Board continued its discussions on the proposed amendments. The following are the key tentative decisions as of September 2019:
 - ▶ To clarify that in assessing an entity's right to defer settlement of a liability, compliance with any conditions in a lending agreement must be assessed as at the reporting date, even if the lender will not test the entity's compliance until a later date.
 - ▶ To clarify that an entity's right to defer settlement is not affected by management's expectations about whether the entity will exercise that right, or the subsequent settlement of the liability after the end of the reporting period, but before the financial statements were authorised for issue. In addition, an entity's right to defer settlement must have substance.
 - ▶ To clarify that the exception in paragraph 69(d) of IAS 1 applies only to a counterparty conversion option recognised separately from the liability as an equity component of a compound financial instrument. Any other term that could result in settlement by transfer of an entity's own equity instruments would not affect the classification.
 - ▶ To require an entity to apply the amendments retrospectively. Early application is permitted and must be disclosed.
- ▶ The Board plans to publish the final amendments in January 2020.

Other projects

Status/next steps

Property, Plant and Equipment– Proceeds before Intended Use (Proposed amendments to IAS 16)

- ▶ The proposed amendments aim to prohibit deducting from the cost of an item of property, plant and equipment (PPE), any proceeds from selling 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 would recognise the proceeds from selling such items, and the costs of producing those items, in profit or loss.

- ▶ The ED was issued in June 2017.
- ▶ In October 2019, the Board continued its discussions on the ED. The Board tentatively decided:
 - ▶ To require an entity to identify and measure the cost of items produced before an item of PP&E is available for use, applying the existing measurement requirements of IAS 2 *Inventories*.
 - ▶ Not to have additional specific presentation and disclosure requirements in relation to the sale of items that are part of the entity's ordinary activities.
 - ▶ To require additional disclosures in relation to the sale of items that are not part of an entity's ordinary activities.
 - ▶ To require an entity to apply the amendments retrospectively only to items of PPE made available for use on or after the beginning of the earliest period presented when the entity first applies the amendments.
 - ▶ To provide no transition relief for first-time adopters.
 - ▶ That the effective date of the amendments be for annual periods beginning on or after 1 January 2022, with earlier application permitted.
- ▶ The Board plans to publish the final amendments in March 2020.

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.
- ▶ The Board will discuss the transition requirements and effective date of the amendments at a future meeting. It will also review the project's due process steps.

Other projects

Status/next steps

Accounting Policy Changes (Amendments to IAS 8)

- ▶ The IASB proposed amendments to IAS 8 to lower the impracticability threshold for retrospective application of voluntary changes in accounting policies that result from agenda decisions. The proposed threshold would include a consideration of the costs and benefits of applying such changes retrospectively.
- ▶ The proposed amendments aim to promote greater consistency in the application of IFRS standards, reduce the burden on entities when they change an accounting policy as a result of an agenda decision and, thus, improve the overall quality of financial reporting.

- ▶ The ED was issued in March 2018.
- ▶ In December 2018, the Board discussed the summary of the feedback received on the ED, and tentatively decided not to amend the standard to specify when entities apply accounting policy changes resulting from agenda decisions. The Board will decide on the project direction at a future meeting.

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 and also to address challenges with applying IAS 32 in practice.
- ▶ The focus of the project is on the classification of financial liabilities and equity instruments from the perspective of the issuer (entity). The requirements in IFRS 9 for the accounting by the holder of financial assets are therefore outside the scope of the project.
- ▶ The IASB issued a DP that set out proposed principles for the classification of financial instruments as either financial liabilities or equity instruments with a clear rationale, but without fundamentally changing the existing classification outcomes of IAS 32.
- ▶ It was designed to improve the consistency, completeness and clarity of the requirements for classification, while also enhancing the information provided through presentation and disclosure about features of financial liabilities and equity instruments that are not captured by classification alone.

- ▶ The DP was issued in June 2018.
- ▶ In September 2019, the Board decided not to continue with the proposals in the DP. Instead, it will adopt an approach which will address practice issues by clarifying some of the existing principles in IAS 32 without proposing new principles.
- ▶ In December 2019, the Board discussed potential clarifications to IAS 32 that would help address challenges in practice in classifying financial instruments that will, or may, be settled in the issuer's own equity instruments. In particular, the Board explored potential clarifications to the underlying principle for classifying derivatives on own equity.
- ▶ The IASB staff are currently preparing a detailed project proposal to identify the particular practice issues that need to be addressed. The project proposal is planned to be discussed by the Board in the second half of 2020.

Other projects

Status/next steps

Onerous Contracts - Costs of Fulfilling a Contract (Amendments to IAS 37)

- ▶ The IASB proposed amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.
- ▶ The proposed 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.
- ▶ These proposed amendments are intended to provide clarity and help ensure consistent application of the standard.

- ▶ The ED was issued in December 2018.
- ▶ In December 2019, the Board tentatively decided that entities should apply the amendments for annual periods beginning on or after 1 January 2022, with earlier application permitted. The Board plans to issue the amendments in the second quarter of 2020.

IBOR Reform and its effects on financial reporting - Phase two

- ▶ The IASB has started 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 the IBOR reform
 - ▶ Hedges of a group of items
 - ▶ IAS 39 fair value hedge accounting for a portfolio of interest rate risk

- ▶ The Board started discussions on phase two of its IBOR project during Q3 2019.
- ▶ In October and December 2019, the Board reached tentative conclusions on the phase two issues relating to classification and measurement, and hedge accounting on transition to risk free rates. The Board will further discuss the project in January 2020.
- ▶ An ED is planned for Q2 2020.

Other projects

Status/next steps

Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)

- ▶ The IASB proposed amendments to IFRS 3 to:
 - ▶ Replace the reference to an old version of the IASB's Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework)
 - ▶ Add an exception to the recognition principle in IFRS 3. That is, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately, an acquirer would apply IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to identify the obligations it has assumed in a business combination.
 - ▶ Add an explicit statement in the standard that an acquirer cannot recognise contingent assets acquired in a business combination.
- ▶ The proposed amendments are intended to update IFRS 3 without significantly changing its requirements.

- ▶ The Board discussed the feedback received on the ED in its November and December 2019 meetings. The Board decided to confirm the proposals set out in the ED, but tentatively decided not to add an exception for current tax assets and liabilities within the scope of IFRIC 23.
- ▶ The Board will discuss the transition requirements and effective date for the amendments at a future meeting.

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 plans to discuss the feedback received in March 2020.

Other projects

Status/next steps

Annual Improvements to IFRS standards 2018-2020

The IASB proposed the following amendments to standards, or accompanying documents, as part of its annual improvement process:

- ▶ *Subsidiary as a first-time adopter* (Amendment to IFRS 1)
The proposed 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 proposed amendment would also apply to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.
- ▶ *Fees included in the '10 per cent' test for derecognition of financial liabilities* (Amendment to IFRS 9)
The proposed 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, when determining whether to derecognise a financial liability that has been modified or exchanged. There is no similar amendment proposed for IAS 39.
- ▶ *Lease Incentives* (Amendment to Illustrative Example 13 accompanying IFRS 16)
The proposed amendment removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This would remove potential confusion regarding the treatment of lease incentives when applying IFRS 16.
- ▶ *Taxation in fair value measurements* (Amendment to IAS 41 *Agriculture*)
The proposed 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.

- ▶ The Board expects to issue the amendments in Q2 2020. The Board tentatively decided to require entities to apply the amendments to IFRS 1, IFRS 9 and IAS 41 for annual periods beginning on or after 1 January 2022, with earlier application permitted.

Management Commentary

The IASB proposed amendments to the IFRS Practice Statement 1 *Management Commentary* which will include consideration of:

- ▶ Developments from other narrative reporting initiatives; and
- ▶ Acknowledged gaps in narrative reporting practice indicating that the goals of the management commentary and other narrative reporting regimes are unmet. Stronger guidance, while still maintaining the principle-based approach of the original Management Commentary Practice Statement should help to close the gaps in narrative reporting practices.

- ▶ The Board expects to publish an Exposure Draft in the second half of 2020.

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

IASB projects	Next milestone	Expected date
Research projects		
Business Combinations under Common Control	Discussion Paper	Q2 2020
Extractive Activities	Review Research	Q2 2020
Goodwill and Impairment	Discussion Paper	February 2020
Pension Benefits that Depend on Asset Returns	Review Research	H2 2020
Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12	Review Research	February 2020
Provisions	Review Research	January 2020
Subsidiaries that are SMEs	Review Research	January 2020
Standard-setting and related projects		
Rate-regulated Activities	Exposure Draft	Q2 2020
Maintenance projects		
IBOR Reform and its Effects on Financial Reporting - Phase 2	Exposure Draft	Q2 2020
2019 Comprehensive Review of the IFRS for SMEs Standard	Request for Information	January 2020

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