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Accounting

News

Discussion

IFRS News

Quarter 1 2018

IFRS News is your quarterly update on all things relating to International Financial Reporting Standards. We'll bring you up to speed on topical issues, provide comment and points of view and give you a summary of any significant developments.

We begin this first edition of 2018 by considering the potential effect of the recent US tax reforms on IFRS preparers with operations in America. We also remind readers of the key aspects of the two major new Standards coming into effect on 1 January 2018 (IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers') and take a look at issues that are currently attracting regulators' attention.

We then move on to look at amendments the IASB has recently made to its Standards. Further on in the newsletter, you will find IFRS-related news at Grant Thornton and a general round-up of financial reporting developments.

We finish with a summary of the implementation dates of recently issued Standards, and a list of IASB publications that are out for comment.

Contents

Potential accounting implications of the recent reforms of US tax

On 22 December 2017, President Trump signed into law what is commonly known as the 'Tax Cuts and Jobs Act' (the Act). The Act will have significant consequences for entities with US operations preparing their financial statements under IFRS.

Furthermore, because the Act became law on 22 December, its effects must be included in interim and annual financial statements that cover reporting periods including that date.

With many companies preparing financial statements for annual reporting periods ended 31 December 2017, this could have a potentially material impact due to both the complexity of the Act and the difficulty of gathering information in relation to some aspects of it.

Companies with US operations will therefore need to analyse the impact of the Act in detail. In the meantime, we would like to draw your attention to a few of the potential areas of impact.

Key provisions of the Act for corporate entities

Topic	Summary	Potential financial statement impact
Drop in corporate tax rate	Perhaps the biggest impact to companies is the reduction in the US corporate tax rate from 35% to 21%. This is effective from 1 January 2018 regardless of the reporting entity's reporting period.	The reduced tax rate will have an impact on current tax from 1 January 2018. Entities that do not have a 31 December reporting data will be subject initially to a pro-rated tax rate. In terms of deferred tax, IAS 12 'Income Taxes' requires deferred tax assets and liabilities to be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The change will therefore impact the measurement of deferred tax in reporting periods ended 31 December 2017.
100% capital allowances	The Act creates 100% first year relief for capital expenditure for all expenditure on assets acquired and placed into service from 27 September 2017 up to the end of 2022. The relief will then be phased out over a period of five years.	Companies will need to determine whether capital expenditures made after 27 September 2017 qualify for immediate expensing and consider the effect of the relief on any current and deferred tax balances as a result of this accelerated depreciation. Companies should consider the implications that the increased bonus depreciation will have on the realisability of any resulting deferred tax assets. Accelerated depreciation may create or increase Net Operating Losses (NOL) carryforwards and may also create taxable temporary differences that may be considered a source of income for purposes of assessing the realisability of deferred tax assets.
Net Operating Losses (NOL)	NOL created after 2017 can be carried forward indefinitely but cannot generally be carried back. NOL are limited to 80% of taxable income for losses arising in tax years beginning after 2017.	Companies will need to reassess the recoverability of deferred tax assets arising from NOL and make adjustments if it is more likely than not that all or a portion of their deferred tax assets will not be realised. Significant changes to the NOL carryforward that may impact a company's reassessment would include (1) elimination of the carryback and (2) the indefinite carryforward period.
Base Erosion Anti-Abuse Tax (BEAT)	The Act discourages base erosion and profit shifting (BEPS) behaviour by imposing a tax based on deductible payments to related foreign parties. An entity must pay a base erosion minimum tax amount in addition to its regular tax liability after credits. This generally equates to the excess of a fixed percentage of a company's modified taxable income over its regular tax liability.	US entities making base erosion payments that will be subject to the BEAT tax should consider the impact on their effective tax rate. BEAT is intended to be an incremental tax, meaning that an entity can never pay less than the statutory tax rate of 21%. Furthermore, an entity may not know whether it will always be subject to BEAT or not. Accordingly, we believe that in many circumstances, entities will measure deferred taxes at the 21% rate, with any incremental BEAT payments being reflected as income tax expenses in the period they are incurred.
Global Intangible Low-Taxed Income (GILTI)	The Act includes provisions under which in some conditions, income of foreign subsidiaries is included in the taxable income of its US parent.	We believe that IFRS preparers affected by GILTI will be able to recognise the charge for GILTI in the year in which it is payable. In some circumstances, it could also be appropriate to include the impact on the rate used to measure deferred taxes for temporary differences that are expected to reverse as GILTI. However, the calculation of GILTI is subject to future and contingent payments that may make estimating whether and to what extent an entity will have a charge in relation to GILTI in a specific future year difficult. Significant judgement would need to be applied in determining the appropriateness of such an approach.

(continued)

Key provisions of the Act for corporate entities

Topic	Summary	Potential financial statement impact
Foreign-derived intangible income (FDII)	The Act allows US corporations a deduction for a portion of foreign derived intangible income.	As with GILTI, we believe that IFRS preparers affected by FDII will be able to recognise the deduction in the year in which it is payable. In some circumstances, it could also be appropriate to include the impact on the rate used to measure deferred taxes, however we expect that such an approach will be difficult to reliably model and that it will be simpler to recognise the deduction as a current income tax item in the period in which it is received.
Limitation on interest deductions for tax purposes	The Act limits the deduction for net interest to 30% of adjusted taxable income for tax years beginning after 31 December 2017.	Companies would include the tax effect of disallowed current-year interest, as a result of the limitations on net interest deductibility, in their estimated annual effective tax rate, including determination of the realisability of any excess interest carryforwards.
Replacement of a worldwide system of taxing US corporations with a territorial system	The current worldwide system of taxing US corporations on the foreign earnings of their foreign subsidiaries is being replaced with a partial territorial system. This will provide a 100% dividends received deduction (DRD) to domestic corporations for foreign source dividends received from 10% or more owned foreign corporations.	Entities may need to consider the accounting for 'outside basis' differences (the difference between the carrying amount of the investment in the corporate entity and its tax base in situations where for instance undistributed profits in the investee increase the parent's investment in the investee to above its tax cost). Entities may need to assess whether such differences will reverse in the foreseeable future and could affect the measurement of any deferred tax liability arising on investments in subsidiaries.
Repatriation transition tax	The Act subjects unrepatriated foreign earnings to a one-time transition tax.	A liability for current income tax will need to be recognised for the effect of the transition tax. This may be challenging from a practical perspective of collecting the information within a group where the parent company is preparing financial statements for the year ended 31 December 2017.

Entities with US operations should look out for any advice that may be issued by their regulator. In Europe, the European Securities and Markets Authority has issued a statement in response to concerns over entities' ability to fully complete the required accounting under IAS 12 in their 2017 financial statements due to the short time available to assess the accounting consequences of the Act and the lack of information on their tax position.

In the statement, ESMA acknowledges that a complete understanding of the implications of the Act may take some time. Nevertheless, ESMA expects EU entities to be able to make a reasonable estimate of the impact of the material aspects of the Act on their current and deferred tax assets and/or liabilities in their 2017 annual financial statements.

ESMA acknowledges that these reported amounts may be subject to a higher degree of estimation uncertainty than usually the case and that measurement adjustments may need to be made in subsequent reporting periods as issuers get more accurate information on the impact of the Act and the modalities of its application. Consequently, ESMA highlights the need for transparent and informative disclosure both in relation to the amounts reported in the 2017 annual financial statements and on their subsequent re-measurement.

Affected entities both inside and outside Europe would be wise to pay attention to ESMA's advice. In the meantime, they should start analysing the impact of the Act in order to estimate its financial reporting effects.

Read ESMA's full statement here: https://www.esma.europa.eu/press-news/esma-news/esma-draws-issuers%E2%80%99-attention-ias-requirements-following-introduction-new-tax

Reminder: IFRS 9 and IFRS 15

2018 sees some of the biggest changes in recent standard-setting coming into effect. Both IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' are mandatory for accounting periods beginning on or 1 January 2018. While most companies will be well aware of the changes and will have already taken steps to start implementing them, we give you a brief overview of the most significant changes below.

IFRS 9 'Financial Instruments'

Classification and measurement of financial assets

The classification and measurement of financial assets was one of the areas of IAS 39 'Financial Instruments: Recognition and Measurement' that received the most criticism during the financial crisis. In publishing the original 2009 version of IFRS 9, the IASB therefore made a conscious effort to reduce the complexity in accounting for financial assets by having just two categories (fair value and amortised cost). However, following comments that having just two categories created too sharp a dividing line and failed to reflect the way many businesses manage their financial assets, an additional category was added in July 2014 when IFRS 9 (2014) was published. The result is that under IFRS 9 each financial asset is classified into one of three main classification categories:

- amortised cost
- fair value through other comprehensive income (FVTOCI)
- fair value through profit or loss (FVTPL).

As shown in the table, classification is determined by both:

a the entity's business model for managing the financial asset ('business model test'); and
b the contractual cash flow characteristics of the financial asset ('cash flow characteristics test').

In addition, IFRS 9 provides options allowing an entity to (on initial recognition only) irrevocably designate:

- financial assets that would otherwise be measured at amortised cost or fair value through other comprehensive income under IFRS 9's general principles at fair value through profit or loss, if this designation would reduce or eliminate a so-called 'accounting mismatch'
- equity instruments, which will otherwise need to be measured at fair value through profit or loss, in a special 'equity – fair value through other comprehensive income' category. This is available for any investment in equities within the scope of IFRS 9 apart from investments held for trading and contingent consideration receivable resulting from a business combination to which IFRS 3 'Business Combinations' applies.

	Business model		
	Hold to collect	Hold to collect and sell	Other
Cash flows are solely payments of principal and interest (SPPI)	Amortised cost	FVOCI*	FVPL
Other types of cash flows	FVPL	FVPL	FVPL

* Excludes equity investments. Can elect to present FV changes in OCI.

IFRS 9 'Financial Instruments' (cont.)

Impairment

In determining IFRS 9's impairment requirements, the IASB's aim was to rectify a major perceived weakness in accounting that became evident during the financial crisis of 2007/8, namely that IAS 39 resulted in 'too little, too late' – too few credit losses being recognised at too late a stage. IAS 39's 'incurred loss' model delayed the recognition of impairment until objective evidence of a credit loss event had been identified. In addition, IAS 39 was criticised for requiring different measures of impairment for similar assets depending on their classification. IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses for all debt-type financial assets that are not measured at fair value through profit or loss. One consequence is that a credit loss arises as soon as a company buys or originates a loan or receivable – a so-called 'day one loss'. Unlike IAS 39, the amount of the recognised loss is the same irrespective of whether the asset is measured at amortised cost or at fair value through other comprehensive income.

Recognition of impairment therefore no longer depends on the company first identifying a credit loss event. Instead an entity always estimates an 'expected loss' considering a broader range of information, including:

- past events, such as experience of historical losses for similar financial instruments
- current conditions
- reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the financial instrument.

Hedge accounting

IAS 39's hedge accounting requirements had been heavily criticised for containing complex rules which either made it impossible for entities to use hedge accounting or, in some cases, simply put them off doing so.

IFRS 9's requirements on hedge accounting look to rectify some of these problems, aligning hedge accounting more closely with entities' risk management activities by:

- increasing the eligibility of both hedged items and hedging instruments
- introducing a more principles-based approach to assessing hedge effectiveness.

As a result, the new requirements should serve to reduce profit or loss volatility. The increased flexibility of the new requirements are however partly offset by entities being prohibited from voluntarily discontinuing hedge accounting and also by enhanced disclosure requirements.

The Grant Thornton International Ltd Global IFRS Team has issued a number of publications on IFRS 9 'Financial Instruments', including:

- Get ready for IFRS 9 – issue 1: Classifying and measuring financial instruments
- Get ready for IFRS 9 – issue 2: The impairment requirements
- IFRS 9 special edition newsletter – hedge accounting
- The implementation of IFRS 9 impairment requirement by banks (in conjunction with the GPPC).

These publications can be downloaded from: https://www.grantthornton.global/en/service/Assurance/ifrs/financial-instruments-ifrs-9-guidance/

Expected credit losses

Deterioration in credit quality

Stage 1 – Performing	Stage 2 – Under-performing	Stage 3 – Non-performing
• financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk at the reporting date	• financial instruments that have deteriorated significantly in credit quality since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of a credit loss event	• financial assets that have objective evidence of impairment at the reporting date
• 12-month expected credit losses are recognised • interest revenue is calculated on the gross carrying amount of the asset.	• lifetime expected credit losses are recognised • interest revenue is still calculated on the asset's gross carrying amount.	• lifetime expected credit losses are recognised • interest revenue is calculated on the net carrying amount (ie reduced for expected credit losses).
Credit risk = low	Credit risk > low	

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' replaces IAS 11 'Construction Contracts', IAS 18 'Revenue', IFRIC 15 'Agreements for the Construction of Real Estate' and all other revenue-related Interpretations. All transactions within its scope are analysed against a single, control-based model centred around the following 5-steps:

IFRS 15 requires considerably more disclosure about revenue recognition including information about contract balances and changes, remaining performance obligations (backlog), and key judgements around the timing of and methods for recognising revenue.

1 Identify the contract(s) with the customer

2 Identify the separate performance obligations

3 Determine the transaction price

4 Allocate the transaction price

5 Recognise revenue when or as an entity satisfies performance obligations

IFRS 15 changes the criteria for determining whether revenue is recognised at a point in time or over time. In addition, while the following points may vary in terms of their expected impact from industry to industry, IFRS 15 has more guidance in many areas where current IFRS are lacking such as:

- multiple-element arrangements
- contract modifications
- non-cash and variable consideration
- rights of return and other customer options
- seller repurchase options and agreements
- warranties
- principal versus agent (gross versus net)
- licensing intellectual property
- breakage
- non-refundable upfront fees
- consignment and bill-and-hold arrangements.

The Grant Thornton International Ltd Global IFRS Team has issued a number of publications on IFRS 15 'Revenue from Contracts with Customers'.

These publications can be downloaded from: https://www.grantthornton.global/en/service/Assurance/ifrs/accounting-for-revenue-under-ifrs-15/

Regulators announce enforcement priorities for 2017 financial statements

Most jurisdictions around the world have established systems to enforce accounting requirements, including those of IFRS.

Many of the regulatory bodies responsible for accounting enforcement publish some form of feedback from past reviews as well as information about priority areas for the next review cycle. Drawing on reports and feedback from several enforcement bodies around the world, we have identified the following common themes, which we discuss in more detail below:

- high-quality disclosures on the expected impact of the implementation and initial application of IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases'
- specific recognition, measurement and disclosure issues relating to IFRS 3 'Business Combinations'
- specific disclosure aspects required by IAS 7 'Statement of Cash Flows'
- measurement and disclosure of non-performing loans by credit institutions
- the ongoing relevance of the fair presentation of financial performance
- the disclosure of the risks and uncertainties on the impact of Brexit where relevant.

With the 2018 reporting season upon us, we believe a discussion of these common themes will help you in preparing your financial statements. Of course, the matters above are not intended to be a definitive list and regulators will no doubt raise points on many other areas in the forthcoming reporting season. It is also worth being aware that market conditions (such as a potentially higher interest rate environment in 2018) will affect the issues and sectors that regulators will concentrate on in the coming months.

Impact of major new Standards

A new year brings new challenges and this has never been truer than now in the accounting world. 2018 sees the arrival of IFRS 9's and IFRS 15's effective date, with IFRS 16 following just one year after. It is not surprising then that regulators around the world are focusing their enforcement priorities on these new Standards and their expected impact in the period of initial application.

IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' requires entities to disclose known or reasonably estimable information relevant to assessing the possible impact of applying a new IFRS (IAS 8.30). This will be particularly relevant for IFRS 9 and IFRS 15 as their effective dates will be imminent for entities preparing their 2017 year-end financial statements.

Regulators are keen to see disclosure on the new Standards include sufficiently disaggregated information on:

1. the accounting policy choices the company expects to apply, including which transition method it is planning to use and whether it will make use of any practical expedients; and
2. the amount and nature of the Standards' expected impacts on the financial statements compared to previously recognised amounts. If a preparer expects to be significantly impacted by the new Standards, they are encouraged to provide financial information that allows analysts and other users to update their models.

Also, to comply with IAS 8.31, entities should disclose a concise, entity-specific description of the changes introduced by the new Standards rather than 'boilerplate' language. Where the Standards permit choices, an entity should disclose which choice it has made to allow analysts and other users of financial statements to assess their impact.

The European regulator, the European Securities and Markets Authority (ESMA), published guidance on the implementation of both IFRS 9 and IFRS 15 in 2016, which they urge companies to consider when preparing their 2017 financial statements. They also stress the need for more disclosure on the quantitative impact of the new Standards. Since IFRS 9 and 15 are effective for accounting periods beginning on or after 1 January 2018, entities are expected to have by now substantially completed their implementation analyses. This means the impact of the initial application of the new Standards will be known or can be reasonably estimated at the time of preparing an entity's 2017 financial statements.

IFRS 3 'Business Combinations'

Although not a new Standard, regulators continue stressing the relevance of issues stemming from the application of IFRS 3 'Business Combinations'.

Issues stemming from the application of IFRS 3

- the measurement of intangible assets
- adjustments during the measurement period
- bargain purchases
- business combinations under common control
- contingent payments
- disclosures on fair value.

The measurement of intangible assets

Regulators stress the importance of consistency between the assumptions used to measure intangible assets at fair value for a purchase price allocation in a business combination and the assumptions applied for any impairment testing. Similarly, the useful lives used for the amortisation of the intangible assets should also be consistent. Also of importance is performing the analysis of the intangible assets in accordance with the separability criterion in IFRS 3.B33 and disclosure, where relevant, of the significant judgements underlying the conclusion of whether separation of intangible assets from goodwill was deemed necessary.

Adjustments during the measurement period

IFRS 3.B67 requires preparers to disclose if the initial accounting for a business combination is incomplete at the end of the reporting period in which the business combination occurs. Where this is the case, entities should provide the provisional amounts of assets, liabilities, non-controlling interests or items of the consideration paid. In addition, preparers should disclose the reasons why the business combination accounting is incomplete and the nature and amount of any measurement period adjustments recognised during the reporting period.

Bargain purchases

In providing disclosures on a bargain purchase as required by paragraph IFRS 3.B64(n), regulators encourage preparers to indicate how the assets and liabilities were reassessed to ensure that recognition of a bargain purchase was appropriate. This might include information, where applicable, of the fact that the gain arises from the application of exemptions in IFRS 3 for measuring particular items (e.g. restructuring provisions) and why this is the case.

Contingent payments

Another issue highlighted by regulators is distinguishing correctly whether part of the consideration received in a business combination qualifies as contingent consideration or as remuneration for post-combination services. This depends mainly on the nature of the arrangement (IFRS 3.B54). In addition, IFRS 3.B55 provides guidance on concluding whether arrangements for contingent payments to employees or selling shareholders are a contingent consideration in the business combination or are separate transactions.

Business combinations under common control (BCUCC)

Since IFRS 3 does not apply to BCUCC, regulators expect preparers to apply consistently the accounting policy selected in accordance with IAS 8.10–12 and disclose it in accordance with IAS 1.117 and IAS 1.121-122 until the IASB has addressed this issue.

Disclosure on fair value

The disclosure requirements in IFRS 13 'Fair Value Measurement' about non-recurring fair value measurements address only measurements after initial recognition and thus do not apply to assets and liabilities recognised at fair value in a business combination. Nevertheless, regulators encourage preparers to provide such disclosures for a business combination as information on the assumptions and measurement techniques used in the valuation of material assets, liabilities and non-controlling interests acquired in a business combination is relevant for investors.

IAS 7 'Statement of Cash Flows'

For reporting periods beginning on or after 1 January 2017, preparers are required to disclose information that enables users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (IAS 7.44A). Although there are various ways to provide the required information, regulators encourage preparers to use the tabular format of reconciliation as shown in Illustrative Example E to IAS 7.

Furthermore, preparers are reminded to provide an entity-specific accounting policy on which instruments meet the definition of cash and cash equivalents in accordance with paragraph IAS 7.6, and, where relevant, to disclose whether, and to what extent, overdraft bank facilities (notably those repayable on demand) and balances resulting from cash pool facilities are considered as cash and cash equivalents.

Lastly, preparers should remember that both IAS 7.48 and IFRS 12.13 and IFRS 12.22 require the disclosure of cash and cash equivalents balances not available for use by the group. Such disclosure might be particularly relevant in case of material balances held in a jurisdiction whose currency is subject to limited exchangeability or capital controls, although this is not the only circumstance in which cash is not available for use by the group.

Non-performing loans

Regulators are urging issuers with material amounts of credit-impaired loans, to examine carefully their existing accounting policies for the measurement of credit-impaired financial assets.

Credit institutions are expected to evaluate critically whether their estimate of the expected cash flows from the non-performing loans, and where relevant from any related collateral, are realistic and unbiased. Preparers are also encouraged to consider what changes need to be made to them to be appropriate under IFRS 9's expected credit loss model.

Brexit

Given this is mainly a European issue, the European regulator, the European Securities and Markets Authority (ESMA), urges preparers potentially affected by the United Kingdom's decision to leave the European Union (EU) to assess and disclose the associated risks and expected impacts on their business strategy and activities as appropriate in their IFRS financial statements or in their management report. Although less of an issue outside Europe, ESMA's advice may still be of relevance to some non-European IFRS preparers with exposure to the UK.

Other

A number of regulators are scrutinising the use of Alternative Performance Measures in financial statements. In Europe, ESMA has issued Guidelines on Alternative Performance Measures (APMs) and is encouraging entities to consider these when including APMs in annual financial reports. The guidelines will also be of interest to entities outside Europe and can be found on https://www.esma.europa.eu/press-news/esma-news/esma-publishes-final-guidelines-alternative-performance-measures

IASB publishes 'Annual Improvements to IFRS Standards 2015–2017 Cycle'

The International Accounting Standards Board (IASB) has published 'Annual Improvements to IFRS Standards 2015–2017 Cycle' making amendments to four Standards.

Background

The publication is a collection of amendments to IFRS Standards discussed by the IASB during the current project cycle for annual improvements. The IASB uses the Annual Improvements process to make necessary, but non-urgent, amendments to IFRS Standards that will not be included as part of any other project. Amendments made as part of this process either clarify the wording in an IFRS Standard or correct relatively minor oversights or conflicts between existing requirements of IFRS Standards. By presenting the amendments in a single document rather than as a series of piecemeal changes, the IASB aims to ease the burden of change for all concerned. A summary of the issues addressed in the table.

The amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

Comment

We welcome the changes. We note however that the amendments to IAS 12 do not include requirements on how to determine whether payments on financial instruments classified as equity are distributions of profits. This means that it is likely that challenges will remain when determining whether to recognise the income tax effects on a payment in profit or loss or in equity.

Standard affected	Subject	Summary of amendment
IAS 12 'Income Taxes'	Income tax consequences of payments on instruments classified as equity	The amendments to IAS 12 clarify that the income tax consequences of dividends are recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.
IAS 23 'Borrowing Costs'	Borrowing costs eligible for capitalisation	IAS 23.14 specifies how to determine the amount of borrowing costs eligible for capitalisation when an entity borrows funds generally and uses them to obtain a qualifying asset. IAS 23 requires an entity, when determining the funds that it borrows generally, to exclude 'borrowings made specifically for the purpose of obtaining a qualifying asset'. The IASB observed that an entity might misinterpret those words to mean that funds borrowed generally would exclude funds outstanding that were originally borrowed specifically to obtain a qualifying asset that is now ready for its intended use or sale. The amendments therefore clarify that when a qualifying asset is ready for its intended use or sale, an entity treats any outstanding borrowing made specifically to obtain that qualifying asset as part of the funds that it has borrowed generally. The amendments are to be applied prospectively (ie only to borrowing costs incurred on or after the beginning of the annual reporting period in which the amendments are first applied) as the costs of gathering the information required to capitalise borrowing costs retrospectively may exceed the potential benefits.
IFRS 3 'Business Combinations'	Previously held interests in a joint operation	The amendment clarifies that when an entity obtains control of a joint operation, it accounts for this transaction as a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at its acquisition-date fair value. The logic behind the amendment is that obtaining control results in a significant change in the nature of, and economic circumstances surrounding, the interest held.
IFRS 11 'Joint Arrangements'	Previously held interests in a joint operation	In contrast to the clarifications to IFRS 3, an entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the joint operation.

SME Implementation Group publishes Q&A

The SME Implementation Group (SMEIG) has published a new question and answer document (Q&A) on the accounting for financial guarantees in a parent entity's separate financial statements under the IFRS for Small and Medium-sized Entities (SMEs) following public consultation (see IFRS News Q3).

Q&As published by the SMEIG are non-mandatory guidance that will help those who use the IFRS for SMEs to think about specific accounting questions. They are not intended to modify in any way the application of full IFRS however the IASB will consider them when they next come to review the IFRS for SMEs.

Q&A IFRS for SMEs Section 12 (Issue 1): Accounting for financial guarantees in parent's separate financial statements

The issue:

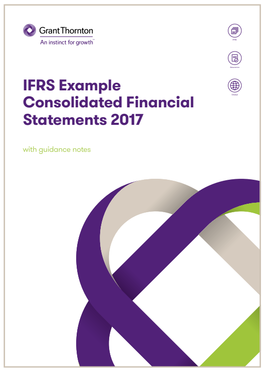
A reporting entity prepares its financial statements applying the IFRS for SMEs Standard. The reporting entity guarantees repayment of a loan from a bank to another entity (a financial guarantee contract). An example of where this might commonly arise is when both entities are under common control. How does the reporting entity account for the financial guarantee contract issued to the bank in its separate or individual financial statements?

The answer:

The reporting entity shall account for the financial guarantee contract by applying the requirements in Section 12 'Other Financial Instrument Issues' unless the reporting entity chooses to apply the recognition and measurement requirements of IAS 39 'Financial Instruments: Recognition and Measurement' (as permitted by paragraphs 11.2(b) and 12.2(b) of the IFRS for SMEs Standard).

Financial guarantee contracts frequently have characteristics commonly associated with insurance contracts. The accounting treatment outlined in this Q&A should not be assumed to apply to other types of insurance contracts.

IFRS Example Consolidated Financial Statements 2017



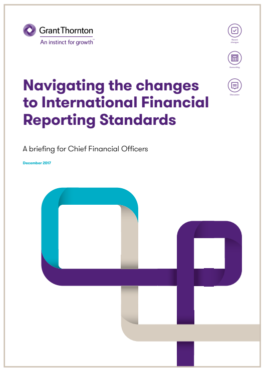
The Global IFRS Team has published its IFRS Example Consolidated Financial Statements 2017.

Since the last edition, the publication has been reviewed and updated to reflect changes in IFRS that are effective for the year ending 31 December 2017. Furthermore, they feature the early adoption of IFRS 15 'Revenue from Contracts with Customers' and 'Clarifications to IFRS 15 Revenue from Contracts with Customers'. No account has been taken of any new developments after 31 October 2017.

You can access the publication by going to http://www.grantthornton.global

Alternatively, please get in touch with the IFRS contact in your local Grant Thornton office.

Navigating the Changes to IFRS: A Briefing for CFOs



The Global IFRS Team has published the 2017 edition of 'Navigating the Changes to International Financial Reporting Standards: a Briefing for Chief Financial Officers'.

The publication is designed to give Chief Financial Officers a high-level awareness of recent changes that will affect companies' future financial reporting. It covers both new Standards and Interpretations that have been issued and amendments made to existing ones, giving brief descriptions of each.

The 2017 edition of the publication has been updated for changes to International Financial Reporting Standards that have been published between 1 December 2016 and 30 November 2017. Standards covered for the first time include IFRS 17 'Insurance Contracts'.

The publication now covers 31 March 2017, 30 June 2017, 30 September 2017, 31 December 2015 and 31 March 2018 financial year-ends.

You can access the publication by going to http://www.grantthornton.global

Alternatively, please get in touch with the IFRS contact in your local Grant Thornton office.

Definition of Material (Amendments to IAS 1 and IAS 8)

The Grant Thornton International Ltd IFRS Team has commented on the IASB's Exposure Draft ED/2017/6 'Definition of Material – Amendments to IAS 1 and IAS 8'.

In our letter, we welcomed the Board's attempt to align the various definitions of material. However, we believe that including a description of primary users unnecessarily lengthens this definition. We also encourage the Board to develop additional application guidance illustrating the appropriate response to a variety of scenarios where information is judged to have been obscured.

Round up

Europe

ESMA publishes 21st enforcement decisions report

The European Securities and Markets Authority (ESMA) has published a new batch of extracts (the 21st such batch) from the European Enforcers' Coordination Sessions (EECS) confidential database of enforcement decisions on financial statements.

European enforcers monitor and review IFRS financial statements and consider whether they comply with IFRS and other applicable reporting requirements, including relevant national law. ESMA publishes these extracts with the aim of providing issuers and users of financial statements with relevant information on the appropriate application of IFRS. Publication of the enforcement decisions informs market participants about European national enforcers' views on compliance with IFRS. Cases submitted to the enforcement database are considered to be appropriate for publication if they fulfil one or more of the following criteria:

- the decision refers to a complex accounting issue or an issue that could lead to different applications of IFRS
- the decision relates to a relatively widespread issue among issuers or within a certain type of business and, thereby, may be of interest to other enforcers or third parties
- the decision addresses an issue on which there is no experience or on which enforcers have inconsistent experiences
- the decision has been taken on the basis of a provision not covered by an accounting standard.

Together with the rationale behind these decisions, the publication helps contribute towards a consistent application of IFRS in Europe. Topics covered in this latest batch of extracts include:

	Standard	Topic
1.	• IAS 36 'Impairment of Assets'	Country risk premium in impairment test
2.	• IFRS 11 'Joint Arrangements' • IFRS 10 'Consolidated Financial Statements'	Assessment of joint control
3.	• FRS 13 'Fair Value Measurement' • IAS 28 'Investments in Associates and Joint Ventures'	Valuation and equity method for participation with restrictions
4.	• IFRS 11 'Joint Arrangements' • IFRS 10 'Consolidated Financial Statements'	Assessment of joint control
5.	• IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' • IAS 34 'Interim Financial Statements'	Restatement of comparative amounts
6.	• IAS 1 'Presentation of Financial Statements' • IAS 39 'Financial Instruments: Recognition and Measurement'	Disclosures on a reverse factoring transaction
7.	• IFRS 10 'Consolidated Financial Statements'	Assessment of control over investment funds
8.	• IFRS 13 'Fair Value Measurement'	Fair value measurement disclosures of unobservable inputs
9.	• IAS 39 'Financial Instruments: Recognition and Measurement' • IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' • IAS 18 'Revenue'	Recognition and measurement of the proceeds from an arbitration agreement
10.	• IAS 36 'Impairment of Assets'	Impairment test of trademarks
11.	• IAS 12 'Income Taxes'	Recognition of deferred tax assets for carry forward of unused tax losses
12.	• IAS 39 'Financial Instruments: Recognition and Measurement'	Definition of 'economic environment' and separation of foreign-currency embedded derivatives in a power contract

In addition to the extracts published in the 21st enforcement decisions report, ESMA has also published an updated overview of all enforcement decisions ever published.

Europe (cont.)

EFRAG endorses IFRS 16 and amendments to other Standards

The Accounting Regulations Committee (ARC) have voted on the European Financial Reporting Advisory Group's (EFRAG) endorsement advice and have endorsed

- IFRS 16 'Leases'
- 'Clarifications to IFRS 15 Revenue from Contracts with Customers'
- 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)'

as well as amendments to other existing Standards. This means that entities that report under European law can now fully implement the IASB's changes without running the risk of implementing something that has not been signed-off by the European Union.

In addition, EFRAG has submitted its endorsement advice on 'Prepayment Features with Negative Compensation (Amendments to IFRS 9)' for a vote to the ARC. The advice is expected to be endorsed in early 2018, and potentially before the end of the first quarter.

IASB

Other IASB publications

As featured on page 11, the IASB issued Annual Improvements to IFRS Standards 2015-2017 Cycle. In addition, the IASB has published more implementation guidance on IFRS 17 'Insurance Contracts' and the 2018 'Blue Book' – the printed version of the Standards mandatory as at 1 January 2018, both in the 'normal' format and the format with cross-references and agenda decisions.

Corporate Reporting

CFA publishes report on adoption of new revenue recognition requirements

In October, the CFA Institute (a global association of investment professionals) published the report 'Revenue Recognition Changes'. It provides a high-level overview of how far entities have come with the adoption of IFRS 15 'Revenue from Contracts with Customers' (and ASC Topic 606 respectively) and analyses entities' disclosures of anticipated impacts and transition choices. It also reviews the likely effects of key judgments related to uncertain revenue and the definition of a contract.

The report finds that very few companies have adopted either of the new Standards on revenue early and many companies seem to be behind with their efforts to adopt either IFRS 15 or Topic 606, despite there being little time before both Standards became mandatory for reporting periods beginning in 2018.

Banking

AAOIFI issues standard on impairment and credit losses

The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) has published FAS 30 'Impairment, Credit Losses and Onerous Commitments', dealing with impairment and credit losses covering current and expected losses. The standard is not converged with IFRS 9 'Financial Instruments' because "the impairment and credit losses approaches taken by the generally accepted accounting principles recently set by various accounting standard setters and regulatory standard setters, as well as, the regulators, cannot be applicable on Islamic finance transactions in a similar manner".

FAS 30 is effective for annual financial reporting periods beginning on or after 1 January 2020 with early adoption permitted.

AAOIFI is an Islamic international non-for-profit organisation that develops Shari'ah compliant accounting, auditing, governance, and ethical thought.

Effective dates of new IFRS Standards and IFRIC Interpretations

The table below lists new IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2016. Companies are required to make certain disclosures in respect of new Standards and Interpretations under IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

New IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2016

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
IFRS 17	Insurance Contracts	1 January 2021	Yes
IFRS 16	Leases	1 January 2019	Yes
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019	Yes
IFRS 9	Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019	Yes
IAS 28	Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	1 January 2019	Yes
IAS 12/IAS 23/ IFRS 3/IFRS 11	Annual Improvements to IFRS Standards 2015–2017 Cycle	1 January 2019	Yes
IAS 40	Transfers of Investment Property	1 January 2018	Yes
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	Yes
IFRS 1/ IFRS 12/ IAS 28	Annual Improvements to IFRS Standards 2014-2016 Cycle	1 January 2018 However, the amendments to IFRS 12 are effective from 1 January 2017	IAS 28 – Yes
IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	• a temporary exemption from IFRS 9 is applied for accounting periods on or after 1 January 2018 • the overlay approach is applied when entities first apply IFRS 9	N/A

New IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2016

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
IFRS 9	Financial Instruments (2014)	1 January 2018	Yes (extensive transitional rules apply)
IFRS 2	Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018	Yes
IFRS 15	Revenue from Contracts with Customers	1 January 2018*	Yes
n/a	Practice Statement 2: Making Materiality Judgements	14 September 2017	No
IAS 7	Disclosure Initiative (Amendments to IAS 7 Statement of Cash Flows)	1 January 2017	Yes
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	Yes
IFRS for SMEs	Amendments to the International Financial Reporting Standard for Small and Medium Sized Entities	1 January 2017	Yes
IAS 1	Disclosure Initiative (Amendments to IAS 1 Presentation of Financial Statements)	1 January 2016	Yes
IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	1 January 2016	Yes
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	Postponed (was 1 January 2016)	Yes
Various	Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016	Yes
IAS 27	Equity Method in Separate Financial Statements (Amendments to IAS 27)	1 January 2016	Yes
IAS 16 and IAS 41	Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)	1 January 2016	Yes
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	1 January 2016	Yes
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016	Yes
IFRS 14	Regulatory Deferral Accounts	1 January 2016	Yes

* changed from 1 January 2017 following the publication of 'Effective Date of IFRS 15'

Open for comment

This table lists the documents that the IASB currently has out to comment and the comment deadline. Grant Thornton International Ltd aims to respond to all Exposure Drafts and Discussion Papers issued by the IASB.

Current IASB documents

Document type	Title	Comment
There are currently no Exposure Drafts or Discussion Papers out for comment.		

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