NEED TO KNOW

IFRSs and Amendments effective in periods after 31 December 2016 year ends

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1. INTRODUCTION

During 2016, the IASB continued its focus on the completion of significant new accounting standards. In January, IFRS 16 *Leases* was released and work continued during the year on the new insurance standard, which is expected to be issued in May 2017 as IFRS 17. The IASB also issued amendments to IFRS 4, which address the interaction between the effective date of IFRS 9 *Financial Instruments* (periods beginning on or after 1 January 2018) and the expected effective date of IFRS 17 of periods beginning on or after 1 January 2021.

Following the discussion of a range of topics at the joint IASB/FASB Transition Resource Group for revenue recognition, the IASB issued a number of clarifications to IFRS 15 in April 2016. Other work included making amendments to existing standards and the issue of an IFRIC Interpretation.

The new accounting standards for financial instruments, revenue and leases (IFRSs 9, 15 and 16) are complex, may require significant judgements and estimates, and are likely to have significant commercial effects. The impact of other changes should not be underestimated. For those entities in the insurance sector the amendments to IFRS 4 may be of fundamental importance.

Implementation projects should already be under way for IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* (both effective for periods beginning on or after 1 January 2018) and IFRS 16 *Leases* (effective for periods beginning on or after 1 January 2019). Securities regulators worldwide have indicated that they expect to see meaningful disclosures about the likely effects of adoption of IFRSs 9 and 15 in 31 December 2016 annual reports, with many calling for quantitative information about the anticipated effects of those standards in June 2017 interim statements. Our experience indicates that many companies significantly underestimate the likely effects of these new requirements, in particular those for revenue recognition. As the amount of time left becomes shorter, the risk of surprises, both internally and externally in the market place, becomes greater. These include profit warnings, delays in filing financial statements, qualified audit reports, a loss of investor confidence and sharp reductions in share prices.

This publication summarises significant changes to IFRSs that will need to be adopted in future reporting periods, together with a discussion about major projects that are currently in progress at the IASB.

2. IFRSs AND AMENDMENTS EFFECTIVE IN PERIODS AFTER 31 DECEMBER 2016 YEAR ENDS

The tables overleaf summarise new standards and amendments to standards which are mandatorily effective for year ends subsequent to 31 December 2016. The first looks at the timing of mandatory adoption for an entity with a 31 December financial year end. There are only three amendments to IFRSs that will need to be adopted in the year ending 31 December 2017.

Considerably wider ranging and significant changes on financial statements are likely in the years ending 31 December 2018 and 2019 with the adoption of major new standards for revenue, financial instruments and leases. These will require careful planning and communication to investors and other users of financial statements, together with the need to address commercial considerations such as compliance with bank covenants, performance based remuneration schemes and business combinations (such as transactions where contingent consideration is to be calculated on the basis of future revenues or profits).

In common with normal practice, early adoption is permitted and for some entities this will be an attractive option. In particular, because the criteria for the recognition of a sale in a sale and leaseback transaction in IFRS 16 have been aligned with IFRS 15, some entities might wish to adopt IFRS 16 a year early (although for those reporting in accordance with EU-endorsed IFRS, this will be conditional on the process for IFRS 16 having been completed).

The second table has more detail, including links to BDO's *International Financial Reporting Bulletins* and, for those entities that report in accordance with EU-endorsed IFRS, a note of the current endorsement status.

2.1. Timing of mandatory adoption

For an entity with a 31 December year end, new standards, amendments to standards and interpretations will need to be adopted in the following financial years at the latest:

2017	2018	2019
	Standards	
	IFRS 9 (2014) *Financial Instruments*	IFRS 16 *Leases*
	IFRS 15 *Revenue from Contracts with Customers*	
	Amendments to IFRSs	
IAS 12 *Income Taxes* (Amendment – Recognition of Deferred Tax Assets for Unrealized Losses)	IFRS 2 *Share Based Payments* (Amendment – Classification and Measurement of Share Based Payment Transactions)	
IAS 7 *Statement of Cash Flows* (Disclosure Initiative Amendments)	IFRS 4 *Insurance Contracts* (Amendment – Applying IFRS 9 *Financial Instruments*)	
Annual Improvements to IFRSs 2014-2016 Cycle (IFRS 12 *Disclosure of Interests in Other Entities*)	Annual Improvements to IFRSs 2014-2016 Cycle (IFRS 1 *First-time Adoption of IFRS* and IAS 28 *Investments in Associates and Joint Ventures*)	
	IAS 40 *Investment Property* (Amendment – Transfers of Investment Property)	
	Interpretations	
	IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*	

In addition, amendments to IFRS 10 and IAS 28 related to the sale or contribution of assets between an investor and associate or joint venture are available for early adoption. However the mandatory effective date of these amendments has been deferred indefinitely pending the outcome of the IASB's research project on the equity method of accounting.

The following tables set out a list of forthcoming standards and amendments, including their EU-endorsement status and links to BDO's International Financial Reporting Bulletins.

IFRS	IASB Effective Date *(Early Adoption permitted)*	EU Endorsement status	BDO IFR Publications
	Standards		
IFRS 9 *Financial Instruments* (2014) *Issued: July 2014*	1 January 2018	Endorsed	BDO *IFR Bulletin 2014/12* (click *here*) IFRS 9 in Practice (click *here*)
IFRS 15 *Revenue from Contracts with Customers* *Issued: May 2014* *Amendment to change effective date to 1 January 2018* *Issued: September 2015* *Clarifications to IFRS 15* *Issued: April 2016*	1 January 2018	Endorsed, except for clarifications issued in April 2016 Endorsement of clarifications expected in the first half of 2017	BDO *IFR Bulletin 2014/08* (click *here*), *2014/21* (click *here*), *and 2016/06* (click *here*) IFRS 15 in Practice 2017 (click *here*) Need to Know – IFRS 15 v US GAAP Differences (click *here*)
IFRS 16 *Leases* *Issued: January 2016*	1 January 2019	Expected in 2017	BDO *IFR Bulletin 2016/01* (click *here*) Need to know – IFRS 16 *Leases* (click *here*)

IFRS	**IASB Effective Date** *(Early Adoption permitted)*	**EU Endorsement status**	**BDO IFR Publications**
		Amendments	
IFRS	**IASB Effective Date** *(Early Adoption permitted)*	**EU Endorsement status** *(Early Adoption permitted if endorsed)*	**BDO IFR Bulletin**
IFRS 10 *Consolidated Financial Statements* (Amendments – Sale or Contribution of Assets) *Issued: September 2014*	Mandatory effective deferred indefinitely	Endorsement postponed until mandatory effective date confirmed	BDO *IFR Bulletin 2014/16* (click here)
IAS 12 *Income Taxes* (Amendment – Recognition of Deferred Tax Assets for Unrealized Losses) *Issued: January 2016*	1 January 2017	Endorsed	
IAS 7 *Statement of Cash Flows* (Disclosure Initiative Amendments) *Issued: January 2016*	1 January 2017	Endorsed	
IFRS 2 *Share Based Payments* (Amendment – Classification and Measurement of Share Based Payment Transactions) *Issued: June 2016*	1 January 2018	Expected in the first half of 2017	
IFRS 4 *Insurance Contracts* (Amendment – Applying IFRS 9 *Financial Instruments*) *Issued: September 2016*	1 January 2018	Expected in 2017	BDO *IFR Bulletin 2016/11* (click here)
Annual Improvements to IFRSs 2014-2016 Cycle *Issued: December 2016*	1 January 2018	To be determined	BDO *IFR Bulletin 2016/17* (click here)
IAS 40 *Investment Property* (Amendment – Transfers of Investment Property) *Issued: December 2016*	1 January 2018	To be determined	BDO *IFR Bulletin 2016/17* (click here)
		Interpretations	
IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* *Issued: December 2016*	1 January 2018	To be determined	BDO *IFR Bulletin 2016/16* (click here)

3. MAJOR DEVELOPMENTS – NEW STANDARDS

There are three major standards that will be effective in 2018 and 2019. These are IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* (both effective for periods beginning on or after 1 January 2018) and IFRS 16 *Leases* (effective for periods beginning on or after 2019), which will affect all entities and will often result in very significant changes to financial statements.

Key changes from existing guidance are discussed below.

3.1. IFRS 9 *Financial Instruments* and Related Amendments to IFRS 4 *Insurance Contracts*

In July 2014 the IASB published IFRS 9 *Financial Instruments* (2014) which incorporated the final requirements on all three phases of the financial instruments projects – classification and measurement, impairment and hedge accounting.

IFRS 9 contains four categories for the classification and measurement of financial assets. These are:

- Amortised cost
- Fair Value Through Other Comprehensive Income – FVTOCI
- Fair Value Through Profit or Loss – FVTPL (residual category)
- Fair Value Through Other Comprehensive Income – FVTOCI (optional for some investments in equity instruments).

IFRS 9 introduces new criteria for the classification and measurement of financial assets to be measured at amortised cost. In order to qualify for amortised cost measurement, a two stage test is applied. Firstly, the entity's business model must be to collect the contractual cash flows from the asset, rather than generating cash flows by selling the asset to realise its fair value. Secondly, the asset must have contractual cash flows which are comprised solely of payments of principal and interest on the principal amount outstanding (often referred to as 'solely payments of principal and interest' or 'the SPPI test'). Interest is principally the time value of money plus a margin for credit risk, with the 2014 revisions to IFRS 9 adding guidance which notes that interest can contain other elements such as liquidity risk, a profit margin, and servicing/administrative costs. Guidance has also been included to cover circumstances in which the contractual cash flows do not precisely meet the definitions, such as a loan for which the interest rate is reset every three months to the six month rate.

Financial assets that pass both the business model and SPPI tests are required to be measured at amortised cost (unless the fair value option is available and elected), with all other financial assets being measured at fair value. The business model and SPPI tests are applied to the assets as a whole, with the previous guidance in IAS 39 *Financial Instruments: Recognition and Measurement* for embedded derivatives no longer applying to financial assets.

The second measurement category is fair value through other comprehensive income (FVTOCI). This measurement category applies to debt instruments that meet the SPPI contractual cash flow characteristics test and where the entity is holding the debt instrument in a business model which is both to collect contractual cash flows and to sell financial assets. For example, an entity with this business model might purchase a government bond with a 10 year maturity, but expect to sell the asset after collecting interest income for only three years. Financial assets in the FVTOCI category are required to be recorded on balance sheet at fair value (to reflect the cash flows that would be generated from sale) with amortised cost measurement being applied in the income statement (to reflect the collection of contractual cash flows). The difference is recorded in other comprehensive income, with the cumulative difference being recycled to profit or loss on the disposal of the financial asset.

Financial assets that fail the SPPI test, or where the entity's business model for holding the asset is not to collect contractual cash flows (in whole or in part), must be classified at fair value through profit and loss (FVTPL). In certain circumstances an entity may also be able to designate a debt instrument as at FVTPL.

The default classification of investments in equity instruments is FVTPL, because an equity instrument does not have contractual cash flows and will therefore always fail the SPPI test. However, IFRS 9 permits an entity to make an irrevocable election on the initial recognition of an equity investment, on an investment by investment basis, to include changes in fair value in other comprehensive income. This election is not available for investments that are held for trading (that is, held for short term investment and profit taking). Note that the IFRS 9 FVTOCI category for equity investments is not the same as the Available for Sale category in IAS 39 as fair value gains and losses recorded in other comprehensive income are never recycled to profit or loss (including on the disposal of the investment, although the cumulative gain or loss in equity can be transferred to retained earnings by way of a reserves transfer).

The classification and measurement requirements for financial liabilities have been carried forward from IAS 39 largely unchanged, including a continuation of the requirement to separate embedded derivatives. However a significant change is that, if a financial liability is designated (under the option available in IFRS 9) as at fair value through profit or loss, changes in the fair value of that financial liability that are attributable to changes in the entity's own credit risk will normally be recorded in other comprehensive income instead of profit or loss. This change has been made in order to prevent a deterioration in an entity's financial position (and hence credit status) resulting in gains being reported in profit or loss.

The existing guidance for the derecognition of financial assets and liabilities has been carried forward from IAS 39 unchanged, with some improvements to disclosure requirements being added to IFRS 7 *Financial Instruments: Disclosures*.

For the impairment of financial assets, an 'expected loss' model in IFRS 9 replaces the 'incurred loss' model in IAS 39. The new impairment requirements will affect all entities with financial assets measured at amortised cost and FVTOCI, and will bring significant changes. Provisions for trade receivables will need to be determined using a forward looking approach, which is significantly different from, and more complex in comparison with, the incurred loss model, meaning that new systems and processes may well be needed. For financial institutions, the changes are likely to be very significant and require major changes to internal systems and processes in order to capture the required information. Because of the likely complexity, the IASB formed a Transition Resource Group for Impairment of Financial Instruments (the ITG). Entities, in particular those in the financial services sector, need to be aware of the issues discussed by the ITG and their implications for adoption of the expected loss model.

The hedge accounting requirements of IFRS 9 are also significantly different from those set out in IAS 39, and are designed to align hedge accounting more closely with entities' risk management processes. In practice, it will be significantly more straightforward to apply hedge accounting under the new model and we expect that entities that have previously decided not to hedge account may do so in future. For those entities that have previously applied hedge accounting, there is an option to continue with the approach required by IAS 39. Although this might not initially appear to be an attractive option, in practice some entities have internal systems that are designed for an IAS 39 approach.

The effective date of the fully completed version of IFRS 9 is for periods beginning on or after 1 January 2018 with retrospective application. Early application is permitted.

In addition, there is an option to early adopt the 'own credit' provisions for financial liabilities which have been designated at fair value through profit or loss (FVTPL) under the fair value option without adopting any of the other requirements of IFRS 9. This option will remain available until 1 January 2018.

In 2016 the IASB also advanced its project to replace IFRS 4 *Insurance Contracts*. The new insurance contracts Standard is expected to have a mandatory effective date of 1 January 2021. As a result the IASB amended IFRS 4 to address concerns raised related to IFRS 9 and the new insurance standard having different effective dates. These concerns relate mainly to the potential for insurers to produce financial statements that contain two very significant changes in accounting in a short period of time, and volatility that might arise in financial statements during the period between the effective date of IFRS 9 and the new insurance standard, due to changes in measurement requirements. The amendments permit either the deferral of the adoption of IFRS 9 for entities whose predominant activity is issuing insurance contracts or an approach which moves the additional volatility created by having non-aligned effective dates from profit or loss to other comprehensive income.

For more information on IFRS 9 see:

- BDO *IFR Bulletin* 2014/12 (click *here*);
- BDO *IFR Bulletin* 2015/17 (click *here*);
- BDO *IFRS In Practice 2016* – IFRS 9 *Financial Instruments* (click *here*).

3.2. IFRS 15 *Revenue from Contracts with Customers*

In May 2014, the IASB published IFRS 15 *Revenue from Contracts with Customers*. The new Standard, which was fully converged with equivalent new US GAAP guidance issued at the same time, contains comprehensive guidance for accounting for revenue and will replace existing requirements which are currently set out in two existing standards (IAS 18 *Revenue* and IAS 11 *Construction Contracts*) and related interpretations (IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*).

IFRS 15 contains significantly more prescriptive and precise requirements in comparison with existing standards. In future, revenue will be recognised from the application of the following five steps:

1. Identify the contract
2. Identify the performance obligation(s)
3. Determine the transaction price
4. Allocate the transaction price to each performance obligation
5. Recognise revenue when each performance obligation is satisfied.

The introduction of the new requirements means that for many entities the timing and profile of revenue recognition will change. In some areas the changes will be very significant and will require careful planning, including for commercial effects (such as compliance with bank covenants, performance based remuneration and business combinations). Significant changes to systems and processes may be required in order to comply with the new accounting and significantly enhanced disclosure requirements.

Due to the extent of changes in accounting that will arise from the adoption of IFRS 15, the IASB and the FASB formed a Joint Transition Resource Group for Revenue Recognition (the TRG). This comprises preparers and users of financial statements and auditors, with knowledge and experience of revenue recognition under both IFRS and US GAAP. The joint TRG met six times during 2014 and 2015, with the FASB TRG members meeting twice in 2016.

As a result of some of the TRG discussions, in September 2015 the IASB issued an amendment to IFRS 15 to defer its effective date by one year to 1 January 2018 (it was originally issued with an effective date of periods beginning on or after 1 January 2017). Further, in April 2016 the IASB issued the following clarifications to the standard:

- Identification of performance obligations
- Principal vs. agent considerations
- Licensing agreements
- Transitional relief.

Although the effective date remains aligned with the equivalent US GAAP guidance, some of the clarifications issued by the IASB and FASB are not consistent, and the FASB has made some changes where the IASB did not. As a result the standards are no longer fully converged.

For more information see BDO International's *Revenue Recognition Resource Centre* (click *here*).

3.3. IFRS 16 *Leases*

In January 2016 the IASB issued IFRS 16 *Leases*. IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The accounting requirements for lessors have largely been carried forward unchanged from IAS 17. The major changes are for lessees, with IFRS 16 setting out a single model for lessees which eliminates the distinction between operating and finance leases, and results in the statement of financial position reflecting a 'right of use' asset and a corresponding liability for most lease contracts. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate implicit in the lease. However, entities have an option not to bring onto the statement of financial position short term leases (i.e. those with of 12 months or less) and leases of low value items.

As a result, a key question changes from whether a lease is an operating or a finance lease under current guidance, to whether an arrangement gives rise to something that meets the definition of a lease. The scope of IFRS 16 is wide, and some arrangements involving the use of assets that might be viewed as service contracts (which are executory and not recorded on the statement of financial position) may in fact result in a lease within the scope of IFRS 16. Significant changes to systems and processes may be required in order to comply with the new requirements.

For many entities the effect of bringing all leases onto the statement of financial position will be very significant and will require careful planning, including for commercial effects (such as compliance with bank covenants, performance based remuneration and business combinations).

IFRS 16 is converged in certain significant respects with new guidance covering accounting for leases under US GAAP. Convergence has been reached for:

– Definition of a lease
– Measurement of lease liabilities.

Substantial convergence was reached for a requirement to include almost all leases on balance sheet. However, IFRS 16 contains an exemption for leases of low value assets which is not included in the equivalent US GAAP. Although IFRS 16 does not specify a threshold for what is regarded as 'low value', the discussion in the Basis for Conclusions notes that in 2015 when it reached its decisions about the exemption, the IASB had in mind leases of assets which, when new, had a value of US$ 5,000 or less.

Other differences relate to a requirement in IFRS 16 for a lessee to reassess variable lease payments which depend on an index or rate when the reference index or rate changes and affects future lease payments (there is no equivalent requirement in US GAAP), the requirements for the recognition of gains and losses arising from sale and leaseback transactions, and in determining the classification of subleases.

There will also be differences between IFRS and US GAAP for the presentation of:

– Lease expenses in the income statement; and
– The cash flow statement.

In the income statement, the application of IFRS 16 will result in a depreciation charge (within operating expenses) and an interest expense. Assuming depreciation is charged on a straight line basis, the total expense will be higher in the first part of a lease in comparison with later periods, because the lease liability and related interest expense will be higher. Under US GAAP, for leases which meet the existing definition of an operating lease, a single charge will be included within operating results. The depreciation charge will be adjusted in each period so that the total expense is the same throughout the lease period.

Consistent with the differences in the income statement presentation, in the cash flow statement under IFRS the cash flows will be split into principal repayments and interest, while under US GAAP the cash flows will appear in a single line item.

IFRS 16 has an effective date of 1 January 2019, with early application permitted only if IFRS 15 has also been adopted.

For more information see:

- BDO *IFR Bulletin* 2016/01 (click *here*);
- IFRS 16 *Leases*: need to Know (click *here*).

4. OTHER DEVELOPMENTS – AMENDMENTS TO IFRSs AND INTERPRETATIONS

The IASB has issued a range of amendments to standards and an IFRIC interpretation that will be effective for 2017 and 2018 calendar year ends. Key requirements of the amendments are discussed below.

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

The amendments clarify the accounting for transactions where a parent loses control of a subsidiary, that does not constitute a business as defined in IFRS 3 *Business Combinations*, by selling all or part of its interest in that subsidiary to an associate or a joint venture that is accounted for using the equity method.

For the interest in the former subsidiary that has been sold to the associate or joint venture, the gain recognised is restricted to the amount that is attributable to the unrelated investors' interests in the associate or joint venture.

Any directly held retained interest in the former subsidiary is first remeasured to fair value. Gains and losses from the remeasurement are then recognised as follows:

– The retained interest is accounted for as an associate or joint venture using the equity method: The parent recognises the gain or loss in profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The remainder is eliminated against the carrying amount of the investment in the associate or joint venture
– The retained interest is accounted for at fair value in accordance with IFRS 9 *Financial Instruments*: The parent recognises the gain or loss in full in profit or loss.

Although available for early adoption in December 2015 the IASB postponed the mandatory effective date of this amendment indefinitely pending the outcome of its research pipeline project on the equity method of accounting.

For more information see BDO *IFR Bulletin* 2014/16 (click *here*).

4.2. Amendment to IAS 12 – *Recognition of Deferred Tax Assets for Unrealized Losses*

The amendment to IAS 12 clarifies the accounting for deferred tax assets related to debt instruments measured at fair value but are not deemed to be impaired (for example, an investment in a fixed rate bond where the fair value has declined due to changes in interest rates, but the asset is not considered to have become impaired in value). Deductible temporary differences arise from unrealised losses on debt instruments measured at fair value. This is regardless of whether the instrument is recovered through sale, or by holding it to maturity. Therefore, entities are required to recognise deferred taxes for temporary differences from unrealised losses of debt instruments measured at fair value if all other recognition criteria for deferred taxes are met.

4.3. Amendment to IAS 7 – *Disclosure Initiative Amendments*

These amendments aim to improve information about an entity's debt, including movements in that debt. Disclosures are required to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. One way to provide this disclosure would be to provide a reconciliation of the opening and closing carrying amounts for each item for which cash flows have been or would be classified as financial activities. The reconciliation would include:

- Opening balance
- Movements in the period including:
  - Changes from financing cash flows;
  - Changes arising from obtaining or losing control of subsidiaries or other businesses;
  - Other non-cash exchanges (e.g. changes in foreign exchange rates, new finance leases and changes in fair value); and
- Closing balance.

4.4. Amendment to IFRS 2 – *Classification and Measurement of Share Based Payment Transactions*

These amendments address the classification and measurement of share-based payment transactions for a number of situations where existing guidance is not clear. The following is a summary of the clarifications and additional guidance:

- The effects of vesting and non-vesting conditions on the measurement of a cash-settled share-based payment transaction are accounted for in accordance with the guidance for equity-settled share-based payments.
- Share-based payment transactions with certain net settlement features are classified as equity-settled if they would have been classified as equity settled without the net settlement feature. This applies to certain arrangements where an employer is required to withhold an amount for an employee's tax obligation related to a share-based payment, and pays the tax authority in cash.
- Accounting for a modification that changes the classification of a share-based payment agreement from cash-settled to equity-settled has been clarified with regard to the measurement of, and accounting for, the replacement equity-settled share-based payment, derecognition of the liability, and accounting for any difference between the carrying amount of the liability and the amount recognised for the equity-settled award (these amounts will reflect the extent to which goods and services have been received at the date of modification).

4.5. Annual Improvements to IFRSs 2014-2016 Cycle

There were three amendments as part of the 2014-2016 Annual Improvements Cycle. These were made to IFRS 1, IAS 12 and IAS 28.

– **IFRS 1**

  A number of short–term exemptions in IFRS 1 *First Time Adoption of International Financial Reporting Standards* were deleted. The relief provided by these exemptions were no longer applicable.

– **IFRS 12**

  The scope of IFRS 12 was clarified to make it clear that the disclosure requirements in this Standard, except for those in paragraphs B10 - B16, apply to interests irrespective of whether they are classified as held for sale, as held for distribution to owners or as discontinued operations in accordance with IFRS 5. The IASB noted that the disclosure objective of IFRS 12 *Disclosure of Interests in Other Entities* is relevant to interests in other entities regardless of whether or not they are classified as held for sale, as held for distribution to owners or as discontinued operations.

– **IAS 28**

  IAS 28 *Investments in Associates and Joint Ventures*, permits an investment in an associate or joint venture to be measured at fair value through profit or loss, instead of the equity method being applied, if the investment is held directly or indirectly through a venture capital organisation, unit trust or similar entities. IAS 28 was amended to specify that a qualifying entity may elect to measure investments in associates and joint ventures at fair value through profit or loss on an investment-by-investment basis, upon initial recognition.

For more information see IFRB 2016/17 (click *here*).

4.6. Amendment to IAS 40 – *Transfers of Investment Property*

This amendment clarifies that a transfer of a property to, or from, investment property is made when, and only when, there is a change in use. It also clarifies that the following scenarios in IAS 40.57 are examples of evidence that may support a change in use and not the only possible circumstances in which there is a change in use:

– Commencement of owner-occupation, or of development with a view to owner-occupation, for a transfer from investment property to owner-occupied property;
– Commencement of development with a view to sale, for a transfer from investment property to inventories;
– End of owner-occupation, for a transfer from owner-occupied property to investment property; and
– Commencement inception of an operating lease to another party, for a transfer from inventories to investment property.

For more information see IFRB 2016/17 (click *here*).

4.7. IFRIC Interpretation 22 – *Foreign Currency Transactions and Advance Consideration*

IFRIC 22 addresses how to determine the date of transaction for the purpose of determining the spot exchange rate used to translate foreign currency transactions on initial recognition in circumstances when an entity pays or receives some or all of the foreign currency consideration in advance of the recognition of the related asset, expense or income.

The interpretation states that the date of the transaction, for the purpose of determining the spot exchange rate used to translate the related asset, expense or income (or part of it) on initial recognition, is the earlier of:

(a) The date of initial recognition of the non-monetary prepayment asset or the non-monetary deferred income liability; and

(b) The date that the asset, expense or income (or part of it) is recognised in the financial statements.

For more information see IFRB 2016/16 (click *here*).

5. IASB PROJECTS IN PROGRESS

The IASB also has a number of projects in progress, the most significant of which are *Insurance Contracts*, the *Conceptual Framework* and the *Disclosure Initiative*.

5.1. Insurance Contracts

The IASB continues to move the *Insurance Project Forward* and is currently expected to issue a final standard in May 2017.

The IASB's response to the feedback received on the revised Exposure Draft ED/2013/7 was published in October 2014. In November 2016, the IASB published a project update that summarised the recent status of the project and the next steps for its finalisation. The IASB has also met a number of industry representatives to discuss certain key aspects of the proposals.

In November 2016 the IASB issued a *Staff Paper* outlining where and how the proposals in the 2013 Exposure Draft would change as a result of the IASB's tentative decisions to date.

5.2. Conceptual Framework

In July 2013 the IASB released Discussion Paper DP/2013/1 A *Review of the Conceptual Framework for Financial Reporting*. In May 2015 the IASB published Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting* which takes into account the feedback received on the Discussion Paper. The IASB is currently deliberating the comments received on the Exposure Draft.

In November 2016 the IASB issued a *Staff Paper* outlining where and how the proposals in the 2015 Exposure Draft would change as a result of the IASB's tentative decisions to date.

5.3. Disclosure Initiative

The Disclosure Initiative was introduced by the IASB in order to explore the potential for the improvement of disclosures in financial statements. It is comprised of the following separate projects of which the current status and the next steps are summarised below:

Implementation projects

– ***IAS 1 Amendments –*** The IASB published the final amendments in December 2014 and they became mandatorily effective in 2016.

– ***Reconciliation of liabilities from financing activities*** – In 2016 the IASB published amendments to IAS 7 (see discussion above).

Research projects

– ***Materiality*** – The IASB issued Exposure Draft ED/2015/8 *Application of Materiality to Financial Statements* (the ED) on 28 October 2015. The aim of this ED is to provide guidance to assist management in applying the concept of materiality to general purpose financial statements. A Practice Statement is not a Standard and its application is not required in order to state compliance with IFRS. However, the IASB has noted that a jurisdiction that permits or requires IFRS could choose to formally adopt a Practice Statement into its national financial reporting requirements.

– ***Principles of Disclosure*** – Identification and development of a set of principles for disclosures based on a review of IAS 1, IAS 7 *Statement of Cash Flows* and IAS 8. A Discussion Paper *Principles of Disclosure* and an Exposure Draft *Changes in Accounting Policies and Estimates* are expected to be published in 2017.

– ***Standards-level review of disclosure*** – Research for conflicts, duplications and overlaps in existing Standards. The project is being informed by the results of the *Principles of Disclosures* project.

For more information see BDO *IFR Bulletin* 2014/24 (click *here*).

6. CONCLUSION

The coming years will bring very significant changes to accounting requirements, which will affect the financial statements of almost every entity that reports in accordance with IFRS, in particular changes introduced by IFRSs 9, 15 and 16. For these three major new standards, if implementation projects are not already under way, there is a considerable risk that they will not be adopted satisfactorily and that investors, lenders and other users of financial statements will not be adequately informed in advance of the related effects.

As we progress through the 2016 year end reporting season, this is the time to discuss how the changes will affect your organisation with your BDO contact.

CONTACT

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below. Alternatively, please visit **www.bdointernational.com/Services/Audit/IFRS/IFRS Country Leaders** where you can find full lists of regional and country contacts.

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