

# IFRS News

Welcome to IFRS News. This 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.

In this first edition of 2015, we'll look at some of the issues companies will face during their reporting seasons; new Standards issued by the IASB; Exposure Drafts issued; IFRS-related news at Grant Thornton; and a general round-up of financial reporting developments.

You can find out about the implementation dates of newer Standards that are not yet mandatory towards the end of the document, as well as a list of IASB publications that are out for comment.



# Preparing for the 2015 reporting season

We start our first edition of 2015 with a reminder of the more significant changes that companies will face in preparing their next annual financial statements. We concentrate on the changes that come into effect for companies with 31 December 2014 and 31 March 2015 year ends, before mentioning briefly changes that will affect companies with 30 June or 30 September 2015 year-ends. We finish with a look at some changes which are further away on the horizon but which will have a big impact when they become effective.

## 31 December 2014 and 31 March 2015 year ends

A number of amendments to existing IFRSs will come into mandatory effect for the first time for these companies as well as an Interpretation issued by the IFRS Interpretations Committee or IFRIC. They are:

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
- IFRIC 21: Levies
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39).

We discuss these below, concentrating on the first two which are likely to have the greatest impact on entities that are affected by them.

### Investment entities

Many commentators have long held the view that consolidating the financial statements of an investment entity and its investees does not provide the most useful information as it makes it more difficult for investors to understand what they are most interested in – the value of the entity's investments.

The IASB was influenced by these arguments and as a result it published 'Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27' at the end of 2012.

These Amendments, which are effective for accounting periods beginning on or after 1 January 2014, introduce an exception to consolidation

#### Definition and typical characteristics of an investment entity

##### Definition

An investment entity is an entity that:

- a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services (investment services condition)
- b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both (business purpose condition)
- c) measures and evaluates the performance of substantially all of its investments on a fair value basis (fair value condition).

##### Typical characteristics

In assessing whether it meets the definition an entity shall consider whether it has the following typical characteristics of an investment entity:

- a) it has more than one investment
- b) it has more than one investor
- c) it has investors that are not related parties of the entity
- d) it has ownership interests in the form of equity or similar interests.

for what are termed ‘investment entities’. Extensive application guidance is provided on what exactly this term denotes (see the table on the previous page for an indication of some of the matters covered), but broadly speaking it is used to describe entities whose only business purpose is to make investments for capital appreciation, investment income, or both, and who evaluate the performance of those investments on a fair value basis.

In terms of impact, the entities that do meet the definition are required to measure investments that are controlling interests in another entity (in other words, subsidiaries) at fair value through profit or loss instead of consolidating them. The table on the right provides a high level summary of some of the other key points.

Of course many entities that fit the investment entity definition will nonetheless be unaffected by the Amendments because none of their investments are subsidiaries. Types of investment entity that commonly hold controlling interests include venture capital and private equity groups, along with some ‘master-feeder’ and ‘fund-of-funds’ structures. Some pension funds and sovereign wealth funds may also be affected. Unit trust and mutual fund-type entities rarely hold controlling interests and are therefore less likely to be affected.

The IASB has also published some clarifications on the application of these requirements, as explained in the article ‘Investment entities: applying the

#### Amendments at a glance

Summary	
<b>Who’s affected?</b>	Entities that: <ul style="list-style-type: none"> <li>• meet the new definition of ‘investment entity’</li> <li>• hold one or more investments that are controlling interests in another entity</li> </ul>
<b>What is the impact?</b>	Investment entities will: <ul style="list-style-type: none"> <li>• no longer consolidate investments that are controlling interests in another entity</li> <li>• make additional disclosures about these investments</li> </ul>
<b>Other key points</b>	<ul style="list-style-type: none"> <li>• a non-investment parent entity that controls an investment entity will continue to consolidate its subsidiaries (the consolidation exemption does not ‘roll up’)</li> <li>• an investment entity’s service subsidiaries (subsidiaries that are not ‘investments’) will continue to be consolidated</li> <li>• if all of the investment entity’s subsidiaries are required to be fair valued, it presents separate financial statements as its only financial statements</li> </ul>
<b>When are the changes?</b>	<ul style="list-style-type: none"> <li>• annual periods beginning on or after 1 January 2014 effective?</li> <li>• early application permitted.</li> </ul>

consolidation exception’ which appears later in this newsletter.

#### IFRIC 21 ‘Levies’

IFRIC Interpretation 21 ‘Levies’ (IFRIC 21) considers how an entity should account for obligations to pay levies imposed by governments, other than income taxes. A number of such levies were raised following the global financial crisis, particularly on banks. As these levies were not based on taxable profits, they fell outside the scope of IAS 12 ‘Income Taxes’.

IFRIC 21 is an interpretation of IAS 37

a liability to pay a levy. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain.

Under IFRIC 21, the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

For example, if the activity that triggers the payment of the levy is the generation of revenue in the current period and the calculation of that levy is based on the revenue that was generated in a previous period, the obligating event for that levy is the generation of revenue in the current period.

Where the activity that triggers the payment of the levy occurs over a period of time, the liability to pay a levy is recognised progressively. For example, if the obligating event is the generation of revenue over a period of time, the corresponding liability is recognised as the entity generates that revenue.

IFRIC 21 also clarifies that an entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.

The original questions that led to the development of IFRIC 21 concerned industry-specific levies, including new bank levies. However, the IFRIC decided not to limit the scope of the Interpretation to these types of levy. Accordingly, the accounting for many non-income taxes will also be affected, as illustrated in the table overleaf.

#### IFRIC 21 ‘Levies’ at a glance

- considers how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements
- will result in some levies being recognised as expenses on a specific date rather than over an accounting period
- applies retrospectively.

‘Provisions, Contingent Liabilities and Contingent Assets’. It addresses the accounting for a liability to pay a levy that is within the scope of that Standard, in particular when an entity should recognise

### Property taxes

In many countries property taxes are levied by municipalities or other local government bodies on the owner of a property on a specific date. Many entities have up till now simply spread the expense arising from this over the annual period, recording accruals or prepayments as necessary to effect this.

It appears however that many property taxes will fall within the scope of IFRIC 21, meaning entities will need to pay attention to the strict timing of the legal obligation. As a result, the timing of expense recognition may change for many such entities.

### Payroll-based taxes

For taxes based on payroll costs or similar, a question arises as to whether IFRIC 21 or IAS 19 'Employee Benefits' applies. IAS 19 applies to 'social security contributions', but this term is not defined.

In cases where the entity's obligation is simply a percentage of wages and salaries the issue of whether such taxes fall within the scope of IFRIC 21 makes little or no practical difference. It may however be relevant to more complex situations such as payroll taxes that are subject to a threshold, for example where a payroll tax is calculated on the basis of wages paid or payable by the entity in a financial year if wages exceed a minimum annual amount.

### Taxes payable under the terms of a licence

In some countries or sectors, entities are required to pay an annual fee to a regulator as a condition for holding a licence to operate in a particular market or undertake a particular activity, for example a telecom service licence. The fee is sometimes designed to allow the regulator to recoup a portion of its annual operating costs from the entities it regulates.

As an operating licence represents a right to operate in a particular market, it might be considered that a fee payable as a condition of continuing to hold a licence is therefore no different to a levy for participation in a specific market such as a bank levy. Accordingly it could then be considered that such fees fall within the scope of IFRIC 21 which could again lead to change.

### Other changes

Of the remaining three changes affecting December 2014 and March 2015 year ends, 'Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)' is uncontroversial and is designed to address an issue arising from changes made to IAS 36 'Impairment of Assets' following the publication of IFRS 13 'Fair Value Measurement'.

The IASB had found that the changes made at that time had resulted in IAS 36's disclosure requirements regarding the recoverable amount of impaired assets where that amount is based on fair value less costs of disposal, being applied more widely than the IASB had intended. The Amendments to IAS 36 correct this.

The other two changes affecting December 2014 and March 2015 year ends, 'Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)' and 'Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)' deal with certain issues which are relatively narrow in scope and will mainly affect financial institutions.

### 30 June and 30 September 2015 year ends

For entities with June or September 2015 year ends, the changes discussed above will all come into effect for the first time, along with the following three additional changes:

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)
- Annual Improvements to IFRSs 2010-2012 cycle
- Annual Improvements to IFRSs 2011-2013 cycle.

The first of these changes, 'Defined Benefit Plans – Employee Contributions' is designed to avoid disruption to established practices in relation to straightforward employee contributions to defined benefit plans following the publication of the revised version of IAS 19 'Employee Benefits' in 2011 (IAS 19R).

Prior to the publication of IAS 19R, it was common practice for entities to deduct employee contributions to defined benefit plans from service cost in the period in which the service was rendered.

IAS 19R though requires contributions that are linked to service to be attributed to periods of service as a reduction of service cost (ie as a negative benefit). Concerns were

raised however about the complexity of this requirement when it was applied to simple contributory plans.

The IASB has responded to these concerns by both clarifying the requirements of IAS 19R and introducing a practical expedient. Disruption to existing practices can then be avoided by adopting the amendment to the Standard early (subject to any requirements imposed by local legislation).

Turning to the changes made by the two cycles of Annual Improvements, these are largely uncontroversial as you would expect for amendments the IASB considers non-urgent but necessary.

The most significant of these changes may well prove to be an amendment to IAS 40 'Investment Property' in the 2011-2013 Cycle. This states that reference should be made to IFRS 3 'Business Combinations' to determine whether the acquisition of an investment property meets the definition of a business combination or is simply the purchase of an asset. Depending on how IFRS 3 and IAS 40 have been interpreted in the past, this could lead to changes in practice in the accounting for acquisitions of investment properties.

## Significant changes on the horizon

Finally, it is worth remembering that the IASB has released the following two major new Standards:

- IFRS 15 'Revenue from Contracts with Customers'.
- IFRS 9 'Financial Instruments (2014)'.

While these Standards do not come into mandatory effect for some time, they are likely to have an impact on most entities' accounting when they do eventually come into force.

### IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 is effective for accounting periods beginning on or after 1 January 2017. It replaces IAS 18 'Revenue', IAS 11 'Construction Contracts' and certain revenue-related Interpretations.

The Standard itself establishes a new control-based model for recognising revenue which is based on a core principle that requires an entity to recognise revenue:

- in a manner that depicts the transfer of goods or services to customers
- at an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services.

A five-step process is used to apply this core principle to situations involving revenue recognition.

1) identify the contract(s) with a customer

2) identify the performance obligations

3) determine the transaction price

4) allocate the transaction price to the performance obligations

5) recognise revenue when or as an entity satisfies performance obligations

Although in many cases entities will find the new guidance provides a similar result to the old, an evaluation of the new control-based model and new criteria is necessary as some companies may find the timing of revenue recognition differs under IFRS 15. Companies will also face extensive new disclosure requirements.

While the Standard's effective date of 1 January 2017 may seem a long way away now, we strongly suggest that management begin their impact assessment of the Standard well before 2017 in order to avoid any unpleasant surprises.



**For more information on IFRS 15 'Revenue from Contracts with Customers', please ask your local IFRS contact for a copy of our special edition of IFRS News on the subject.**

### IFRS 9 'Financial Instruments (2014)'

Turning to IFRS 9 'Financial Instruments', the final version of this Standard was completed in July 2014 and is effective for accounting periods beginning on or after 1 January 2018.

The final version of the Standard

- introduces a new approach to financial asset classification
- replaces the 'incurred loss' impairment model with a more forward-looking expected loss model
- substantially revises hedge accounting.

While the mandatory effective date is even further in the future than the effective date of IFRS 15, we again strongly suggest that companies should start evaluating the impact of the new Standard now. As well as the impact on reported results, many businesses will need to collect and analyse additional data and implement changes to systems.



**For more information on IFRS 9 'Financial Instruments (2014)', please ask your local IFRS contact for a copy of our special editions of IFRS News on the subject.**

# Investment entities: applying the consolidation exception

The IASB has published ‘Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)’. The publication introduces three narrow-scope amendments to IFRS 10 and IAS 28 addressing the accounting for interests in investment entities and applying the consolidation exemption.

## **The Amendments** **Exemption from preparing consolidated financial statements**

Under IFRS 10 ‘Consolidated Financial Statements’, a parent entity is exempted from preparing consolidated financial statements if it meets certain criteria. One of these criteria is that the entity’s ultimate or any intermediate parent ‘produces consolidated financial statements that are available for public use and comply with IFRSs’. This gave rise to confusion over whether the exemption remains available if the ultimate or intermediate parent is an investment entity and ceases to prepare consolidated financial statements when it applies IFRS 10’s investment entity exception.

The Amendments confirm that the exemption from consolidation is available to parent entities that are subsidiaries of investment entities in these circumstances.

## **A subsidiary that provides services that relate to the parent’s investment activities**

The general rule under IFRS 10’s investment entity exception is that an investment entity measures its subsidiaries at fair value through profit or loss. This fair value requirement applies to subsidiaries that are investments, and to subsidiaries that are themselves investment entities. There is however an exception to the exception: subsidiaries that provide services that relate to the investment entity’s investment activities continue to be consolidated.

These requirements have led to some confusion over the accounting required when an investment entity’s subsidiary is itself an investment entity and also provides investment-related services. IFRS 10 seemed to provide conflicting guidance on this situation.

The Amendments modify IFRS 10, clarifying that the consolidation requirement applies only to subsidiaries that are not themselves investment entities and whose main purpose and activities are providing services that relate to the investment entity’s investment activities.

### **Application of the equity method by a non-investment entity investor to an investment entity investee**

IFRS 10 states that a non-investment entity parent must consolidate all entities under its control, including those controlled through an investment entity subsidiary. The non-investment entity parent cannot then retain the fair value measurement basis applied by an investment entity subsidiary. IAS 28 'Investments in Associates', however, contained no equivalent guidance as to whether a similar principle should be followed in relation to the equity method accounting applied by a non-investment entity investor to its investments in associates or joint ventures that are investment entities.

The Amendments therefore add guidance to IAS 28. They provide relief to non-investment entity investors with interests in associates or joint ventures that are investment entities by allowing them to retain, when applying the equity method, the fair value measurement applied by the investment entity associates or joint ventures to their interests in subsidiaries.

### **Effective date and transition**

The Amendments are to be applied to annual periods beginning on or after 1 January 2016, although earlier application is permitted.

### **Grant Thornton International Ltd comment**

We believe that the majority of investors and preparers of financial statements will welcome the Amendments addressing the consolidation exemption and the application of the equity method. We anticipate that these Amendments will save entities the cost and time they would have otherwise incurred unwinding the fair value accounting applied by investment entity associates or joint ventures or preparing additional sets of consolidated financial statements, while still providing investors and other users with information that is most relevant to them.

With regards to the consolidation or non-consolidation of a subsidiary that provides services related to its investment entity parent's investment activities, the Amendments should offer improved clarity to users by addressing inconsistencies in the former guidance. That said, mandatory fair value measurement of subsidiaries that provide services but are also themselves investment entities will result in some loss of information. For example, operating expenses and indebtedness incurred by such subsidiaries will not be included in the financial statements of the investment entity parent.

# IASB takes steps to lighten the disclosure overload burden

## The IASB has issued 'Disclosure Initiative – Amendments to IAS 1 Presentation of Financial Statements' (the Amendments).

The Amendments represent the first authoritative output from the IASB's Disclosure Initiative project. The Disclosure Initiative itself is in part a reaction to the growing clamour over disclosure overload in financial statements. It consists of a number of projects, both short- and medium-term, and ongoing activities that explore how presentation and disclosure principles and requirements in existing Standards can be improved.

The Amendments themselves are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. Furthermore, the Amendments clarify that companies should use judgement in determining where and in what order information is presented in the financial disclosures.

The Amendments:

- clarify the materiality requirements in IAS 1, including emphasis on the potentially detrimental effect of obscuring useful information with immaterial information
- clarify that IAS 1's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated
- add requirements for how an entity should present subtotals in the statement(s) of profit or loss and other comprehensive income and the statement of financial position

### Grant Thornton International Ltd comment

The size of financial statements has grown significantly in recent years as disclosures have been added in the quest for greater transparency. Unfortunately this has led to concerns that the increased size of the notes to the financial statements has created a major burden for preparers, while failing to serve their intended purpose which is to help users understand the numbers in the financial statements.

We therefore fully support the Disclosure Initiative and its objectives. These Amendments will achieve limited, short-term improvements and are a good start to this larger initiative.

- clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order
- remove potentially unhelpful guidance in IAS 1 for identifying a significant accounting policy.

### Effective date and transition

The Amendments to IAS 1 should be applied for annual periods beginning on or after 1 January 2016 with early application permitted.



# Proposed amendments to IFRS 2

## The IASB has published the Exposure Draft ‘Classification and Measurement of Share-based Payment Transactions’.

The Exposure Draft brings together three proposed changes to IFRS 2 ‘Share-based Payment’ covering the following matters that had originally been referred to the IFRS Interpretations Committee (IFRIC):

- the accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment
- the classification of share-based payment transactions with net settlement features
- the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

We describe each of these proposed changes in more detail below.

### Effects of vesting conditions on the measurement of a cash-settled share-based payment

IFRS does not specifically address the impact of vesting and non-vesting conditions on the measurement of the fair value of the liability incurred in a cash-settled share-based payment transaction. The Exposure Draft proposes to address this lack of guidance by clarifying that accounting for these conditions should be accounted for consistently with equity-settled share-based payments in IFRS 2. This means that the fair value of cash-settled awards is first measured ignoring service and non-market performance conditions, but taking into account market and non-vesting conditions. The cumulative expense recognised is then adjusted based on the number of awards that is ultimately expected to vest (the so-called ‘true-up’ mechanism).

### Classification of share-based payment transactions with net settlement features

This proposal addresses the accounting for a particular type of share-based payment scheme. Many jurisdictions require entities to withhold an amount for an employee’s tax obligation associated with share-based payments and transfer the amount (normally in cash) to the taxation authorities. As a result the terms of some schemes permit or require the entity to deduct the number of equity instruments needed to equal the monetary value of the employee’s tax obligation from the number of equity instruments that would otherwise be issued to the employee.

The proposed amendment stems from a request for guidance on whether the portion of the share-based payment that is withheld should be classified as cash-settled or equity-settled, where the entire share-based payment would otherwise have been classified as an equity-settled share-based payment transaction.

One possible interpretation was that the portion of the share-based payment that is net-settled should be treated as a cash-settled share-based payment transaction given that the entity transfers cash to the tax authority on the employee's behalf. The IASB feels however that such an approach would be unduly burdensome for entities as they would need to estimate changes in tax laws and then reclassify a portion of the share-based payment between cash-settled and equity-settled as the estimate changes.

To avoid this potential operating complexity, the IASB proposes adding guidance to IFRS 2 to the effect that a scheme with this type of net-settlement feature would be classified as equity-settled in its entirety (assuming it would be so classified without the net settlement feature).

#### **Accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled**

The third proposed amendment addresses situations where:

- a cash-settled share-based payment changes to an equity-settled one because of modifications to the terms and conditions of the arrangement
- a cash-settled share-based payment is settled and replaced by a new equity-settled share-based payment.

Such situations are not currently addressed by IFRS 2, so the Exposure Draft proposes to amend the Standard so that:

- the share-based payment transaction is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification

- the liability recognised in respect of the original cash-settled share-based payment is derecognised upon the modification, and the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date
- the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately.

# Disclosure Initiative – Proposed Amendments to IAS 7

The IASB has published an Exposure Draft containing proposed amendments to IAS 7 ‘Statement of Cash Flows’. The proposals respond to requests from investors for improved disclosures about an entity’s financing activities and its cash and cash equivalents balances.

The objectives of the proposed amendments are to improve:

- information provided to users of financial statements about an entity’s financing activities, excluding equity items
- disclosures that help users of financial statements to understand the liquidity of an entity.

The IASB proposes that:

- an entity should disclose a reconciliation of the amounts in the opening and closing statements of financial position for each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows, excluding equity items. The result of requiring this reconciliation is that investors will be provided with improved disclosures about an entity’s debt and movements in debt during the reporting period

- the disclosures required by IAS 7 about an entity’s liquidity are extended. In addition disclosures are made about the restrictions that affect the decisions of an entity to use cash and cash equivalent balances, covering items such as tax liabilities that would arise on the repatriation of foreign cash and cash equivalent balances.

As the name of the Exposure Draft (‘Disclosure Initiative – Proposed amendments to IAS 7’) suggests, the proposed amendments form another part of the IASB’s Disclosure Initiative.

The Exposure Draft also includes proposed changes to the IFRS Taxonomy to reflect the effect of the proposed amendments to IAS 7. The IFRS Taxonomy is a translation of International Financial Reporting Standards (IFRS) into eXtensible Business Reporting Language (XBRL), which is rapidly becoming the format of choice for the electronic filing of financial information. This is the first time that proposed changes to the IFRS Taxonomy have been included in an Exposure Draft. The IASB plans to assess the form, content and timing of the proposed IFRS Taxonomy Update on the basis of feedback it receives on the Exposure Draft proposals.

# Grant Thornton International Ltd guide to navigating the changes to IFRS

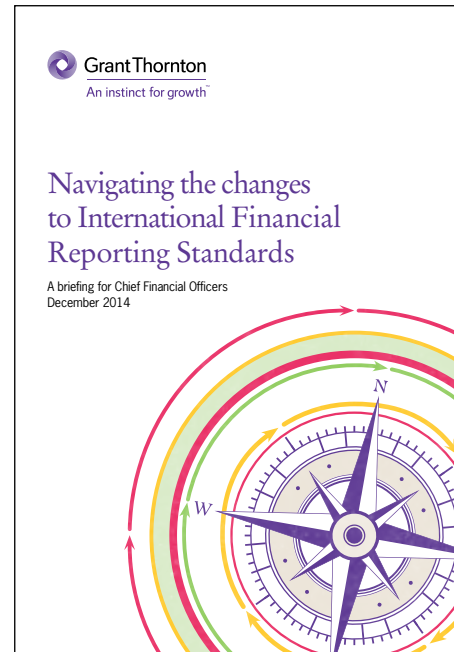
The Grant Thornton International Ltd IFRS team has published an updated version of its guide 'Navigating the changes to International Financial Reporting Standards: a briefing for Chief Financial Officers'.

The December 2014 edition of the publication has been updated for changes to International Financial Reporting Standards that have been published between 1 December 2013 and 30 November 2014. Significant Standards covered for the first time in this year's edition include IFRS 15 'Revenue from Contracts with Customers' and the final version of IFRS 9 'Financial Instruments'.

The publication gives Chief Financial Officers a high-level awareness of recent changes that will affect companies' future financial reporting and their commercial significance. It has been designed to help entities planning for a specific financial reporting year end identify:

- changes mandatorily effective for the first time
- changes not yet effective
- changes already in effect.

To obtain a copy of the guide, please get in touch with the IFRS contact in your local Grant Thornton office.



# IFRS Team publishes IFRS 15 Revenue industry insights for Life Sciences and Real Estate

Latest publications in series bring total number of industry insights pieces on IFRS 15 to six.

The Grant Thornton International Ltd IFRS Team has published two more of its industry-specific guides on the new global revenue standard IFRS 15 'Revenue from Contracts with Customers', providing insights on what the new Standard will mean for entities in the life sciences and real estate industries.

IFRS 15 establishes a new control-based model for recognising revenue, replacing the guidance that was previously in IAS 18 'Revenue', IAS 11 'Construction Contracts' and some revenue-related Interpretations. The IFRS Team's industry insight publications summarise the requirements of the new global revenue Standard and provide industry-specific insights. There are now six publications in the series, covering:

- construction
- software & cloud services
- retail
- manufacturing
- life sciences
- real estate.

These publications supplement the IFRS News Special Edition on Revenue that Grant Thornton published in June 2014. To obtain a copy of either the Industry Insights or the IFRS News Special Edition, please get in touch with the IFRS contact in your local Grant Thornton office.

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## A new global standard on revenue

What this means for the life sciences industry

The International Accounting Standards Board (IASB) and US FASB have issued their new Standard on revenue – IFRS 15 'Revenue from Contracts with Customers' (ASU 2014-09 or Topic 606 in the US). This bulletin summarises the new requirements and what they will mean for the life sciences industry.

Recently issued IFRS 15 'Revenue from Contracts with Customers' replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts', and provides significant new guidance addressing key questions such as:

- When can include performance-based royalties in revenue?
- When do bundled goods or services represent a separate performance obligation?
- How do discounts for collaborative research arrangements with customers?
- Can extended payment terms affect the total amount of revenue recognised?
- How should sales- or usage-based royalties be accounted for?
- How do know whether I should recognise revenue from an IP licensing arrangement over time or at a point in time?

With the potential to significantly impact the timing and amount of revenue recognised, entities in the life sciences industry will want to invest time up front to ensure all critical impacts are identified and understood well in advance of implementation.

The infographic features a central vertical line with a globe icon, flanked by icons representing life sciences: a pill bottle, a microscope, and laboratory glassware. Arrows point from the text boxes towards these icons.

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## A new global standard on revenue

What this means for the real estate industry

The International Accounting Standards Board (IASB) and US FASB have issued their new Standard on revenue – IFRS 15 'Revenue from Contracts with Customers' (ASU 2014-09 or Topic 606 in the US). This bulletin summarises the new requirements and what they will mean for the real estate industry.

Recently issued IFRS 15 'Revenue from Contracts with Customers' replaces IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 15 'Agreements for the Construction of Real Estate', and provides significant new guidance addressing key questions such as:

- How will revenue recognition be impacted when a seller finances its customer's purchase?
- How do I account for a sale made subject to a repurchase agreement (put, call, or forward)?
- When do bundled goods or services represent separate performance obligations?
- How should performance-based fees be accounted for?
- Can extended payment terms affect the total amount of revenue recognised?
- Should revenue be recognised over time, or only upon completion?
- Can contract acquisition costs be capitalised, or must they be expensed?

With the potential to significantly impact the timing and amount of revenue recognised, entities in the real estate industry will want to invest time up front to ensure all critical impacts are identified and understood well in advance of implementation.

The infographic features a central vertical line with a globe icon, flanked by icons representing real estate: a sun, houses, a tree, and a 'FOR SALE' sign. Arrows point from the text boxes towards these icons.

# Cypriot partner reappointed



Antonis Loyides, a partner in Grant Thornton Cyprus, has been re-appointed as a member in the Accounting Standards (IFRS) Committee of the Institute of Certified Public Accountants of Cyprus. This is his fourth consecutive two-year term as a member of the Committee, having originally been appointed in September 2008.

Antonis also features in the January 2015 edition of *By All Accounts*, a magazine produced by the ICAEW's (the Institute of Chartered Accountants in England and Wales) Financial Reporting Faculty, where he comments on current economic conditions in Cyprus and the implications for impairment testing for businesses operating in the country.

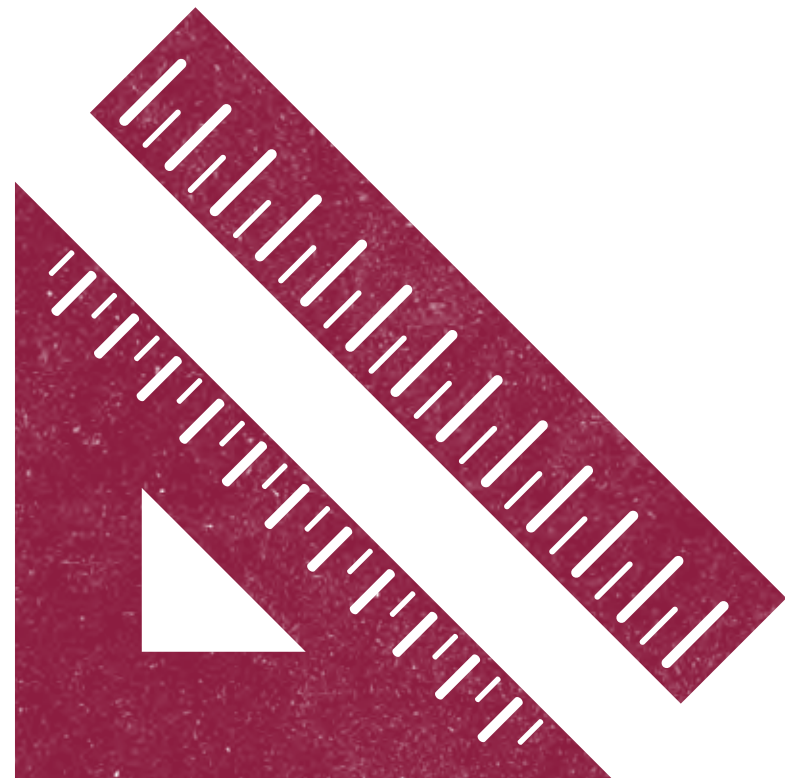
# Comment letter submitted

## IFRS Team responds to ED/2014/4 Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value.

The Grant Thornton International Ltd IFRS Team has submitted its response to the IASB Exposure Draft ED/2014/4 'Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value – Proposed amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13'.

In our letter, we welcome the Board's decision to clarify the unit of account when measuring the fair value of investments in subsidiaries, joint ventures and associates. We agree with the Board's overall conclusion that the unit of account is the investment as a whole.

We question however the Exposure Draft's proposal that the fair value measurement of quoted investments in subsidiaries, joint ventures and associates should always be the product of the quoted price multiplied by the quantity. We believe that a valuation that reflects the level of control or influence is likely to provide more relevant information about both quoted and unquoted investments.



# Spotlight on the IFRS Interpretations Group

Grant Thornton International Ltd's IFRS Interpretations Group (IIG) consists of a representative from each of our member firms in the United States, Canada, Singapore, Australia, South Africa, India, the United Kingdom, Ireland, France, Sweden and Germany as well as members of the Grant Thornton International Ltd IFRS team. The Group meets in person twice a year to discuss technical matters which are related to IFRS.

Each quarter we throw a spotlight on one of the members of the IIG. This quarter we focus on the representative from India.

## **Sumesh Edakkalathil, India**

Sumesh is currently an audit partner in the Indian firm, having been in the public accounting profession throughout his career. He has been with Grant Thornton for over 13 years, both at the Chennai office of the India firm and at the Gaborone office of the Botswana firm. In his role as the audit partner in charge of his location, his client base includes companies from varied sectors including energy, infrastructure, manufacturing, service and information technology. He is also the Partner in-charge of People Initiatives for the Assurance practice in the Indian firm and is involved in the Professional Practice group. Sumesh also delivers sessions at various forums on financial reporting topics.





# Round-up

## IASB work plan

The latest release of the IASB's work plan continues to show the potential release of a new Standard on leases in the second half of 2015. Other notable publications expected include the Exposure Draft on the Conceptual Framework and further work on the IASB's Disclosure Initiative (including a targeted Discussion Paper planned for the second quarter of the year).

## Chairman of IFRS Trustees in Asia

Michel Prada, Chairman of the Trustees of the IFRS Foundation, visited Asia in November where he gave a number of speeches underlining the way in which IFRS is becoming the predominant basis on which companies' financial statements are prepared. He also noted that as this trend increases, then so too will the costs of raising capital from international investor for entities outside the IFRS system.

## IASB completes its redeliberations on the proposed amendments to the IFRS for SMEs

The IASB has finalised its technical discussions on the proposed amendments to the IFRS for SMEs resulting from its first comprehensive review of its standard aimed at providing simpler but high quality financial reporting guidance for entities that do not have public accountability.

At its December 2014 meeting the IASB instructed the staff to commence the balloting process for the final amendments to the IFRS for SMEs, which are expected to be issued in the first half of 2015. It is expected that these amendments will, among other things:

- require entities to disclose when they have used an undue cost or effort exemption in the Standard and their reasons for doing so
- align the section on Income Taxes more closely with IAS 12
- clarify the criterion for basic financial instruments through clearer drafting and the addition of examples
- require investment property measured under the cost model to be presented separately from investment property measured under the fair value model on the face of the statement of financial position.

## Italian standard setter launches surveys on IAS 8

The Italian standard-setter Organismo Italiano di Contabilita (OIC) has issued two surveys to help the IASB with its work.

The first survey is intended to help the IASB to understand preparers' views on the IASB's project on principles of disclosure, which is being undertaken with the view of bringing IAS 1, IAS 7 and IAS 8 into one Standard. The survey

looks in particular at whether there are aspects of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' that should be changed when developing the new Standard.

The second survey is targeted at investors, aiming to help the IASB understand their views on the following matters relating to IAS 8:

- the type of information that is needed when a company makes an accounting change

- whether the type of the change affects information needs
- whether there is more than one way companies could provide information about accounting changes that would still satisfy all needs.

The two surveys are open until 20 February 2015 and 15 February 2015 respectively.

### ESMA priority issues for 2014

ESMA has also announced the common enforcement priorities for the 2014 financial statements of European companies. The 2014 priorities cover the following topics:

- preparation and presentation of consolidated financial statements and related disclosures
- financial reporting by entities which have joint arrangements and related disclosures
- recognition and measurement of deferred tax assets.

In addition, ESMA has made it clear that European national enforcers will continue to assess relevant issues described in its common enforcement priorities from previous years. These include requirements related to the impairment of financial and non-financial assets, fair value measurement and disclosures on risks arising from financial instruments. In particular, ESMA reminds issuers of some of the specific requirements in IAS 36 'Impairment of Assets' related to using cash-flow projections and the disclosure of key assumptions when performing impairment tests (highlighted in the 2013 priorities).

### ESMA publishes 16th extract from the EECS' Database of Enforcement

The European Securities and Markets Authority (ESMA) has published its 16th batch of extracts from its confidential database of enforcement decisions on financial statements, with the aim of providing issuers and users of financial statements with relevant information on the appropriate application of International Financial Reporting Standards (IFRS).

The publication of these decisions, which have been taken by national enforcement authorities in Europe, help to inform market participants about which accounting treatments European national enforcers may consider as complying with IFRS; that is, whether the treatments are considered as being within the accepted range of those permitted by IFRS. The decisions

included in this 16th batch of extracts cover the following topics:

- disclosure of forbore loans
- fair value of consideration paid in shares
- recognition of a liability payable to equity holders
- presentation of statement of cash flows
- presentation of discontinued operations
- presentation of non-current assets held for sale
- deferred tax assets upon disposal of a subsidiary
- accounting for the effects of specific tax regime
- key assumptions used in the impairment test of goodwill
- disclosures related to capitalised costs
- disclosure of major customers.

### US considers voluntary disclosure of IFRS-based financial reporting

The US Financial Accounting Standards Board together with the US Financial Accounting Foundation indicated in December that they are open to a possible voluntary disclosure of IFRS-based financial reporting information in addition to US GAAP-based information as one possible way of how IFRS could be incorporated into the US reporting

system. They also noted that such a move could be an important way of fostering further convergence of IFRS and US GAAP.

This follows recent statements in speeches by senior officials of the US Securities and Exchange Commission discussing various possible IFRS approaches, including voluntary disclosure.

### India releases revised road map to IFRS

The Indian Ministry of Corporate Affairs has released a revised road map for the adoption of Indian Accounting Standards (which are broadly the same as IFRS). India had originally planned a phased approach to convergence with IFRS that was to begin in 2011 but was subsequently postponed. The new road map rekindles the process. Summarising the process at a high level:

- companies\* with a net worth of or exceeding Rs. 500 Crore will be required to follow Indian Accounting Standards from 1 April 2016
- companies\* with a net worth of between Rs. 250 and Rs. 500 Crore will be required to follow Indian Accounting Standards from 1 April 2017

In addition, companies may apply Indian Accounting Standards on a voluntary basis for accounting periods beginning on or after 1 April 2015.

\* Banking, insurance and non-banking finance companies are exempted from the above requirements.

# Effective dates of new standards and IFRIC interpretations

The table below lists new IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2013. 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 2013**

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 15	Revenue from Contracts with Customers	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	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
IAS 19	Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)	1 July 2014	Yes
Various	Annual Improvements to IFRSs 2011-2013 cycle	1 July 2014	Yes
Various	Annual Improvements to IFRSs 2010-2012 cycle	1 July 2014	Yes

**New IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2013**

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)	1 January 2014	Yes
IAS 36	Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)	1 January 2014	Yes (but only when IFRS 13 is applied)
IFRIC 21	Levies	1 January 2014	Yes
IFRS 10, 12 and IAS 27	Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	1 January 2014	Yes
IAS 32	Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	1 January 2014	Yes (but must also make the disclosures required by Disclosures – Offsetting Financial Assets and Financial Liabilities)
IFRS 10, 11 and 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12	1 January 2013	Yes
Various	Annual Improvements 2009-2011 Cycle	1 January 2013	Yes
IFRS 1	Government Loans – Amendments to IFRS 1	1 January 2013	Yes
IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	1 January 2013	Not stated (but we presume yes)
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013	Yes
IFRS 13	Fair Value Measurement	1 January 2013	Yes
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013	Yes
IFRS 11	Joint Arrangements	1 January 2013	Yes (but must apply IFRS 10, IFRS 12, IAS 27 and IAS 28 at the same time)
IFRS 10	Consolidated Financial Statements	1 January 2013	Yes (but must apply IFRS 11, IFRS 12, IAS 27 and IAS 28 at the same time)
IAS 28	Investments in Associates and Joint Ventures	1 January 2013	Yes (but must apply IFRS 10, IFRS 11, IFRS 12 and IAS 27 at the same time)
IAS 27	Separate Financial Statements	1 January 2013	Yes (but must apply IFRS 10, IFRS 11, IFRS 12 and IAS 28 at the same time)
IAS 19	Employee Benefits (Revised 2011)	1 January 2013	Yes

# 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 each of these publications.

## Current IASB documents

Document type	Title	Comment deadline
Exposure Draft	Exposure Draft Classification and Measurement of Share-based Payment Transactions (Proposed amendments to IFRS 2)	25 March 2015
Exposure Draft	Exposure Draft Disclosure Initiative (Proposed amendments to IAS 7)	17 April 2015

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