INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) – RECENT UPDATES

INTRODUCTION

Business and economic practices continue to evolve globally, due to changes in information technology which has led to disappearance of physical borders. These developments have made itimperative for business financial reporting framework to change. Most entitiesprepare financial statements in line with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). The Board issues from time to time new standards, interpretations, amendments to existing standards and interpretation, and annual improvements **(collectively called pronouncements)** with the aim of ensuring that IFRSs and interpretations represent current timerealities.

The resulting changes from these pronouncements range from significant amendments of fundamental principles to some minor changes from annual improvements process (AIP). These changes will affect areas of accounting such as recognition, measurement, presentation and disclosure. Some of the changes have far reaching impact beyond accounting matters, including potentially impacting the information systems of many entities and business decisions.The implication of the foregoing is that entities need to keep track of these changes and reinvent their accounting in orderto provide financial information that is usefulto existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

The focus of this publication is to provide an overview of the upcoming changes (amendments& Annual improvements) in accounting standards and interpretations issued as at 30 June 2019. This publication does not attempt to provide detailed analysis of the topics, rather the objective is to highlight key aspects of these changes.

This publication is organized into two sections.

Section 1 – Amendments to IFRSs and Interpretation

Section 2 – Annual Improvements to IFRSs

Below is a table detailing a list of topics selected for discussion.

Summary of pronouncements for discussion

New pronouncements	Effective date
IFRIC Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019
Prepayment features with Negative Compensation- Amendments to IFRS 9	1 January 2019
Long-term interests in Associates and Joint Ventures-Amendments to IAS 28	1 January 2019
Plan Amendments, curtailment or Settlement- Amendments to IAS 19	1 January 2019
AIP IFRS 3 Business combinations – Previously held interests in a joint operation	1 January 2019
AIP IFRS 11 Joint Arrangements – Previously held interests in a joint operation	1 January 2019
AIP IAS 12 Income Taxes – Income tax consequences of payments on financial	1 January 2019

instruments classified as equity	
AIP IAS 23 Borrowing Costs eligible for capitalization	1 January 2019
Definition of a Business -Amendments to IFRS 3	1 January 2020
Definition of Material – Amendment to IAS 1 and IAS 8.	1 January 2020

SECTION 1 - AMENDMENTS TO IFRSs AND INTERPRETATIONS

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

Background

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

Scope

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

Key requirements

The Interpretation specifically addresses the following:

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

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

Effective date and transition

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

Impact

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

Prepayments Features with Negative Compensation – Amendments to IFRS 9

Key requirements

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

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

Transition

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

Impact

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

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

In the basis for conclusions to the amendments, the IASB also clarified that the requirements in IFRS 9 for adjusting the amortised cost of a financial liability, when a modification (or exchange) does not result in derecognition, are consistent with those applied to the modification of a financial asset that does not result in derecognition. This means that the gain or loss arising on modification of a financial liability that does not result in derecognition, calculated by discounting the change in contractual cashflows at the original effective interest rate, is immediately recognised in profit or loss.

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

Impact

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

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

Key requirements

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

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

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

Transition

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

Impact

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

Plan Amendment, Curtailment or settlement – Amendments to IAS 19

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

Determining the current service cost and the net interest

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

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

Effect on asset ceiling requirements

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

The amendments clarify that an entity first determines any past service cost, or gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the

effect of asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

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

Transition

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

Impact

As the amendments apply prospectively to plan amendments, curtailments or settlements that occur on or after the date of first application, most entities will likely not be affected by these amendments on transition. However, entities considering a plan amendment, curtailment or settlement after first applying the amendments might be affected.

Definition of a Business – Amendments to IFRS 3

Key requirements

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

Minimum requirements to be a business

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

Market participants' ability to replace missing elements

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

Assessing whether an acquired process is substantive

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

Narrowed definition of outputs

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

Optional concentration test

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

Transition

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

Impact

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

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

Definition of Material – Amendments to IAS 1 and IAS 8

Key requirements

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

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

Obscuring Information

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

New threshold

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

Primary users of the financial statements

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

Other amendments

The definition of material in the conceptual framework and IFRS Practice Statement 2: Making Materiality Judgement were amended to align with the revised definition of material in IAS 1 and IAS 8.

Transition

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied prospectively. Early application is permitted and must be disclosed.

Impact

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

SECTION 2 - ANNUAL IMPROVEMENTS TO IFRSs

Key requirements

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

2015-2017 cycle (issued in December 2017)

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

AIP IFRS 3 Business Combinations – Previously Held Interests in a Joint Operation

Highlights

- The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value.
- In doing so, the acquirer remeasures its entire previously held interest in the joint operation.
- An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.

AIP IFRS 11 Joint Arrangements- Previously Held Interests in a Joint Operation

Highlights

- A party that participates in, but does not have joint control of a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.
- An entity applies those amendments to transactions in which it obtains joint control on and or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted

AIP IAS 12 Income Taxes – Income Tax Consequences of Payments on Financial Instruments classified as equity

Highlights

- The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.
- An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

AIP IAS 23 Borrowing Costs – Borrowing Costs eligible for Capitalisation

Highlights

- The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.
- An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.
- An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

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