Raymond Chabot Grant Thornton

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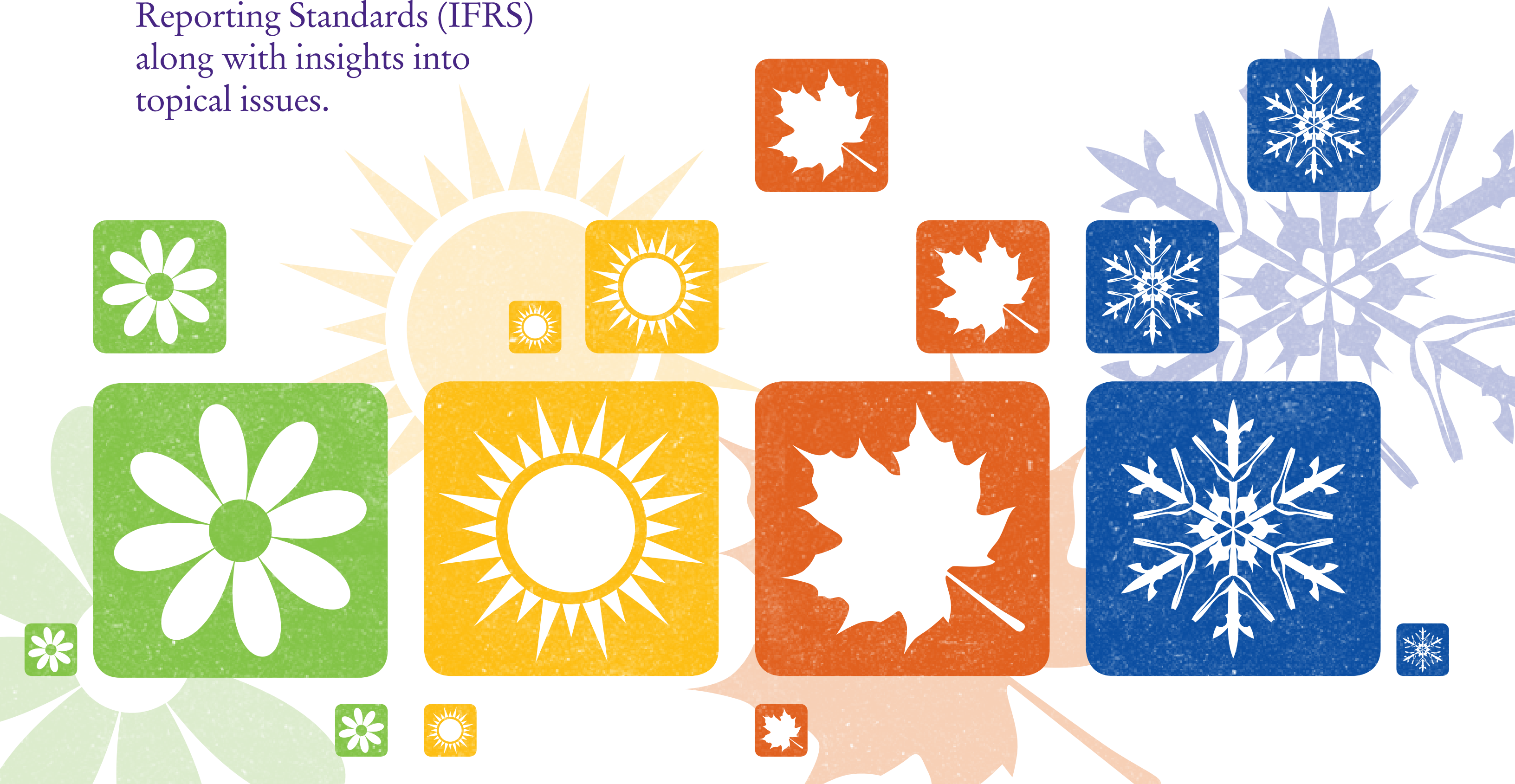
IFRS Newsletter

March 2015

Welcome to *IFRS Newsletter* – a newsletter that offers a summary of certain developments in International Financial Reporting Standards (IFRS) along with insights into topical issues.

In this first edition of 2015, we will look at some of the issues companies faced or will face during their reporting seasons, new standards issued by the International Accounting Standards Board (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, some of them being 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 summary of the more significant changes that companies faced or will face in preparing their annual financial statements. We concentrate on the changes that come into effect for companies with December 31, 2014 and March 31, 2015 year ends, before mentioning briefly changes that will affect companies with June 30 or September 30, 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.

December 31, 2014 and March 31, 2015 year ends

A number of amendments to existing IFRS will come into mandatory effect for the first time for these companies as well as an interpretation issued by the IFRS Interpretations Committee. 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 January 1, 2014, introduce an exception to consolidation for what are

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;
b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both;
c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

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.

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 Consolidation Exception" which appears later in this newsletter.

Amendments at a glance

	Summary
Who is affected?	Entities that: • meet the new definition of “investment entity”; • hold one or more investments that are controlling interests in another entity.
What is the impact?	Investment entities will: • no longer consolidate investments that are controlling interests in another entity; • make additional disclosures about these investments.
Other key points	• A non-investment parent entity that controls an investment entity will continue to consolidate its subsidiaries (the consolidation exemption does not “roll up”); • An investment entity’s service subsidiaries (subsidiaries that are not “investments”) will continue to be consolidated; • If all of the investment entity’s subsidiaries are required to be fair valued, it presents separate financial statements as its only financial statements.
When are the changes?	• Annual periods beginning on or after January 1, 2014 effective; • Early application permitted.

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

IFRIC 21 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 recognized as expenses on a specific date rather than over an accounting period;
- Applies retrospectively.

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 recognized progressively. For example, if the obligating event is the generation of revenue over a period of time, the corresponding liability is recognized 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 IFRS Interpretations Committee 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.

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 31, 2014 and March 31, 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 31, 2014 and March 31, 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.

June 30 and September 30, 2015 year ends

For entities with June 30 or September 30, 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* (Amendments to IAS 19) 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 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 (i.e. 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*.

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 January 1, 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 recognizing revenue which is based on a core principle that requires an entity to recognize 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) Recognize 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 January 1, 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, please refer to our special edition of *IFRS Newsletter* on the subject.

IFRS 9 *Financial Instruments*

Turning to IFRS 9, the final version of this standard was completed in July 2014 and is effective for accounting periods beginning on or after January 1, 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 analyze additional data and implement changes to systems.

For more information on IFRS 9, please refer to our special edition of *IFRS Newsletter* 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.

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 IFRS". 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. A non-investment entity parent cannot then retain the fair value measurement basis applied by an investment entity subsidiary. IAS 28 *Investments in Associates and Joint Ventures*, 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 January 1, 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).

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.

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.

The Amendments:

- clarify the materiality requirements in IAS 1 *Presentation of Financial Statements*, 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;
- clarify that entities have flexibility as to the order in which they present the notes, but also emphasize 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 January 1, 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* (Proposed amendments to IFRS 2).

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:

- 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 2 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 recognized 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 recognized in respect of the original cash-settled share-based payment is derecognized upon the modification, and the equity-settled share-based payment is recognized 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 recognized 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 equivalent 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 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

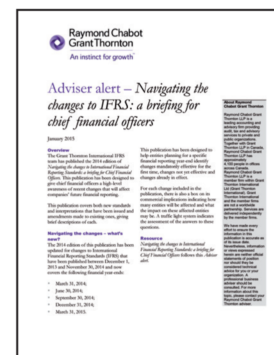
The Grant Thornton International Ltd IFRS team has published an updated version of its guide *Navigating the changes to International Financial Reporting Standards: a briefing for Chief Financial Officers.*

The December 2014 edition of the publication has been updated for changes to IFRS that have been published between December 1, 2013 and November 30, 2014. Significant standards covered for the first time in this year's edition include IFRS 15 and the final version of IFRS 9.

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 refer to our *Adviser alert* on the subject.



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Adviser alert – *Navigating the changes to IFRS: a briefing for chief financial officers*

January 2015

Overview
The Grant Thornton International IFRS team has published the 2014 edition of *Navigating the changes to International Financial Reporting Standards: a briefing for Chief Financial Officers*. This publication has been designed to give chief financial officers a high-level awareness of recent changes that will affect companies' future financial reporting.

This publication covers both new standards and interpretations that have been issued and amendments made to existing ones, giving brief descriptions of each.

Navigating the changes – what's new?
The 2014 edition of this publication has been updated for changes to International Financial Reporting Standards (IFRS) that have been published between December 1, 2013 and November 30, 2014 and now covers the following financial year-ends:

- March 31, 2014;
- June 30, 2014;
- September 30, 2014;
- December 31, 2014;
- March 31, 2015.

This publication 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 and changes already in effect.

For each change included in the publication, there is also a box on its commercial implications indicating how many entities will be affected and what the impact on these affected entities may be. A traffic light system indicates the assessment of the answers to these questions.

Resource
Navigating the changes to International Financial Reporting Standards: a briefing for Chief Financial Officers follows this *Adviser alert*.

About Raymond Chabot Grant Thornton
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We have made every effort to ensure the information in this publication is accurate as of its issue date. Nevertheless, information or views expressed herein are neither official statements of position nor should they be considered technical advice for you or your organization. A professional business adviser should be consulted. For more information about this topic, please contact your Raymond Chabot Grant Thornton adviser.

IFRS 15 – industry insights

Release of three publications in a series of "industry insights" on IFRS 15, the new global standard on revenue.

IFRS 15 establishes a new control-based model for recognizing revenue, replacing the guidance that was previously in IAS 18, IAS 11 and some revenue-related interpretations.

The industry insights publications look at what the new standard means for the following industries:

- Software and cloud services;
- Retail;
- Real estate.

Other publications will be released in the coming months for other industries such as manufacturing and construction.

These publications supplement our *IFRS Newsletter* Special Edition on Revenue published in June 2014 and discussed previously in this newsletter. To obtain a copy of the industry insights publications, please get in touch with your Raymond Chabot Grant Thornton adviser.

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 this letter, we welcome the IASB'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 IASB'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, Germany and Brazil 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.

In each newsletter we throw a spotlight on one of the members of the IIG. In this newsletter, 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 Indian firm and at the Gaborone office of the Botswanan 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 involved in the Professional Practice group and delivers sessions at various forums on financial reporting topics.

Round-up

ESMA priority issues for 2014

The European Securities and Markets Authority (ESMA) has 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 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 European Enforcers Coordination Sessions' Database of Enforcement

The 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 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 forborne 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 capitalized costs;
- Disclosure of major customers.

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 the IFRS Foundation Trustees in Asia

Michel Prada, Chairman of the IFRS Foundation Trustees, visited Asia in November where he gave a number of speeches underlining the way in which IFRS are 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 investors for entities outside the IFRS system.

Canadian IFRS Discussion Group: Report on the December 2014 public meeting

At its December 9, 2014 meeting, the IFRS Discussion Group (IDG) discussed several issues of interest for Canadian preparers of financial statements prepared in accordance with IFRS.

The Report on the public meeting and the archived audio webcast have been made available. As a reminder, the IDG is a discussion forum only and its sole purpose is to assist the Canadian Accounting Standards Board (AcSB) with issues arising on the application of IFRS in Canada.

U.S. considers voluntary disclosure of IFRS-based financial reporting

The U.S. Financial Accounting Standards Board (FASB) together with the U.S. Financial Accounting Foundation indicated in December that they are open to a possible voluntary disclosure of financial reporting information based on IFRS in addition to information based on U.S. generally accepted accounting principles (GAAP) as one possible way of how IFRS could be incorporated into the U.S. reporting system. They also noted that such a move could be an important way of fostering further convergence of IFRS and U.S. GAAP.

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

Effective dates of new standards and IFRIC interpretations

The table below lists new IFRS and IFRIC interpretations with an effective date on or after January 1, 2014. 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.*

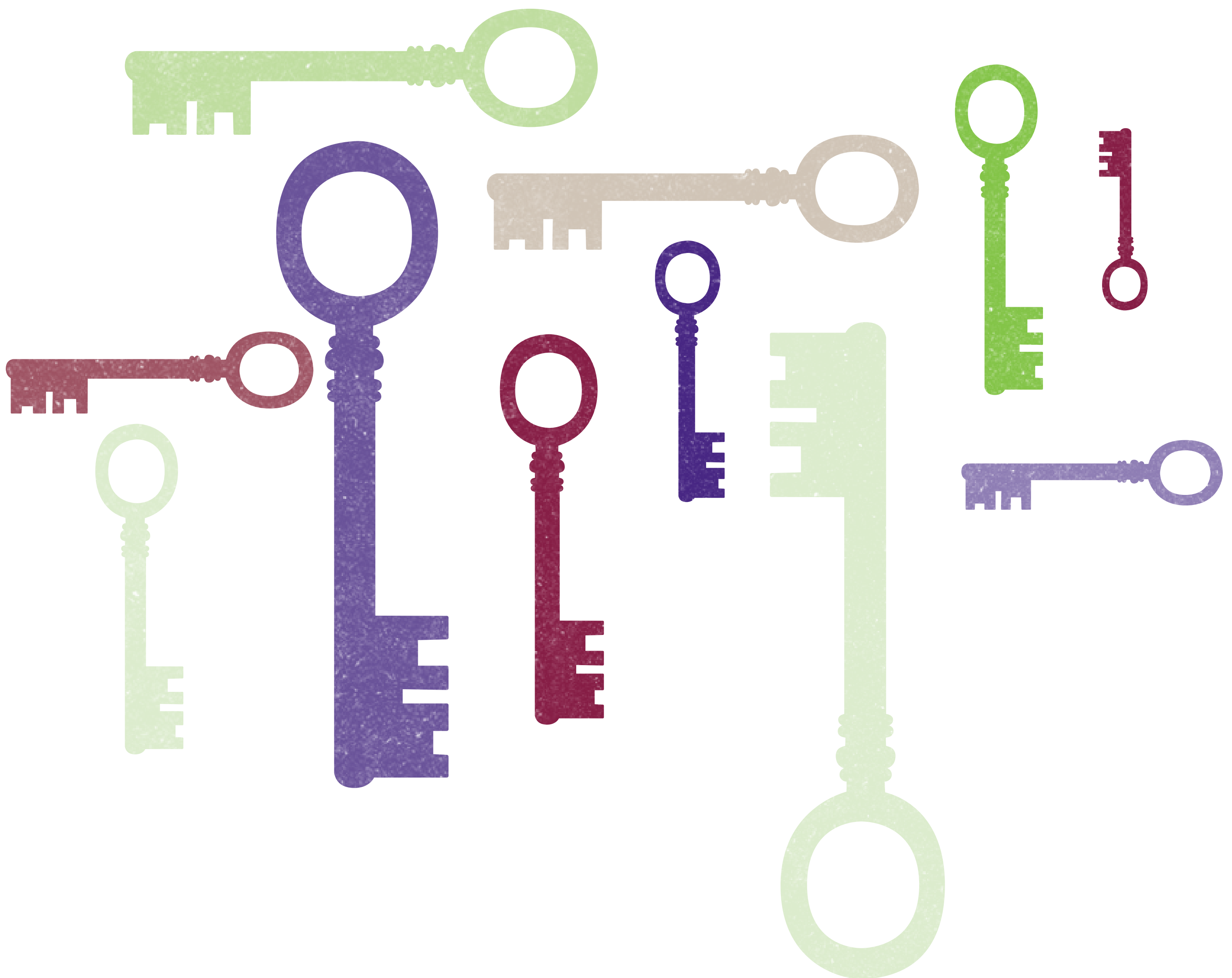
New IFRS and IFRIC interpretations with an effective date on or after January 1, 2014

Title	Full title of standard or interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?*
IFRS 9	*Financial Instruments*	January 1, 2018	Yes (extensive transitional rules apply)
IFRS 15	*Revenue from Contracts with Customers*	January 1, 2017	Yes
IAS 1	*Disclosure Initiative* (Amendments to IAS 1)	January 1, 2016	Yes
IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 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)	January 1, 2016	Yes
Various	*Annual Improvements to IFRSs 2012-2014 Cycle*	January 1, 2016	Yes
IAS 27	*Equity Method in Separate Financial Statements* (Amendments to IAS 27)	January 1, 2016	Yes
IAS 16 and IAS 41	*Agriculture: Bearer Plants* (Amendments to IAS 16 and IAS 41)	January 1, 2016	Yes
IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16 and IAS 38)	January 1, 2016	Yes
IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11)	January 1, 2016	Yes
IFRS 14	*Regulatory Deferral Accounts*	January 1, 2016	Yes
IAS 19	*Defined Benefit Plans: Employee Contributions* (Amendments to IAS 19)	July 1, 2014	Yes
Various	*Annual Improvements to IFRSs 2011-2013 Cycle*	July 1, 2014	Yes
Various	*Annual Improvements to IFRSs 2010-2012 Cycle*	July 1, 2014	Yes
IAS 39	*Novation of Derivatives and Continuation of Hedge Accounting* (Amendments to IAS 39)	January 1, 2014	Yes
IAS 36	*Recoverable Amount Disclosures for Non-Financial Assets* (Amendments to IAS 36)	January 1, 2014	Yes (but only when IFRS 13 is applied)

New IFRS and IFRIC interpretations with an effective date on or after January 1, 2014

Title	Full title of standard or interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?*
IFRIC 21	*Levies*	January 1, 2014	Yes
IFRS 10, 12 and IAS 27	*Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27)	January 1, 2014	Yes
IAS 32	*Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32)	January 1, 2014	Yes (but must also make the disclosures required by *Disclosures – Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7)

* As a note of caution, to be in accordance with Canadian GAAP and securities regulations, an entity may not early adopt a new or amended IFRS until its issuance by the Chartered Professional Accountants of Canada (CPA Canada) in the *CPA Canada Handbook – Accounting*.



Open for comment

This table lists the documents that the IASB currently has out for comment and the comment deadline. We aim to respond to each of these publications.

Current IASB documents

Document type	Title	Comment deadline
Exposure Draft*	*Classification and Measurement of Share-based Payment Transactions* (Proposed amendments to IFRS 2)	March 25, 2015
Exposure Draft*	*Disclosure Initiative* (Proposed amendments to IAS 7)	April 17, 2015
Exposure Draft	*Classification of Liabilities* (Proposed amendments to IAS 1)	June 10, 2015

* The Canadian AcSB has also published this document for comment to integrate the standard into Part 1 of the *CPA Canada Handbook – Accounting* when the IASB will have published its definitive standard.

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