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Accounting

News

Discussion

IFRS Newsletter

March 2018

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.

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

We then move on to look at amendments the International Accounting Standards Board (IASB) has recently made to its standards. Further on in the newsletter, we present IFRS-related news at Grant Thornton and a general round-up of financial reporting developments.

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

Contents

Potential accounting implications of the recent U.S. tax reforms

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

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

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

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

Key provisions of the Act for corporate entities

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

Key provisions of the Act for corporate entities

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

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

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

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

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

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

Reminder: IFRS 9 and IFRS 15

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

IFRS 9 *Financial Instruments*

Classification and measurement of financial assets

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

- Amortized cost;
- Fair value through other comprehensive income (FVOCI);
- Fair value through profit or loss (FVTPL).

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

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

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

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

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

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

IFRS 9 *Financial Instruments (continued)*

Impairment

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

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

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

Hedge accounting

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

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

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

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

The Grant Thornton International Ltd IFRS Team (GTIL IFRS Team) has issued a number of publications on IFRS 9, including:

- *Get ready for IFRS 9 – issue 1: Classifying and measuring financial instruments*;
- *Get ready for IFRS 9 – issue 2: The impairment requirements*;
- Special edition newsletter – *IFRS 9 hedge accounting*;
- *Implementation of IFRS 9 Impairment Requirements by Banks* (in conjunction with the GPPC).

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

Expected credit losses

Deterioration in credit quality

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

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 15 *Agreements for the Construction of Real Estate* and all other revenue-related interpretations. All transactions within its scope are analyzed against a single, control-based model centered around the following 5 steps:

A five-step model for revenue recognition

1 Identify the contract(s) with the customer

2 Identify the separate performance obligations

3 Determine the transaction price

4 Allocate the transaction price

5 Recognize revenue when or as an entity satisfies performance obligations

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

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

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

The GTIL IFRS Team has issued a number of publications on IFRS 15.

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

Regulators announce enforcement priorities for 2017 financial statements

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

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

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

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

Impact of major new standards

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

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

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

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

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

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

IFRS 3 *Business Combinations*

Although not a new standard, regulators continue stressing the relevance of issues stemming from the application of IFRS 3.

> **Issues stemming from the application of IFRS 3**
> - Measurement of intangible assets;
> - Adjustments during the measurement period;
> - Bargain purchases;
> - Contingent payments;
> - Business combinations under common control;
> - Disclosures on fair value.

Measurement of intangible assets

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

Adjustments during the measurement period

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

Bargain purchases

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

Contingent payments

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

Business combinations under common control (BCUCC)

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

Disclosures on fair value

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

IAS 7 *Statement of Cash Flows*

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

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

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

Non-performing loans

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

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

Brexit

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

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

IASB has published *Annual Improvements to IFRS Standards 2015–2017 Cycle* making amendments to four standards.

Background

The publication *Annual Improvements to IFRS standards 2015-2017 Cycle* (herafter the "Annual Improvements") is a collection of amendments to IFRS discussed by the IASB during the current project cycle for annual improvement. The IASB uses the Annual Improvement process to make necessary, but non-urgent, amendments to IFRS that will not be included as part of any other project. Amendments made as part of this process either clarify the wording in an IFRS or correct relatively minor oversights or conflicts between existing requirements of IFRS. By presenting the amendments in a single document rather than as a series of piecemeal changes, the IASB aims to ease the burden of change for all concerned. A summary of the issues addressed is presented in the following table.

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

Comment

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

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

Grant Thornton News

Spotlight on the IFRS Interpretations Group

GTIL's IFRS Interpretations Group (IIG) consists of a representative from each of our member firms in the United States, Canada, Brazil, Australia, South Africa, India, the United Kingdom, Ireland, France, Sweden and Germany as well as members of the GTIL IFRS team.

The IIG meets in person twice a year to discuss technical matters which are related to IFRS. In this edition, we throw a spotlight on the representative from Sweden:

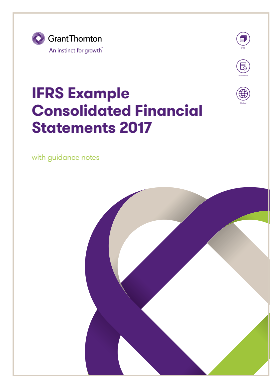
Magnus Nilsson, Sweden

Magnus Nilsson is an Assurance Partner at Grant Thornton in Sweden. He joined Grant Thornton 11 years ago having spent his career in two of the large firms as auditor and member of their Financial Reporting Group. Magnus also has experience as a Chief Financial Officer (CFO). He works closely with a number of publicly listed companies acting as accounting advisor to the CFO and/or Audit Committee. He is a member of the Swedish Financial Reporting Group and is in charge of the Swedish IFRS desk.

Magnus is currently working as an IFRS specialist on Grant Thornton Sweden's audit teams and their increasing number of listed clients, with the implementation of IFRS 15 and IFRS 16 a particular area of focus. He has extensive experience from conversion projects since the adoption of IFRS in Sweden in 2005.

IFRS Example Consolidated Financial Statements 2017

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



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

To obtain a copy of the document, please refer to our Adviser Alert on the subject.

Navigating the Changes to IFRS: A Briefing for CFOs

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

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

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

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

To obtain a copy of the document, please refer to our *Adviser Alert* on the subject.

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

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

In its letter, the GTIL IFRS Team welcomed the Board's attempt to align the various definitions of material. However, the GTIL IFRS Team believes that including a description of primary users unnecessarily lengthens this definition. The GTIL IFRS Team also encourages the Board to develop additional application guidance illustrating the appropriate response to a variety of scenarios where information is judged to have been obscured.

Accounting Policies and Accounting Estimates (Amendments to IAS 8)

The Global IFRS Team has commented on the IASB's Exposure Draft ED/2017/5 *Accounting Policies and Accounting Estimates – Amendments to IAS 8.*

In its letter, the GTIL IFRS Team broadly supports the Board's proposals and agrees there is a need for clarifying amendments that will help entities distinguish accounting policies from accounting estimates. While the amendments should help reduce diversity in practice, the GTIL IFRS Team expresses concerns with the proposed definition of accounting estimates. The GTIL IFRS Team encourages the Board to develop additional practical examples that will help entities apply their judgment in this area.

Round-up

Europe

ESMA publishes 21st enforcement decisions report

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

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

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

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

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

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

Europe *(continued)*

EFRAG endorses IFRS 16 and amendments to other standards

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

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

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

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

IASB

Other IASB publications

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

Corporate Reporting

CFA Institute publishes report on adoption of new revenue recognition requirements

In October 2017, the CFA Institute (a global association of investment professionals) published the report *Revenue Recognition Changes*. It provides a high-level overview of how far entities have come with the adoption of IFRS 15 (and ASC Topic 606 respectively) and analyzes entities' disclosures of anticipated impacts and transition choices. It also reviews the likely effects of key judgments related to uncertain revenue and the definition of a contract.

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

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, 2017. 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, 2017

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

* 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*.

** The Basis for Conclusions, the Illustrative Examples and Guidance of implementing that accompany IFRS 9, IFRS 15 and IFRS 16, but are non-authoritative, have been added to the *CPA Canada Handbook – Accounting*. The AcSB thinks this material supports the application of IFRS. The AcSB will also add non-authoritative material pulished by the IASB for other standards in the future.

New IFRS and IFRIC interpretations with an effective date on or after January 1, 2017 *(continued)*

Title	Full title of standard or interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?*
IFRS 9	*Financial Instruments (2014)***	January 1, 2018	Yes (extensive transitional rules apply)
IFRS 2	*Classification and Measurement of Share-based Payment Transactions* (Amendments to IFRS 2)	January 1, 2018	Yes
IFRS 15	*Revenue from Contracts with Customers***	January 1, 2018	Yes
N/A	*Practice Statement 2: Making Materiality Judgements*	September 14, 2017	No
IAS 7	*Disclosure Initiative* (Amendments to IAS 7)	January 1, 2017	Yes
IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses* (Amendments to IAS12)	January 1, 2017	Yes

* 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*.

** The Basis for Conclusions, the Illustrative Examples and Guidance of implementing that accompany IFRS 9, IFRS 15 and IFRS 16, but are non-authoritative, have been added to the *CPA Canada Handbook – Accounting*. The AcSB thinks this material supports the application of IFRS. The AcSB will also add non-authoritative material pulished by the IASB for other standards in the future.

Open for comment

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

Current IASB documents

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

Raymond Chabot Grant Thornton

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