Raymond Chabot Grant Thornton

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Accounting

News

Discussion

IFRS Newsletter

October 2019

IFRS Newsletter is your quarterly update on things relating to International Financial Reporting Standards (IFRS). We'll bring you up to speed on topical issues and significant developments, provide comments and give our point of view.

We begin this third edition of 2019 by considering the amendments issued by the International Accounting Standards Board (IASB) *Interest Rate Benchmark Reform* (amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*). We then look at the current IASB Exposure Drafts that are out for comment and move on to IFRS-related news at Grant Thornton and other news. We conclude with a summary of the implementation dates of recently issued standards.

A list of the documents currently out for comment by the IASB and their respective comment deadlines is available at ifrs.org.

We are currently finalizing a new publication strategy for 2020 and, as a result, some of our publications will change in the upcoming months. Watch this space!

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IASB issues *Interest Rate Benchmark Reform* (amendments to IFRS 9, IAS 39 and IFRS 7)

The IASB has published *Interest Rate Benchmark Reform* (amendments to IFRS 9, IAS 39 and IFRS 7) in response to the ongoing reform of interest rate benchmarks around the world. The amendments aim to provide relief for hedging relationships.

Many interbank offer rates (IBORs) are expected to be replaced by new benchmark Risk-Free Rates in the next few years. One of the biggest issues presented by the replacement of IBORs is the potential effect on hedge accounting given the extensive use of interest rate benchmarks in global financial markets. It's this subject that is addressed by the IASB's amendments. The main amendments can be summarized as follows:

Topic	Summary
Highly probable requirement and prospective assessments of hedge effectiveness	Where an entity currently designates IBOR cash flows, the replacement of IBORs with new interest rate benchmarks raises questions over whether it will be possible to make the assertion that those cash flows will still occur in a hedge of highly probable future cash flows and whether the hedging relationship meets the requirements to be viewed as effective on a prospective basis?

Topic	Summary
Highly probable requirement and prospective assessments of hedge effectiveness ***(Continued)***	The Board therefore has provided exceptions for determining whether a forecast transaction is highly probable or whether it's no longer expected to occur. Specifically, the amendments state that an entity should apply those requirements assuming that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of interest rate benchmark reform. It also includes exceptions to the hedge accounting requirements in IFRS 9 and IAS 39 so that an entity assumes that the interest rate benchmark on which the hedged cash flows are based, and/or the interest rate benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of interest rate benchmark reform when the entity determines whether: • there is an economic relationship between the hedged item and the hedging instrument applying IFRS 9; or • the hedge is expected to be highly effective in achieving offsetting by applying IAS 39.
Designating a component of an item as the hedged item	The changes amend the hedge accounting requirements in IFRS 9 and IAS 39 for hedges of the benchmark component of interest rate risk that is not contractually specified and that is affected by interest rate benchmark reform. Specifically, it states that an entity applies the requirement (that the designated risk component or designated portion is separately identifiable) only at the inception of the hedging relationship. There is one exception to this and that is when an entity frequently resets (i.e., discontinues and restarts) a hedging relationship because both the hedging instrument and the hedged item frequently change, the entity applies the requirement only when it initially designates a hedged item in that hedging relationship.

Without these amendments, the uncertainty surrounding the replacement of IBORs and the form this will take could result in entities having to discontinue hedge accounting solely because of the reform's effect on their ability to make forward-looking assessments.

Disclosures about the extent to which an entity's hedging relationships are affected by the amendments are also required.

The IASB has stated that the exceptions above are mandatory for all hedging relationships directly affected by the interest rate benchmark reform. It also confirms that the exceptions apply for a limited period. Specifically, an entity prospectively ceases to apply the amendments at the earlier of:

- when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows; and
- when the hedging relationship is discontinued or when the entire amount accumulated in the cash flow hedge reserve with respect to that hedging relationship is reclassified to profit or loss.

The Board has not provided an end to the application of the proposed exception relating to the designation of a component of an item as the hedged item outlined above.

The amendments are not intended to provide relief if a hedging relationship no longer meets the requirements of hedge accounting for any other reasons than those included in the amendments.

Effective date and transition

In acknowledgement of the speed with which interest rate benchmark reform is progressing, the amendments are effective for annual periods beginning on or after January 1, 2020. They should be applied retrospectively, with early application permitted.

Grant Thornton International Ltd. comment

We welcome the IASB's amendments, which provide relief from the effects of interest rate benchmark reform on hedge accounting. Reporting entities needed clarity on the impact on hedge accounting urgently and we are, therefore, pleased to see this first phase of this project finalized.

Proposed amendments to IFRS 17 *Insurance contracts*

The IASB has published an Exposure Draft (ED) *Amendments to IFRS 17*. The amendments are a response to challenges and concerns raised by stakeholders as they implement IFRS 17.

The following table summarizes the proposed amendments in the ED:

Topic	Proposed amendment
Scope exclusions **“credit cards that provide insurance coverage for purchases made”**	The ED proposes that an entity would be required to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. If not excluded from the scope of IFRS 17 through the scope exclusions, the ED proposes that an entity would choose to apply IFRS 17 or IFRS 9 to contracts that meet the definition of an insurance contract but limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). The entity would be required to make that choice for each portfolio of insurance contracts, and the choice for each portfolio would be irrevocable.
Expected recovery of insurance acquisition cash flows **“avoids the presentation of insurance contracts as loss making on initial recognition”**	The amendments propose that an entity: • allocate, on a systematic and rational basis, insurance acquisition cash flows that are directly attributable to a group of insurance contracts to that group and to any groups that include contracts that are expected to arise from renewals of the contracts in that group; • recognize as an asset insurance acquisition cash flows paid before the group of insurance contracts to which they are allocated is recognized; • assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired.
Contractual service margin attributable to investment-return service and investment-related service	The amendments: • propose that an entity identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage specify criteria for when contracts may provide an investment-return service; • would clarify that an entity is required to identify coverage units for insurance contracts with direct participation features considering the quantity of benefits and expected period of both insurance coverage and investment-related service; • propose that an entity disclose quantitative information about when the entity expects to recognize in profit or loss the contractual service margin remaining at the end of a reporting period. In addition, the amendments propose that an entity disclose the approach used to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or investment-related service.
Reinsurance contracts held – recovery of losses on underlying insurance contracts	The ED proposes that an entity adjust the contractual service margin of a group of reinsurance contracts held that provides proportionate coverage and, as a result, recognize income, when the entity recognizes a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous contracts to that group. The amount of the adjustment and resulting income is determined by multiplying: • the loss recognized on the group of underlying insurance contracts; • the fixed percentage of claims on the group of underlying contracts the entity has a right to recover from the group of reinsurance contracts held.

Topic	Proposed amendment
Presentation in the statement of financial position	The proposed amendment would require an entity to present separately in the statement of financial position the carrying amount of portfolios of insurance contracts issued that are assets and those that are liabilities. Applying the existing requirements, an entity would present the carrying amount of groups of insurance contracts issued that are assets and those that are liabilities. The amendment would also apply to portfolios of reinsurance contracts held that are assets and those that are liabilities.
Applicability of the risk mitigation option	The proposed amendment would extend the risk mitigation option available when an entity uses derivatives to mitigate financial risk arising from insurance contracts with direct participation features. That option would apply in circumstances when an entity uses reinsurance contracts held to mitigate financial risk arising from insurance contracts with direct participation features.
Effective date of IFRS 17 and the IFRS 9 temporary exemption	The proposals defer the effective date of IFRS 17 by one year from annual reporting periods beginning on or after 2021 to annual reporting periods beginning on or after 2022. The proposals also extend the temporary exemption (included in IFRS 4 *Insurance Contracts*) from IFRS 9 by one year so that an entity applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after January 1, 2022.
Transition modifications and reliefs	The amendments: • propose an additional modification in the modified retrospective approach. The modification would require an entity, to the extent permitted by paragraph C8, to classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired. They also propose that an entity applying the fair value approach could choose to classify such a liability as a liability for incurred claims; • permit an entity to apply the option in paragraph B115 prospectively from the transition date rather than the date of initial application. The amendments propose that to apply the option in paragraph B115 prospectively on or after the transition date, an entity would be required to designate risk mitigation relationships at or before the date it applies the option; • propose that an entity that can apply IFRS 17 retrospectively to a group of insurance contracts be permitted to instead apply the fair value approach to that group if it meets specified criteria relating to risk mitigation.
Minor amendments	Minor amendments have been proposed where the drafting of IFRS 17 does not achieve the Board's intended outcome. These are on the following topics: • Scope and investment contracts with discretionary participation features; • Recognition of contracts within a group; • Business combinations outside the scope of IFRS 3 *Business Combinations*; • Adjusting the loss component for changes in the risk adjustment for non-financial risk; • Disclosure of investment components excluded from insurance revenue and insurance service expenses; • Risk adjustment for non-financial risk in disclosure requirements; • Disclosure of sensitivity analysis; • Definition of an investment component; • Excluding changes relating to the time value of money and assumptions that relate to financial risk from changes in the carrying amount of the contractual service margin; • Changes in the risk adjustment for non-financial risk; • Use of the risk mitigation option; • Excluding changes from cash flows relating to loans to policyholders from revenue; • Treatment of changes in underlying items; • Amendment to IFRS 3; • Amendment to IFRS 7, IFRS 9 and IAS 32 *Financial Instruments: Presentation*.

The amendments would be applicable for annual reporting periods beginning on or after January 1, 2022.

New annual improvements proposals published

The IASB has published an ED *Annual Improvements to IFRS Standards 2018-2020* which proposes minor amendments to four standards.

The proposals are the latest under the IASB's annual improvements project, a process for making non-urgent, but necessary, minor amendments to IFRS. A summary of the proposals, which reflect issues discussed by the IASB in a project cycle that began in 2018, is set out in the table below.

Standard	Issue	Proposed change
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	Subsidiary as a first-time adopter	The proposal extends the exemption in paragraph D16(a) to cumulative translation differences reported by a subsidiary that becomes a first-time adopter later than its parent. The ED proposes to require a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This means a subsidiary would not have to keep two parallel sets of accounting records based on different dates of transition to IFRS. This proposed amendment would also apply to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.
IFRS 9 *Financial Instruments*	Fees included in the "10 per cent" test for derecognition of financial liabilities	In determining whether to derecognize a financial liability that has been modified or exchanged, an entity assesses whether the terms are substantially different by reference to the "10 percent test". The ED proposes to clarify the fees that an entity includes when applying that test. The proposals state that a borrower should include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
Illustrative Examples accompanying IFRS 16 *Leases*	Lease incentives	The Board proposes to amend Illustrative Example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements. The proposed amendment would remove the potential confusion regarding the treatment of lease incentives when applying IFRS 16.
IAS 41 *Agriculture*	Taxation in fair value measurements	The Board proposes to remove the requirement in paragraph 22 of IAS 41 for entities to exclude cash flows for taxation when measuring fair value by applying the requirements of IAS 41.

IASB proposes changes to IFRS 3

The IASB has published an ED *Reference to the Conceptual Framework* (Proposed amendments to IFRS 3) which intends to update IFRS 3 for the new conceptual framework.

The first proposed amendment is to update IFRS 3 so it refers to the 2018 *Conceptual Framework for Financial Reporting* (hereafter the "Conceptual Framework") instead of the old version issued in 1989 (*Framework for the Preparation and Presentation of Financial Statements*). Currently, the requirements in IFRS 3 state that the identifiable assets acquired and liabilities assumed in a business combination must meet the definitions of assets and liabilities in the 1989 version. The Board intends to replace this reference with that of the 2018 version.

The revised Conceptual Framework introduces changes to the definitions of assets and liabilities. Although both definitions have worked well in the past, the revised definitions focus more on describing an asset as an economic resource and a liability as an obligation to transfer an economic resource rather than describing both in terms of an expected flow of benefits. The change is significant as the notion of an "expected" flow of benefits had previously been interpreted by some as a probability threshold.

The main impact of this change in IFRS 3 is that the population of assets and liabilities qualifying for recognition in a business combination may change. Some might qualify for recognition when previously they did not, and then could subsequently require derecognition when applying other standards after the acquisition date. The acquirer would therefore need to recognize them at the acquisition date and derecognize them straight afterwards. Therefore, potentially resulting in a "day 2" gain or loss.

The Board has therefore proposed a second amendment to avoid the problems associated with a "day 2" gain or loss. The Board has concluded that these gains or losses would be significant in practice for liabilities that are accounted for after the acquisition date through applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*. The proposed solution is to add a recognition exception to IFRS 3. For liabilities and contingent liabilities that, if incurred separately, would be within the scope of IAS 37 or IFRIC 21, the acquirer should apply IAS 37 or IFRIC 21 instead of the Conceptual Framework to ascertain what liabilities and contingent liabilities it has undertaken from a business combination. Applying this exception would mean that the IFRS 3 liabilities and contingent liabilities would be unchanged compared to now.

The final proposal is to make an explicit statement about contingent assets in IFRS 3. Contingent assets are prohibited from recognition under IFRS 3; however, currently this is only stated in the Basis for Conclusions. The amendments propose to add a statement in the actual standard that an acquirer should not recognize contingent assets acquired in a business combination.

> …the revised definitions focus more on describing an asset as an economic resource and a liability as an obligation to transfer an economic resource rather than describing both in terms of an expected flow of benefits.

IASB proposes changes to IAS 12

The IASB has published an ED *Deferred Tax Related to Assets and Liabilities arising from a Single Transaction* which proposes to make amendments to IAS 12 *Income Taxes*. The changes aim to clarify how to account for deferred tax on transactions that an entity recognizes both an asset and a liability, for example, leases or decommissioning obligations.

The IFRS Interpretations Committee (hereafter the "Committee") received a request to confirm whether the initial recognition exemption in IAS 12 can be applied to leases (where both an asset and liability are recognized at commencement of the lease) and decommissioning liabilities (where decommissioning costs are included in the cost of property, plant and equipment and a liability is recognized). In both of these situations, the transaction will result in both an asset and a liability being recognized, and the request asked whether an entity is required to recognize deferred tax for such transactions.

The initial recognition exemption allows relief from recognizing a deferred tax asset or deferred tax liability for the initial recognition of:

- goodwill; and
- an asset or liability in a transaction which:
  - is not a business combination;
  - at the time of the transaction affects neither accounting profit (loss) nor taxable profit (tax loss).

The Committee noted that there is diversity of views as to whether this exemption would cover these transactions and decided to recommend an amendment to IAS 12 to narrow the recognition exemption so that it is clear that the exemption would not apply in these cases.

The amendments propose changes to the initial recognition exemption. These changes will mean the initial recognition exemption would not apply to transactions in which (on initial recognition) both deductible and taxable temporary differences result in deferred tax assets and liabilities of the same amount. This would result in, for example, on initial recognition of a right-of-use asset and lease liability, the recognition of a deferred tax asset and a defered tax liability even if these deferred assets and liabilities are of the same amount.

The proposals would be applied retrospectively, with early adoption permitted. The Board have not yet proposed an effective date of these amendments.

Disclosure of accounting policies

The IASB has published an ED *Disclosure of Accounting Policies* which proposes changes to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2: *Making Materiality Judgements*. The aim of these amendments is to assist entities in deciding which accounting policies to disclose and make them more useful.

This ED builds on the amendments issued in October 2018 titled *Definition of Material* which made changes to IAS 1 and IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors* and is part of the broader Principles of Disclosure project.

IAS 1 currently requires entities to disclose their significant accounting policies; however, it does not define the word significant. Whilst it is agreed the application of materiality is key when determining what accounting policies to disclose, IAS 1 doesn't require material accounting policies to be disclosed. This implies that there could be a material accounting policy which, if not deemed to be significant, need not be disclosed. The Board has therefore decided to amend IAS 1 and proposes to change the term "significant" accounting policies to "material" accounting policies.

In addition, the ED includes paragraphs 117A to 117D to IAS 1, which:

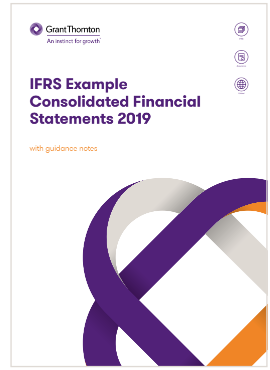
- clarify that immaterial transactions, other events or immaterial conditions do not need to be disclosed;
- explain how an entity can identify material accounting policies;
- explain that information about accounting policies that focuses on how the standard has been applied to specific circumstances is more useful than descriptions of accounting policies, which just explain the requirements of a standard;
- confirm that, even if an accounting policy is concluded to be immaterial, other information required by other standards should still be disclosed if that information is material.

The ED also proposes to amend Practice Statement 2: *Making Materiality Judgements* with two examples that illustrate how to apply the concept of materiality when making decisions about accounting policy disclosures.

The ED does not propose an effective date (which will be determined at a later date); however, it states that the changes would be applied prospectively with early adoption permitted.

Grant Thornton publications

2019 Example Financial Statements released



The Global IFRS Team has released the 2019 version of its IFRS Example Consolidated Financial Statements (available in English and in French).

The Example Consolidated Financial Statements are based on the activities and results of Illustrative Corporation and subsidiaries – a fictional consulting, service and retail entity that has been preparing IFRS financial statements for several years. The objective in preparing these Example Consolidated Financial Statements is to illustrate one possible approach to financial reporting by an entity engaging in transactions that are typical across a range of non-specialist sectors.

The publication has been reviewed and updated to reflect changes in IFRS that are effective for the year ending December 31, 2019. In particular, it reflects the adoption of IFRS 16 *Leases*, which is effective for annual accounting periods beginning on or after January 1, 2019.

To obtain a copy of the 2019 IFRS Example Consolidated Financial Statements, please refer to our Adviser Alerts on the subject: English copy and French copy.

Insights into IFRS 16

IFRS 16, which is effective from January 1, 2019, brings fundamental changes to lease accounting. It requires lessees to account for leases "on-balance sheet" by recognizing a right-of-use asset and a lease liability.

Grant Thornton International Ltd.'s *Insights into IFRS 16* series summaries key areas of the standard and aims to assist you in preparing for the changes that you will need to make. One new issue has been released in the last quarter, which is described below. You can access these at: https://www.grantthornton.global/en/insights/ifrs-16.

Presentation and disclosure

IFRS 16 requires lessees and lessors to provide information about leasing activities within their financial statements. The standard explains how this information should be presented on the face of the statements and what disclosures are required. In the issue, we identify the requirements and provide a series of examples illustrating one possible way the note disclosures might be presented.

Other news

Canadian IFRS Discussion Group: June and September 2019 public meetings

At its June and September 2019 meetings, the IFRS Discussion Group (IDG) discussed several issues of interest for Canadian preparers of financial statements prepared in accordance with IFRS. Click here to access the Reports on the public meeting and the archived audio webcasts. As a reminder, the IDG is a discussion forum and its purpose is to assist the Canadian Accounting Standards Board (AcSB) with issues arising with the application of IFRS in Canada.

Updates on September and October IASB and IFRIC meetings issued

The IASB issued its updates summarizing tentative decisions reached during its public meetings in September and October 2019. The Board covered such topics as business combinations under common control, rate-regulated activities and the disclosure initiative, among other projects. The Committee (IFRIC) also issued a September 2019 Update summarizing the decisions reached by the Committee during its September meeting.

Effective dates of new IFRS and IFRIC interpretations

The table below lists new IFRS and IFRIC interpretations with an effective date on or after January 1, 2019. Entities are required to make certain disclosures in respect of new standards and interpretations under IAS 8.

New IFRS and IFRIC interpretations with an effective date on or after January 1, 2019

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 9/IAS 39/ IFRS 7	*Interest Rate Benchmark Reform* (Amendment to IFRS 9, IAS 39 and IFRS 7)	January 1, 2020	Yes
IFRS 3	*Definition of a Business* (Amendments to IFRS 3)	January 1, 2020	Yes
IAS 1/IAS 8	*Definition of Material* (Amendments to IAS 1 and IAS 8)	January 1, 2020	Yes
Various	*Amendments to References to the Conceptual Framework in IFRS Standards*	January 1, 2020	Yes (but need to apply all amendments)
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 19	*Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19)	January 1, 2019	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)	Postponed (was January 1, 2016)	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 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, IFRS 16 and IFRS 17, 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 published by the IASB for other standards in the future.

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