IFRS NEWSLETTER

THE BALANCING ITEMS

Issue 6, December 2013

KPMG
cutting through complexity

The IASB has published *Annual Improvements to IFRSs* as part of its process to make non-urgent but necessary amendments to IFRS.

Narrow-scope amendments to IFRS

This *IFRS Newsletter: The Balancing Items* brings into focus three cycles of amendments and proposed amendments to IFRS.

The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. On 11 and 12 December 2013, the Board made pronouncements on all three of its active cycles.

Final amendments: 2010–12 and 2011–13 cycles

The Board has made amendments to a total of nine standards, with changes made to the standards on business combinations and fair value measurement in both cycles.

Most amendments will apply prospectively for annual periods beginning on or after 1 July 2014; earlier application is permitted, in which case the related consequential amendments to other IFRSs would also apply. Special transitional requirements have been set for amendments to the following standards: IFRS 2, IAS 16, IAS 38 and IAS 40.

Proposed amendments: 2012–14 cycle

The Board has also issued an exposure draft (ED), proposing amendments to four standards. Except for the proposed amendments to IFRS 5, the proposals would apply retrospectively for annual periods beginning on or after 1 January 2016; earlier application is permitted. Comments are due to the IASB by 13 March 2014.

SUMMARY OF FINAL AND PROPOSED AMENDMENTS

Final amendments: 2010–12 and 2011–13 cycles

Standard	Clarifications brought about by amendments	2010–12	2011–13
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	IFRS version that a first-time adopter can apply		✓
IFRS 2 *Share-based Payment*	Meaning of 'vesting condition'	✓	
IFRS 3 *Business Combinations*	Classification and measurement of contingent consideration	✓	
	Scope exclusion for the formation of joint arrangements		✓
IFRS 8 *Operating Segments*	Disclosures on the aggregation of operating segments	✓	
IFRS 13 *Fair Value Measurement*	Measurement of short-term receivables and payables	✓	
	Scope of portfolio exception		✓
IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*	Restatement of accumulated depreciation (amortisation) on revaluation	✓	
IAS 24 *Related Party Disclosures*	Definition of 'related party'	✓	
IAS 40 *Investment Property*	Inter-relationship of IFRS 3 and IAS 40		✓

Proposed amendments: 2012–14 cycle

Standard	Questions for consideration
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	What are the accounting implications if an entity changes its plans for a disposal or distribution of assets?
IFRS 7 *Financial Instruments: Disclosures*	Do servicing rights and obligations constitute 'continuing involvement' for the purposes of disclosures on transfers of financial assets?
	Should IFRS 7 offsetting disclosures be included in condensed interim financial statements?
IAS 19 *Employee Benefits*	How should the discount rate for post-employment benefit obligations be determined in a regional market sharing the same currency – e.g. the eurozone?
IAS 34 *Interim Financial Reporting*	Can IAS 34 disclosures be presented outside of the interim financial statements?

FINAL AMENDMENTS

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

IFRS version that a first-time adopter can apply

The amendment clarifies that in its first IFRS financial statements, a first-time adopter is permitted but not required to apply a new or revised IFRS that is not yet mandatory but is available for early application.

IFRS 2 *Share-based Payment*

Meaning of 'vesting condition'

IFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition.'

For a condition to be a performance condition, it needs to meet both of the following criteria:

- the counterparty has to complete a specified period of service – i.e. a service condition, which can be either explicit or implicit; and
- the specified performance target(s) has to be met while the counterparty is rendering services. The period for achieving the performance target(s) cannot extend beyond the end of the service period, but it may start before the service period – provided that the commencement date of the performance target is *not substantially before* the commencement of the service period. As such, performance targets achieved after the requisite service period would not be accounted for as a performance condition, but would instead be accounted for as a non-vesting condition.

A performance target needs to be defined with reference to the entity's own operations or activities, or with reference to the price or value of the entity's equity instruments. In this context, 'entity' includes entities in the same group.

The amendment also clarifies both:

- how to distinguish between a market and a non-market performance condition; and
- the basis on which a performance condition can be differentiated from a non-vesting condition.

For example, a share market index target would be a non-vesting condition – even if an entity's shares form part of that index – because such an index reflects not only the performance of the entity, but also the performance of other entities outside the group.

Any failure to complete a specified service period – even due to the entity terminating an employee's employment – would represent a failure to satisfy a service condition.

IFRS 3 *Business Combinations*

Classification and measurement of contingent consideration

These amendments clarify the classification and measurement of contingent consideration in a business combination.

- When contingent consideration is a financial instrument, its classification as a liability or equity is determined by reference to IAS 32 *Financial Instruments: Presentation*, rather than to any other IFRSs.
- Contingent consideration that is classified as an asset or a liability is always subsequently measured at fair value, with changes in fair value recognised in profit or loss.

Consequential amendments are also made to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments* to prohibit contingent consideration from subsequently being measured at amortised cost. In addition, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* is amended to exclude provisions related to contingent consideration.

Scope exclusion for the formation of joint arrangements

IFRS 3 has also been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in IFRS 11 *Joint Arrangements* – i.e. including joint operations – in the financial statements of the joint arrangements themselves.

IFRS 8 *Operating Segments*

Disclosures on the aggregation of operating segments

IFRS 8 has been amended to explicitly require the disclosure of judgements made by management in applying the aggregation criteria. The disclosures include:

- a brief description of the operating segments that have been aggregated; and
- the economic indicators that have been assessed in determining that the operating segments share similar economic characteristics.

In addition, this amendment clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.

IFRS 13 *Fair Value Measurement*

Measurement of short-term receivables and payables

The IASB has clarified that, in issuing IFRS 13 and making consequential amendments to IAS 39 and IFRS 9, it did not intend to prevent entities from measuring short-term receivables and payables that have no stated interest rate at their invoiced amounts without discounting, if the effect of not discounting is immaterial.

Scope of portfolio exception

The scope of the IFRS 13 portfolio exception – whereby entities are exempted from measuring the fair value of a group of financial assets and financial liabilities with offsetting risk positions on a net basis if certain conditions are met – has been aligned with the scope of IAS 39 and IFRS 9.

IFRS 13 has been amended to clarify that the portfolio exception potentially applies to contracts in the scope of IAS 39 and IFRS 9 regardless of whether they meet the definition of a financial asset or financial liability under IAS 32 – e.g. certain contracts to buy or sell non-financial items that can be settled net in cash or another financial instrument.

IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*

Restatement of accumulated depreciation (amortisation) on revaluation

The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognising that the restatement of accumulated depreciation (amortisation) is not always proportionate to the change in the gross carrying amount of the asset.

IAS 16 and IAS 38 have been amended to clarify that, at the date of revaluation:

- the gross carrying amount:
  - is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset – e.g. restated in proportion to the change in the carrying amount or by reference to observable market data; and

- the accumulated depreciation (amortisation) is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or

- the accumulated depreciation (amortisation) is eliminated against the gross carrying amount of the asset.

IAS 24 *Related Party Disclosures*

Definition of 'related party'

The definition of a 'related party' is extended to include a management entity that provides key management personnel (KMP) services to the reporting entity, either directly or through a group entity.

For related party transactions that arise when KMP services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognised as an expense for those services that are provided by a management entity; however, it is not required to 'look through' the management entity and disclose compensation paid by the management entity to the individuals providing the KMP services. The reporting entity will also need to disclose other transactions with the management entity under the existing disclosure requirements of IAS 24 – e.g. loans.

IAS 40 *Investment Property*

Inter-relationship of IFRS 3 and IAS 40

IAS 40 has been amended to clarify that an entity should:

- assess whether an acquired property is an investment property under IAS 40; and
- perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property constitutes a business combination.

Entities will still need to use judgement to determine whether the acquisition of an investment property is an acquisition of a business under IFRS 3.

Effective date and transition

Most amendments will apply prospectively for annual periods beginning on or after 1 July 2014. Earlier application is permitted. Special transitional requirements have been set for amendments to the following standards: IFRS 2, IAS 16, IAS 38 and IAS 40.

PROPOSED AMENDMENTS

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

What are the accounting implications if an entity changes its plans for a disposal or distribution of assets?

Under the proposals, IFRS 5 would be amended to clarify that:

- if an entity changes the method of disposal of assets – e.g. reclassifies an asset (or disposal group) from held-for-distribution to held-for-sale (or vice versa) – then it would continue to apply held-for-distribution or held-for-sale accounting (i.e. there is no impact on the accounting); and
- if an entity determines that an asset (or disposal group) is no longer available for immediate distribution, or that distribution is no longer highly probable, then it would cease held-for-distribution accounting and follow the guidance for changes to a plan of sale – i.e. there would be an impact on accounting.

IFRS 7 *Financial Instruments: Disclosures*

Do servicing rights and obligations constitute 'continuing involvement' for the purposes of disclosures on transfers of financial assets?

The IASB has proposed amending IFRS 7 to clarify that servicing arrangements are generally in the scope of the IFRS 7 disclosures on continuing involvement in transferred financial assets that are derecognised in their entirety. A servicer is deemed to have continuing involvement if it has an interest in the future performance of the transferred asset; however, the collection and remittance of cash flows from the transferred financial asset to the transferee is not, in itself, sufficient to be considered 'continuing involvement.'

Should IFRS 7 offsetting disclosures be included in condensed interim financial statements?

Under the proposals, IFRS 7 would also be amended to clarify that the additional disclosures required by *Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)* are not specifically required for inclusion in condensed interim financial statements for all interim periods; however, they are required if the guidance in IAS 34 *Interim Financial Reporting* would require their inclusion.

IAS 19 *Employee Benefits*

How should the discount rate for post-employment benefit obligations be determined in a regional market sharing the same currency – e.g. the eurozone?

The IASB has proposed amendments to IAS 19 to clarify that high-quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid. Consequently, the depth of the market for high-quality corporate bonds should be assessed at the currency level and not at the country level.

IAS 34 *Interim Financial Reporting*

Can IAS 34 disclosures be presented outside of the interim financial statements?

Under the proposals, IAS 34 would be amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements, may be disclosed "elsewhere in the interim financial report" – i.e. incorporated by cross-reference from the interim financial statements to another part of the interim financial report. This interim financial report would be made available to users of the interim financial statements on the same terms and at the same time as the interim financial statements.

Effective date

Effective from 1 January 2016

Except for the proposed amendments to IFRS 5, the proposed changes would be applied retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, for annual periods beginning on or after 1 January 2016. Earlier application would be permitted.

The proposed amendments to IFRS 5 would be applied prospectively in accordance with IAS 8 for annual periods beginning on or after 1 January 2016. Similarly, earlier application would be permitted.

Comment period

Comments due by 13 March 2014

Constituents should consider the questions raised in this publication when responding to the IASB's proposals. Comments are due to the IASB by 13 March 2014.

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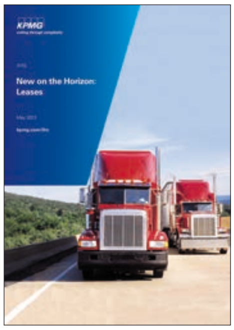

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Publication name: *IFRS Newsletter: The Balancing Items*

Publication number: Issue 6

Publication date: December 2013

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This *IFRS Newsletter: The Balancing Items* brings into focus the narrow-scope amendments to IFRS

If you would like further information on any of the matters discussed in this Newsletter, please talk to your usual local KPMG contact or call any of KPMG firms' offices.