P&A Grant Thornton

Recent changes

Accounting

Discussion

Navigating the changes to International Financial Reporting Standards

A briefing for preparers of IFRS financial statements

2021 Edition

Contents

Introduction

This publication is designed to give preparers of IFRS financial statements a high-level awareness of recent changes to Philippine Financial Reporting Standards. It covers both new Standards and Interpretations that have been issued and amendments made to existing ones.

What's new in the 2021 edition

The 2021 edition of the publication has been updated for changes to Philippine Financial Reporting Standards (IFRS) that were published between January 1, 2020 and December 31, 2020.

The publication now covers March 31, 2020, June 30, 2020, September 30, 2020, December 31, 2020, and March 1, 2021 financial year-ends.

Contents

The effective dates table on the next page lists all the changes covered in the publication, their effective dates, and the page in the publication on which the appropriate summary can be found.

How to use the publication

Identifying the changes that will affect you

The effective dates table has been colour coded to help entities planning for a specific financial reporting year end, and identifies:

- changes mandatorily effective for the first time
- changes not yet effective
- changes already in effect.

Where a change is not yet mandatorily effective for a particular year end, it may still be possible for an entity to adopt it early (depending on local legislation and the requirements of the particular change in concern).

Where a change has been made but an entity is yet to apply it, certain disclosures are required to be made under IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Disclosures required include the fact that the new or amended Standard or Interpretation has been issued but it has not yet been applied and known or reasonably estimable information relevant to assessing its possible impact on the financial statements in the period of initial application.

Identifying the commercial significance of the changes in the publication

For each change covered in the publication, we have included a box on its commercial implications. These sections focus on two questions:

- how many entities will be affected?
- what will be the impact on affected entities?

A traffic light system indicates our assessment of the answers to these questions.

'The publication now covers March 31, 2020, June 30, 2020, September 30,2020, December 31, 2020, and March 31, 2021 financial year-ends'

Effective dates of new Standards

Based on Standards issued at December 31, 2020

Standard	Title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early Application?	31 Mar 2020 year end	30 Jun 2020 year end	30 Sep 2020 year end	31 Dec 2020 year end	31 Mar 2021 year end
IFRS 16	Leases	1 January 2019	✓[1]	Effective for the first time	Effective for the first time	Effective for the first time	Already in manadatory effect	Already in manadatory effect
IFRS 9	Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019	✓	Effective for the first time	Effective for the first time	Effective for the first time	Already in manadatory effect	Already in manadatory effect
IAS 28	Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	1 January 2019	✓	Effective for the first time	Effective for the first time	Effective for the first time	Already in manadatory effect	Already in manadatory effect
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019	✓	Effective for the first time	Effective for the first time	Effective for the first time	Already in manadatory effect	Already in manadatory effect
IAS 12, IAS 23, IFRS 3 and IFRS 11	Annual Improvements to IFRS 2015-2017 Cycle	1 January 2019	✓	Effective for the first time	Effective for the first time	Effective for the first time	Already in manadatory effect	Already in manadatory effect
IAS 19	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019	✓	Effective for the first time	Effective for the first time	Effective for the first time	Already in manadatory effect	Already in manadatory effect
Various	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020	✓	Not yet effective	Not yet effective	Not yet effective	Effective for the first time	Effective for the first time
IFRS 3	Definition of a Business (Amendments to IFRS 3)	1 January 2020	✓	Not yet effective	Not yet effective	Not yet effective	Effective for the first time	Effective for the first time
IAS 1 and IAS 8	Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020	✓	Not yet effective	Not yet effective	Not yet effective	Effective for the first time	Effective for the first time
IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020	✓	Not yet effective	Not yet effective	Not yet effective	Effective for the first time	Effective for the first time
IFRS 16	COVID-19-Related Rent Concessions (Amendment to IFRS 16)	1 June 2020	✓[2]	Not yet effective	Not yet effective	Not yet effective	Effective for the first time	Effective for the first time
Various	Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021	✓	Not yet effective	Not yet effective	Not yet effective	Not yet effective	Not yet effective
IFRS 3	References to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022	✓	Not yet effective	Not yet effective	Not yet effective	Not yet effective	Not yet effective
IAS 16	Proceeds before intended use (Amendments to IAS 16)	1 January 2022	✓	Not yet effective	Not yet effective	Not yet effective	Not yet effective	Not yet effective
IAS 37	Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022	✓	Not yet effective	Not yet effective	Not yet effective	Not yet effective	Not yet effective
IFRS 1, IFRS 9, IFRS 16 and IAS 41	Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)	1 January 2022	✓	Not yet effective	Not yet effective	Not yet effective	Not yet effective	Not yet effective
IFRS 17	Insurance Contracts[3]	1 January 2023[5]	✓[4]	Not yet effective	Not yet effective	Not yet effective	Not yet effective	Not yet effective
IFRS 4	Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)	1 January 2023	✓	Not yet effective	Not yet effective	Not yet effective	Not yet effective	Not yet effective
IAS 1	Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2023	✓	Not yet effective	Not yet effective	Not yet effective	Not yet effective	Not yet effective

The colour coding gives an indication of when the changes covered in the publication become effective in relation to the specific financial reporting year ends set out in the table. Key:

Change already in mandatory effect   Change effective for the first time   Change not yet effective

Notes

1 Entities that early adopt IFRS 16 must apply IFRS 15 before or on the same date.
2 This amendment has been issued to to help entities during the COVID-19 pandemic. It therefore is highly likely to be adopted early.
3 Includes 'Amendments to IFRS 17' issued in June 2020.
4 Entities that early adopt IFRS 17 must apply IFRS 9 before or on the same date.
5 The Insurance Commission (IC), considering the extension of IFRS 17 and the challenges of COVID-19 pandemic to the insurance industry, has deferred the implementation of IFRS to January 1, 2025, granting an additional two-year period from the date of effectivity proposed by the IASB.

Effective from January 1, 2019

The Standards mentioned on pages 4 to 16 are effective for accounting periods beginning on or after January 1, 2019.

The Standards are:

- IFRS 16 Leases
- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- IFRIC 23 Uncertainty over Income Tax Treatments
- Annual Improvements to IFRS 2015-2017 Cycle
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

IFRS 16 Leases

IFRS 16 is the result of the IASB's long-running project to overhaul lease accounting, representing the first major change to lease accounting in over 30 years. The new Standard replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

IFRS 16 will require lessees to account for leases 'on-balance sheet' by recognising a 'right-of-use' asset and a lease liability. For many businesses, however, exemptions for short-term leases and leases of low value assets will greatly reduce the impact.

IFRS 16 also:

- changes the definition of a lease
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods
- changes the accounting for sale and leaseback arrangements
- largely retains IAS 17's approach to lessor accounting
- introduces new disclosure requirements.

The table summarises the main changes at a glance:

IFRS 16 Leases at a glance

Issue	Other factors to consider
Who is affected?	• entities that lease assets as a lessee or a lessor
What's the impact on lessees?	• all leases will be accounted for 'on-balance sheet', other than short-term and low value asset leases • lease expense will typically be 'front-loaded' • lease liability will exclude: – option periods unless exercise is reasonably certain – contingent payments that are linked to sales/usage and future changes in an index/rate
What's the impact on lessors?	• only minor changes from the current Standard – IAS 17
Are there other changes?	• a new definition of a lease will result in some arrangements previously classified as leases ceasing to be so, and vice versa • new guidance on sale and leaseback accounting • new and different disclosures
When are the changes effective?	• annual periods beginning on or after January 1, 2019 • various transition reliefs

Scope

IFRS 16 applies to all leases for both the lessee and lessor, except for a few scope exclusions. These exclusions, some of which are similar to IAS 17's, are summarised in the table:

Scope exclusions from IFRS 16

Scope exclusion	Standard to apply
Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources	None specified. Depending on the circumstances IFRS 6 'Exploration for and Evaluation of Mineral Resources' or IAS 38 'Intangible Assets' might apply
Leases of biological assets in scope of IAS 41 held by a lessee	IAS 41 'Agriculture'
Service concession arrangements in scope of IFRIC 12	IFRIC 12 'Service Concession Arrangements'
Licences of intellectual property granted by a lessor in scope of IFRS 15	IFRS 15 'Revenue from Contracts with Customers'
Rights held under licensing agreements in scope of IAS 38 for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights*	IAS 38 'Intangible Assets'

* for leases of other types of intangible asset a lessee is permitted to apply IFRS 16 but not required to do so

Definition of a lease

Because the new lease accounting model brings many more leases 'on-balance sheet', the evaluation of whether a contract is (or contains) a lease becomes even more important than it is today.

Under IFRS 16 a lease is defined as: 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. A contract is, or contains, a lease if:

- fulfilment of the contract depends on the use of an identified asset; and,
- the contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration.

In practice, the main impact of IFRS 16's new definition and supporting guidance is likely to be on contracts that are not in the legal form of a lease but involve the use of a specific asset and may therefore contain a lease.

Lessee accounting

Subject to the optional accounting simplifications discussed below, a lessee will be required to recognise its leases on the balance sheet. This involves recognizing:

- a 'right-of-use' asset; and
- a lease liability.

The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is 'reasonably certain'.

In subsequent periods, the right-of-use asset is accounted for similarly to a purchased asset and depreciated or amortised. The lease liability is accounted for similarly to a financial liability using the effective interest method.

‘IFRS 16 will require lessees to account for leases ‘on-balance sheet’ by recognising a ‘right-of-use-asset’ and a lease liability.’

Optional accounting simplifications

IFRS 16 provides important reliefs or exemptions for:

- short-term leases (a lease is short-term if it has a lease term of 12 months or less at the commencement date)
- low-value asset leases (the assessment of value is based on the absolute value of the leased asset when new and therefore requires judgement. In the Basis for Conclusions which accompanies the Standard, however, the IASB notes that they had in mind leases of assets with a value when new of around US $5,000 or less).

If these exemptions are used, the accounting is similar to operating lease accounting under the current Standard IAS17 ‘Leases’. Lease payments are recognised as an expense on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee’s benefit).

Lessor accounting

IFRS 16’s requirements for lessor accounting are similar to IAS 17’s. In particular:

- the distinction between finance and operating leases is retained
- the definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as IAS 17’s
- the basic accounting mechanics are also similar, but with some different or more explicit guidance in a few
  areas. These include variable payments; sub-leases; lease modifications; the treatment of initial direct costs; and lessor disclosures.

Sale and leaseback accounting

IFRS 16 makes significant changes to sale and leaseback accounting.

If an entity (the seller-lessee) transfers an asset to another entity (the buyer-lessor) and leases that asset back from the buyer-lessor, both the seller-lessee and the buyer-lessor determine whether the transfer qualifies as a sale. This determination is based on the requirements for satisfying a performance obligation in IFRS 15.

In November 2020, the IASB issued an exposure draft looking to expand the requirements of sale and leaseback accounting in IFRS 16, so changes to these current requirements are anticipated.

‘The new Standard replaces IAS 17 ‘Leases’ along with three Interpretations (IFRIC 4 ‘Determining whether an Arrangement contains a Lease’, SIC 15 ‘Operating Leases-Incentives’ and SIC 27 ‘Evaluating the Substance of Transactions Involving the Legal Form of a Lease’).’

Effective date and transition

IFRS 16 is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted.

In terms of transition, IFRS 16 provides lessees with a choice between two broad methods:

- full retrospective application – with restatement of comparative information in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
- partial retrospective application – without restating comparatives. Under this approach the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application. If a lessee chooses this method, a number of more specific transition requirements and optional reliefs also apply.

Commercial significance

Most Number of entities affected

IFRS 16 will affect most companies that report under IFRS involved in leasing.

High Impact on affected entities

IFRS 16 will have a substantial impact on the financial statements of lessees of property and high value equipment.

Bringing all leases on-balance sheet is controversial. The IASB therefore made compromises to reduce the controversy, in particular exemptions for short-term and low value asset leases. As a result, businesses that lease only assets such as printers and laptops will face only a limited impact. For businesses that lease 'big-ticket' assets, such as property and high-value equipment, this will however be a major change.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

In October 2017, the IASB published 'Prepayment Features with Negative Compensation (Amendments to IFRS 9)'.The amendments allow companies to measure particular prepayable financial assets with negative compensation at amortized cost or at fair value through other comprehensive income – instead of measuring those assets at fair value through profit or loss (FVTPL).

The amendments also include clarifications to the modification or exchange of a financial liability that does not result in derecognition.

After IFRS 9 was issued, the IFRS Interpretations Committee received a request on how to apply the IFRS 9 requirements for recognizing and measuring financial instruments to certain debt instruments where the borrower is permitted to prepay the instrument at an amount that could be less than the unpaid principal and interest owed. Such a prepayment feature is often referred to as including potential 'negative compensation'.

Under the then existing requirements of IFRS 9, an entity would have measured a financial asset with negative compensation at FVTPL as the 'negative compensation' feature would have been viewed as introducing potential cash flows that were not solely payments of principal and interest.

However, to improve the usefulness of the information provided, in particular on the instrument's effective interest rate and expected credit losses, the IASB issued the amendments so that entities will now be able to measure some prepayable financial assets with negative compensation at amortized cost.

'The change to the accounting for a modification or exchange of a financial liability that does not result in derecognition is effective from 2018 as this text merely clarifies the existing Standard as opposed to amending it.'

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

Concurrent with the amendment to IFRS 9 for prepayment features with negative compensation, the IASB discussed the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability. Specifically, the IASB considered whether, when applying IFRS 9, an entity should recognise any adjustment to the amortised cost of the financial liability arising from such a modification or exchange in profit or loss at the date of the modification or exchange.

The IASB concluded that no change needed to be made to the Standard itself but has clarified the existing position by adding text to the Basis for Conclusions on IFRS 9 in these amendments.

The change to the accounting for a modification or exchange of a financial liability that does not result in derecognition is effective from 2018 as this text merely clarifies the existing Standard as opposed to amending it.

To summarize, the IASB believes IFRS 9 provides an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition. The text which has been added in the amendments highlights that the requirements in IFRS 9 for adjusting the amortized cost of a financial liability when a modification (or exchange) does not result in the derecognition of the financial liability are consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset.

Those requirements state when contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, an entity shall recalculate the gross carrying amount of the financial asset and shall recognize a modification gain or loss in profit or loss.

‘To summarize, the IASB believes that IFRS 9 provides an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition.’

Ironically, the ‘other issue’ clarifying the accounting for a modification or exchange of a financial liability that does not result in derecognition may well result in the most significant change in accounting as modification gains and losses will now be recognised immediately in profit or loss in such situations.

‘Prepayment Features with Negative Compensation – Amendments to IFRS 9’ is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

Commercial significance

Some Number of entities affected

The amendments will have most relevance to financial institutions who hold these types of financial instruments, although it is possible that some other entities will be affected.

High Impact on affected entities

These amendments are important to financial institutions, as without them they would have had to account for what are essentially debt-type financial assets at fair value as opposed to amortised cost, which may not have provided the most useful information to users.

The ‘other issue’ included in these amendments could have an even more significant impact and must be applied at the same time IFRS 9 is applied.

‘Ironically, the ‘other issue’ clarifying the accounting for a modification or exchange of a financial liability that does not result in derecognition may well result in the most significant change in accounting as modification gains and losses will now be recognised immediately in profit or loss in such situations.’

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)

In October 2017, the IASB published 'Investments in Associates and Joint Ventures (Amendments to IAS 28)' clarifying that companies account for long-term interests in an associate or joint venture – to which the equity method is not applied – using IFRS 9 'Financial Instruments'. This includes long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

IFRS 9 excludes interests in associates and joint ventures accounted for in accordance with IAS 28. However, some stakeholders expressed an opinion that it was not clear whether that exclusion applies only to interests in associates and joint ventures to which the equity method is applied or whether it applies to all interests in associates and joint ventures.

In the amendments, the IASB clarifies that the exclusion in IFRS 9 applies only to interests accounted for using the equity method. Therefore, an entity applies IFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and which, in substance, form part of the net investment in those associates and joint ventures.

The IASB has also published an example that illustrates how entities apply the requirements in IFRS 9 and IAS 28 to long-term interests in an associate or joint venture.

Commercial significance

Some Number of entities affected

The amendments will impact entities that have interests in associates and joint ventures to which the equity method is applied.

High Impact on affected entities

The amendment is significant as it means holdings in debt-type instruments issued by an associate or joint venture will be subject to IFRS 9's impairment requirements.

'IFRS 9 excludes interests in associates and joint ventures accounted for in accordance with IAS 28.'

IFRIC 23 Uncertainty over Income Tax Treatments

The IFRS Interpretations Committee (IFRIC) published IFRIC 23 'Uncertainty over Income Tax Treatments', specifying how entities should reflect uncertainty in accounting for income taxes.

IAS 12 'Income Taxes' specifies how to account for current and deferred tax but not how to reflect the effects of uncertainty. IFRIC 23 addresses this previous lack of guidance.

IFRIC 23 addresses uncertainty over how tax treatments should affect the accounting for income taxes. IFRIC observed there was diversity in practice for various issues on the recognition and measurement of a tax liability or asset in circumstances where there is uncertainty in the application of the tax law in concern. The table illustrates the main issues that are addressed by the Interpretation.

Main issues addressed by IFRIC 23

Issue	Proposal
When and how the effect of uncertainty over income tax treatments should be included in the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates	• an entity is required to consider whether it is probable that a taxation authority will accept an uncertain tax treatment • if it is, the entity would determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings • if the entity concludes it is not probable the taxation authority will accept an uncertain tax treatment, it uses either the most likely amount or the expected value in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates (depending on which method is expected to better predict the resolution of the uncertainty).
The assumptions that an entity should make about the examination of tax treatments by taxation authorities	• an entity is required to assume a tax authority will examine amounts it has a right to examine and will have full knowledge of all relevant information when making those examinations.
Changes in facts and circumstances	• entities are also required to reassess their judgements and estimates if facts and circumstances change (eg upon reaching a time limit where the taxation authority is no longer able to challenge an entity's tax treatments) or as a result of new information that affects the judgement or estimate becoming available.
Whether uncertain tax treatments should be considered separately	• entities would be required to use judgement to determine whether each uncertain tax treatment should be considered separately, or whether some uncertain tax treatments should be considered together. In determining the approach to be followed, entities shall consider which approach better predicts the resolution of the uncertainty.

Main issues addressed by IFRIC 23

Issue	Proposal
Disclosure	• when addressing uncertainty over income tax treatments, entities are required to disclose judgements, assumptions and estimates made in accordance with the normal requirements of IAS 1 'Presentation of Financial Statements' • in addition, if an entity concludes it is probable that a taxation authority will accept an uncertain tax treatment, it should consider whether to disclose the potential effect of the uncertainty as a tax-related contingency under IAS 12.88.
Transition	• entities shall apply IFRIC 23: – retrospectively by applying IAS 8, if that is possible without the use of hindsight; or – retrospectively with the cumulative effect of initially applying the effect of the changes being recognised in the opening balance of retained earnings (or another component of equity) in the period of first application, without adjusting comparative information.

Commercial significance

Many

Number of entities affected

This Interpretation is applicable to any entity where there is uncertainty over whether a tax treatment will be accepted or disputed by the tax authorities. It includes all tax items (taxable profits and losses, tax bases, unused tax bases, unused tax credits and tax rates), and therefore could have a widespread impact.

Medium

Impact on affected entities

If an entity concludes there is uncertainty over the tax treatment of an item, it must account for the uncertain treatment accordingly. It could therefore have a significant impact on some entities depending on the item.

> 'IFRIC had observed that there was diversity in practice for various issues on the recognition and measurement of a tax liability or asset in circumstances where there is uncertainty in the application of the tax law in concern.'

Annual Improvements to IFRS 2015–2017 Cycle (Amendments to IAS 12, IAS 23, IFRS 3 and IFRS 11)

The IASB uses the Annual Improvements 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 a Standard 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 set out below:

Matters addressed by the amendments

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 the income tax consequences of dividends that are recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised those IASt transactions or events.
IAS 23 'Borrowing Costs'	Borrowing costs eligible for capitalisation	IAS 23.14 specifies how to determine the amount of borrowing costs eligible for capitalisation 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 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 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 capitalise borrowing costs retrospectively may exceed the potential benefits.
IFRS 3 'Business Combinations'	Previously held interests in a joint operation	The amendment clarifies 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.

The amendments are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. The amendments are to be applied retrospectively, except for the amendments to IAS 23 as explained above.

Commercial significance

Few — Number of entities affected

The amendments make changes to relatively narrow areas within IFRS.

Low — Impact on affected entities

The IASB's Annual Improvements process addresses non-urgent, but necessary minor amendments to IFRS. By their nature then, their commercial significance can be expected to be low. Overall, the changes are uncontroversial. 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 it is likely that challenges will remain when determining whether to recognise the income tax effects on a payment in profit or loss or in equity.

> 'The IASB uses the Annual Improvements 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 a Standard or correct relatively minor oversights or conflicts between existing requirements of IFRS.'

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

In February 2018, the IASB published 'Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)'. The amendments require companies to use updated actuarial assumptions to determine pension expenses following changes to a defined benefit pension plan.

IAS 19 'Employee Benefits' requires a company to remeasure its net defined benefit liability or asset when an amendment to, or a curtailment or settlement of a defined benefit plan takes place. However, IAS 19 was not explicit on how to determine the expenses incurred after the change to the defined benefit plan has taken place.

The amendments to IAS 19 now require an entity when a defined benefit plan is amended, curtailed or settled during a period and the net defined benefit liability or asset is remeasured as a result of one of these transactions, to:

- determine the current service costs and the net interest for the period after the remeasurement using the assumptions used for the remeasurement; and
- determine the net interest for the remaining period based on the remeasured net defined benefit liability or asset.

These amendments could change whether and when an entity remeasures its net defined benefit liability or asset. When assessing whether remeasuring the net defined benefit liability or asset will have a material impact, an entity will not only consider the effect on IAS service cost, or a gain or loss on settlement, but also the effects of using the updated assumptions for determining current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement.

Effective date and transition

These amendments are effective for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

The amendments are only to be applied prospectively as the IASB concluded that the benefits of applying the amendments retrospectively would not exceed the cost of doing so as entities might need to revisit plan amendments, curtailments and settlements that occurred several years previously and remeasure the net defined benefit liability or asset as of those dates. Also, the IASB concluded that requiring a retrospective application would not provide useful trend information.

Grant Thorntonview

We believe using updated assumptions to determine current service cost and net interest for the remainder of an annual reporting period following a change will provide more useful information to users of the financial statements.

Commercial significance

Some — Number of entities affected

The amendments will impact entities with defined benefit plans.

Medium — Impact on affected entities

The amendments could change whether an entity remeasures its net defined benefit liability and the timing of this remeasurement.

Effective from January 1, 2020

The Standards mentioned on pages 18 to 25 are effective for accounting periods beginning on or after January 1, 2020.

It may be possible to apply these changes early depending on local legislation and the requirements of the particular change in concern. The Standards are:

- Conceptual Framework for Financial Reporting
- Definition of a Business (Amendments to IFRS 3)[1]
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

[1] Includes 'Amendments to References to the Conceptual Framework in IFRS Standards'

Conceptual Framework for Financial Reporting

In March 2018, the IASB published a revised 'Conceptual Framework for Financial Reporting' (Conceptual Framework) concluding its long-running project in this area. Although it is not a Standard and will not immediately change or override any existing Standards, it may affect entities that develop or select accounting policies in accordance with the previous version of the Conceptual Framework that was issued in 2010.

Background

The Conceptual Framework describes the objective of, and the concepts for, general purpose financial reporting. It is mainly a tool for the IASB to develop and revise Standards that are based on consistent concepts, but entities might also use it when they have to develop accounting policies when no Standard applies or when a Standard allows a choice of accounting policy.

The original Conceptual Framework was issued in 1989 and was updated on several occasions, the last being in 2010. The 2010 version included two revised chapters on the objective of financial reporting and the qualitative characteristics of useful financial information but, for example, did not contain a chapter on the reporting entity or guidance on measurement or reporting financial performance. In addition to lacking guidance in certain areas, some existing guidance was not as clear as desired or was outdated.

A public consultation on the IASB's workplan in 2012 therefore highlighted the need for a revision of the 2010 Conceptual Framework and in an effort to make the Conceptual Framework a complete and overarching set of concepts, the project was added to the IASB's agenda. Before issuing a revised Conceptual Framework in 2018, the IASB sought input by publishing a Discussion Paper in 2013 and an Exposure Draft in 2015.

Main issues addressed by the revised Conceptual Framework

The revised Conceptual Framework now sets out a more complete set of concepts in eight chapters:

1 The objective of general purpose financial reporting
2 The qualitative characteristics of useful financial information
3 Financial statements and the reporting entity
4 The elements of financial statements
5 Recognition and derecognition
6 Measurement
7 Presentation and disclosure
8 Concepts of capital and capital maintenance.

The guidance on measurement, financial performance, derecognition, and the reporting entity is new to the Conceptual Framework. In addition, some of the existing guidance was updated. For example, the IASB has reintroduced the concept of prudence to support a faithful representation and clarified that measurement uncertainty can impact a faithful representation.

The revised Conceptual Framework also updates some existing concepts like the definitions of assets and liabilities. Although both definitions worked well in the IASt, the revised definitions now 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 a flow of benefits.

Consequential amendments and effects on preparers

Alongside the revised Conceptual Framework, the IASB has published 'Amendments to References to the Conceptual Framework in IFRS Standards'. This publication updates nearly all of the references to previous versions with references to the 2018 Conceptual Framework. The IASB is confident that the updated references will have no impact on preparers of financial statements and reminds them that the Conceptual Framework is not a Standard and does not change or override requirements of any existing Standards.

However, some references have not been updated or allow preparers to continue applying the 2010 Conceptual Framework. To avoid unintended consequences, preparers are required to apply the definitions of assets and liabilities from the 2010 Conceptual Framework when accounting for business combinations under IFRS 3. The IASB plans to explore in due course how those references can be updated without having any effects on preparers of financial statements.

Also, preparers will continue using the 2010 definitions of assets and liabilities when accounting for regulatory account balances. This means preparers will not have to change their accounting for rate-regulated assets and liabilities twice within a short period of time as the IASB is planning to replace the interim Standard IFRS 14 'Regulatory Deferral Accounts' in 2021.

Effective date and transition

The Conceptual Framework is not a Standard and will not change or override any existing Standards. It is primarily a tool for the IASB to help them develop Standards based on consistent concepts. Over the last few years, the IASB has already started applying some of the new or revised concepts when developing or revising Standards.

However, entities that develop accounting policies using the Conceptual Framework, or that are in any other way affected by the amendments to IFRS Standards, will have to apply the changes from 1 January 2020.

Commercial Significance

Most — Number of entities affected

The Conceptual Framework applies to all entities using IFRS.

Low — Impact on affected entities

As noted above, as the Conceptual Framework is primarily a tool for the IASB in developing Standards, entities will not see a significant direct impact. However, entities that need to develop accounting policies using the Conceptual Framework will see an impact.

> 'The guidance on measurement, financial performance, derecognition, and the reporting entity is new to the Conceptual Framework.'

Definition of a Business (Amendments to IFRS 3)

In October 2018, the IASB issued 'Definition of a Business' making amendments to IFRS 3 'Business Combinations'.

The amendments are a response to feedback received from the post-implementation review of IFRS 3. They clarify the definition of a business, with the aim of helping entities to determine whether a transaction should be accounted for as an asset acquisition or a business combination.

The amendments:

- clarify the minimum attributes that the acquired assets and activities must have to be considered a business
- remove the assessment of whether market participants can acquire the business and replace missing inputs or processes to enable them to continue to produce outputs
- narrow the definition of a business and the definition of outputs
- add an optional concentration test that allows a simplified assessment of whether an acquired set of activities and assets is not a business.

New definition of a business

An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

What are the minimum requirements to meet the definition of a business?

The amendments acknowledge that despite most businesses having outputs, outputs are not necessary for an integrated set of assets and activities to qualify as a business. In order to meet the definition of a business the acquired set of activities and assets must have inputs and substantive processes that can collectively significantly contribute to the creation of outputs.

Is the acquired process substantive?

The amendments add guidance and illustrative examples to assist entities in assessing whether a substantive process has been acquired. The guidance explains those entities that do not have outputs are new entities that have not yet generated revenue. If the acquired set of activities and assets is generating revenue at the acquisition date it is considered to have outputs.

For activities and assets that do not have outputs at the acquisition date, the acquired process is substantive if:

- it is critical to being able to develop or convert an acquired input into an output
- the inputs acquired include both:
  - an organised workforce that has the skills, knowledge or experience to perform the process
  - other inputs that the organised workforce could develop or convert into outputs (eg. Technology, in-process research and development projects, real estate and mineral interests).

For activities and assets that have outputs at the acquisition date, the acquired process is substantive if:

- it is necessary to being able to continue to produce outputs, and the acquired inputs include an organised workforce with the necessary skills, knowledge or experience to perform the process
- it significantly contributes to being able to continue producing outputs and is deemed to be unique or scarce or it cannot be replaced without significant cost, effort or delay in producing outputs.

How have the amendments changed the definition?

The amendments replace the wording in the definition of a business from:

- 'providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants' to
- 'providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.'

This narrows the definition by focussing on goods or services rather than returns.

Accounting topic	Business combination	Asset purchase
Recognition of identifiable assets and liabilities	• measured at fair value	• total cost is allocated to individual items based on relative fair values
Goodwill or gain on bargain purchase	• recognized as an asset (goodwill) or as income (gain on bargain purchase)	• not recognized
Transaction costs	• expensed when incurred	• typically capitalized
Deferred tax on initial temporary differences	• recognized as assets and liabilities	• not recognized unless specific circumstances apply

What is the optional concentration test?

The amendments introduce an optional test (the concentration test) that allows the acquirer to carry out a simple assessment to determine whether the set of activities and assets acquired is not a business. If the test is successful, then the set of activities and assets acquired is not a business and no further assessment is required. If the test is not met or the entity does not carry out the test, then the entity needs to assess whether or not the acquired set of assets and activities meets the definition of a business in the normal way.

The test is met if substantially all of the fair value of the gross assets acquired is concentrated in one or a group of similar identifiable assets. Gross assets exclude cash and cash equivalents, deferred tax assets and goodwill from the effects of deferred tax liabilities. The amendments also provide guidance on what a single identifiable asset or a group of similar identifiable assets would be.

Transition

The changes are to be applied prospectively to business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Entities can apply them earlier if they disclose this fact.

Asset purchase versus business combination

It is important to distinguish business combinations from asset purchases because the IFRS requirements are very different. Some of the key differences are summarised in the table above.

Commercial Significance

Some — Number of entities affected

The amendments could impact all business combinations and purchases where it is unclear whether an asset or a business has been acquired.

Medium — Impact on affected entities

The impact could be significant if the outcome as to whether there is a business changes.

‘The amendments are a response to feedback received from the post-implementation review of IFRS 3.’

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

In October 2018, the IASB issued 'Definition of Material' making amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

The amendments are a response to findings that some companies experienced difficulties using the previous definition when judging whether information was material for inclusion in the financial statements. In fact, up to now, the wording of the definition of material in the Conceptual Framework for Financial Reporting differed from the wording used in IAS 1 and IAS 8. The existence of more than one definition of material was potentially confusing, leading to questions over whether the definitions had different meanings or should be applied differently.

The old definition

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements.

The new definition

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Grant Thornton International Ltd insight – 'obscuring'

Including 'obscuring' in the definition of material addresses concerns that the former definition could be perceived by stakeholders as focusing only on information that cannot be omitted (material information) and not also on why it may be unhelpful to include immaterial information. However, this does not mean that entities are prohibited from disclosing immaterial information.

The amendments give a number of examples of circumstances that may result in material information being obscured.

Grant Thornton International Ltd insight – 'reasonably be'

This wording reflects wording broadly previously used in IAS 1 and helps to address concerns raised by some parties that the threshold 'could influence' in the existing definition of material is too low and might be applied too broadly.

Grant Thornton International Ltd insight – 'primary users'

The amendments note many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed.

The amendments are designed to rectify this problem and make it easier for companies to define materiality judgements. They do this by:

- including in the definition guidance that until now has featured elsewhere in IFRS
- improving the explanations that accompany the definition
- ensuring that the definition of material is consistent across all IFRS.

Transition

The changes are effective from January 1, 2020, but entities can decide to apply them earlier.

Commercial Significance

Most Number of entities affected

The concept of materiality is used by most entities.

Few Impact on affected entities

The amendments are intended to make the definition easier to understand and are not intended to alter the concept of materiality in IFRS. As such, we do not expect the amendments to change significantly how materiality judgements are made in practice or to significantly affect entities' financial statements. We do however expect they will improve the understanding of this important area.

'The amendments note that many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need.'

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

In October 2019, the IASB 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 offered rates (IBORs) will be replaced by new benchmark Risk-Free Rates (RFRs) 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, and it's this subject that is addressed by the IASB's amendments.

The amendments

The main amendments can be summarised as follows:

Matters addressed by the amendments

Issue	Proposal
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. The IASB 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. They 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, they state 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 a hedging relationship because both the hedging instruments 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 a forecast transaction is no longer expected to occur, the entire amount accumulated in the cash flow hedge reserve with respect to that hedging relationship is reclassified to profit or loss.

The IASB has not provided an end to the application of the proposed exception relating to the separate identification requirement 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, with earlier application permitted. They should be applied retrospectively, with early application permitted.

Commercial significance

Few

Number of entities affected

The amendments affect entities with hedging relationships directly affected by IBORs.

Medium

Impact on affected entities

These amendments provide urgent relief from the effects of IBOR on hedge accounting. However, they address only the hedge accounting issues arising when IBORs are replaced with alternative risk free rates (RFR) so are known as the pre-replacement issues.

Effective from June 1, 2020

The Standard mentioned on pages 27 to 28 is effective for accounting periods beginning on or after June 1, 2020.

It may be possible to apply these changes early depending on local legislation and the requirements of the particular change in concern. The Standard is:

- COVID-19-Related Rent Concessions (Amendment to IFRS 16)

COVID-19-Related Rent Concessions (Amendment to IFRS 16)

In May 2020, the IASB published an amendment 'COVID-19-Related Rent Concessions (Amendment to IFRS 16)' (the amendment). The amendment adds a practical expedient to IFRS 16 'Leases' which provides relief for lessees in assessing whether specific COVID-19 rent concessions are considered to be lease modifications. Instead, if this practical expedient is applied, these rent concessions are treated as if they are not lease modifications. There are no changes for lessors in this amendment.

The COVID-19 pandemic is creating additional burden on entities all over the world. As a result, lessors are providing lessees with rent concessions. These can be in the form of rent holidays or rent reductions for an agreed timeframe (possibly followed by increased rentals in future periods). In some jurisdictions, governments are making rent concessions a requirement, in others, they are merely encouraging them. However, they will have major impact for lessees, in particular, the retail and hospitality industries where in many cases they have been forced to temporarily close their premises as a direct result of the pandemic.

IFRS 16 contains specific requirements when accounting for changes to lease payments and rent concessions are in the scope of these requirements. Lessees are required to assess whether rent concessions are lease modifications, and if they are, there is specific accounting to be applied. However, applying these requirements to potentially a significant number of leases could be difficult, particularly from a practical perspective. Entities already have significant pressures upon them as a result of this pandemic and what is set out in IFRS 16 to account for lease modifications will add to the burden.

The practical expedient

The practical expedient allows lessees to elect to not carry out an assessment to decide whether a COVID-19-related rent concession received is a lease modification. The lessee is permitted to account for the rent concession as if the change is not a lease modification.

The practical expedient is only applicable to rent concessions provided as a direct result of the COVID-19 pandemic. The relief is only for lessees that are granted these rent concessions. There are no changes for lessors. All of the following conditions in relation to the lessee expedient need to be met:

- the rent concession provides relief to payments that overall results in the consideration for the lease contract being substantially the same or less than the original consideration for the lease immediately before the concession was provided
- the rent concession is for relief for payments that were originally due on or before 30 June 2021. So payments included are those required to be reduced on or before June 30, 2021, but subsequent rental increases of amounts deferred can go beyond June 30, 2021
- there are no other substantive changes to the other terms and conditions of the lease.

Disclosure

If applying the practical expedient, the amendments require the entity to disclose:

- that it has applied the practical expedient to all its rent concessions, or if only some of them, a description of the nature of the contract it has applied the practical expedient to
- the amount in profit or loss for the reporting period that reflects the change in lease payments arising from rent concessions (as a result of applying the practical expedient).

Effective date

The amendment is applicable for reporting periods beginning on or after June 1, 2020. Earlier application will be permitted, including for financial statements not yet authorised for issue at May 28, 2020 (the date the amendment was issued).

Commercial significance

Many — Number of entities affected

The amendments affect all lessees provided with a rent concession in relation to COVID-19.

Medium — Impact on affected entities

These amendments could have a significant impact on relief in applying the lease modification guidance in IFRS 16 for a COVID-19-related rent concession.

> ‘The amendment adds a practical expedient to the Standard which provides relief for lessees in assessing whether specific COVID-19 rent concessions are considered to be lease modifications.’

Effective from January 1, 2021

The Standard mentioned on pages 30 to 31 is effective for accounting periods beginning on or after January 1, 2021.

It may be possible to apply these changes early depending on local legislation and the requirements of the particular change in concern. The Standard is:

- Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

In September 2020, the IASB published Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16), finalising its response to the ongoing reform of interest rate benchmarks around the world. The amendments aim to assist reporting entities to provide investors with useful information about the effects of the reform on their financial statements.

Many interbank offer rates (IBORs) are expected to be replaced by new benchmark Risk-Free Rates (RFRs) in future reporting periods. This has resulted is the IASB needing to address potential financial reporting implications after the reform of an interest rate benchmark. The IASB has completed this project in two stages, the first one focussing on providing relief for hedging relationships which was finalised in September 2019 by publishing Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) – refer to page 24 for the details on these amendments. This second set of amendments focus on issues arising post replacement, ie, when the existing interest rate benchmark is actually replaced with alternative benchmark rates.

The amendments

The main amendments in this second stage can be summarized as follows:

Matters addressed by the amendments

Issue	Proposal
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? The IASB 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 are not contractually specified and that are 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 a hedging relationship because both the hedging instruments and the hedged item frequently change, the entity applies the requirement only when it initially designates a hedged item in that hedging relationship.

Effective date and transition

The amendments are effective for annual periods beginning on or after January 1, 2021, with earlier application permitted. They should be applied retrospectively, and restatement of prior periods is not required, however entities can restate prior periods, if it is possible without the use of hindsight.

Commercial significance

Few Number of entities affected

The amendments affect entities with hedging relationships directly affected by IBORs.

Medium Impact on affected entities

These amendments provide urgent relief from the effects of IBOR on hedge accounting. Using these amendments, we believe it should be possible for most reporting entities to transition from IBOR benchmarks to alternative benchmarks without hedge discontinuation which would be a useful outcome for users of financial statements.

> ‘This second set of amendments focus on issues arising post replacement, i.e., when the existing interest rate benchmark is actually replaced with alternative benchmark rates.’

Effective from January 1,2022

The Standards mentioned on pages 33 to 34 are effective for accounting periods beginning on or after January 1, 2022.

It may be possible to apply these changes early depending on local legislation and the requirements of the particular change in concern. The Standards are:

- References to the Conceptual Framework (Amendments to IFRS 3)
- Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)

As the above represent relatively minor amendments that were all issued at the same time, they have been included in one article in this publication.

Narrow Scope Amendments to IFRS Standards

In May 2020 the IASB issued a collection of narrow scope amendments to IFRS Standards. The collection includes amendments to three Standards as well as Annual Improvements to IFRS Standards, which addresses non-urgent (but necessary) minor amendments to four standards.

The amendments

The Amendments issued are as follows:

- References to the Conceptual Framework (Amendments to IFRS 3)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020 cycle

Publications issued

Standard affected	Subject	IASB's summary of amendment
IFRS 3 'Business Combinations'	References to the Conceptual Framework	Adds a new exception to the recognition principle in order to make sure that the accounting remains unchanged.
IAS 16 'Property, Plant and Equipment'	Proceeds before Intended Use	Prohibits an entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, an entity will recognise such sales proceeds and related cost in profit or loss.
IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'	Onerous Contracts – Cost of Fulfilling a Contract	Specifies which costs an entity includes when assessing whether a contract will be loss-making.

'The collection includes amendments to three Standards as well as Annual Improvements to IFRS Standards, which addresses non-urgent (but necessary) minor amendments to four standards.'

Annual Improvements to IFRS Standards 2018-2020 Cycle

Standard affected	Subject	IASB's summary of amendment
IFRS 1 'First time Adoption of International Financial Reporting	Subsidiary as a First-time Adopter	Simplifies the application of IFRS 1 by a subsidiary that becomes a first- time adopter after its parent in relation to the measurement of cumulative translation differences.
IFRS 9 'Financial Instruments'	Fees in the '10 per cent' Test for Derecognition of Financial Liabilities	Clarifies the fees an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.
Illustrative Examples Accompanying IFRS 16 'Leases'	Lease Incentives	Removes potential for confusion regarding lease incentives.
IAS 41 'Agriculture'	Taxation in Fair Value Measurements	Removes a requirement to exclude cash flows from taxation when measuring fair value thereby aligning the fair value measurement requirements in IAS 41 with those in other IFRS Standards.

Commercial significance

Few

Number of entities affected

The amendments make changes to relatively narrow areas within IFRS.

Low

Impact on affected entities

The amendments and the IASB's Annual Improvements process addresses non-urgent, but necessary minor amendments to IFRS. By their nature then, their commercial significance can be expected to be low. Overall the changes are uncontroversial.

Effective from January 1, 2023

The Standards mentioned on pages 36 to 41 are effective for accounting periods beginning on or after January 1, 2023.

It may be possible to apply these changes early depending on local legislation and the requirements of the particular change in concern. The Standards are:

- Insurance Contracts[1]
- Classification of assets as current or non-current (Amendments to IAS 1)

[1] Includes 'Amendments to IFRS 17' and 'Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)' issued in June 2020.

IFRS 17 Insurance Contracts

In May 2017, after more than 20 years in development, the IASB published IFRS 17 'Insurance Contracts'. This lengthy completion period reflecting a number of factors including:

- very diverse local practices for insurance accounting
- a huge range of jurisdiction-specific products, tax implications and regulations that had to be captured by a uniform measurement model
- the need for alignment with other Standards that have been recently published by the IASB, such as IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers', and to some degree the work of other standard setters.

The new Standard replaces IFRS 4 'Insurance Contracts' which was published in 2004. IFRS 4 was designed to be an interim Standard and therefore allowed entities issuing insurance contracts to carry on accounting for them using policies that had been developed under their previous local accounting standards. This meant that entities continued to use a multitude of different approaches for accounting for insurance contracts, making it difficult to compare and contrast the financial performance of otherwise similar entities.

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. We briefly discuss some of the areas covered by the new Standard below:

Scope

IFRS 17 applies to all insurance contracts that an entity issues (including those for reinsurance); reinsurance contracts it holds; and investment contracts with a discretionary participation feature, provided the entity also issues insurance contracts.

IFRS 17 defines an insurance contract as one under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

This definition is similar to that in IFRS 4. In addition, IFRS 17 provides guidance on how to assess the significance of insurance risk based on the possibility of a loss on a present value basis (rather than nominal), and how to evaluate changes in the level of insurance risk.

Measurement

IFRS 17 requires an entity that issues insurance contracts to report them on the balance sheet as the total of:

a. the fulfilment cash flows – the current estimates of amounts that the insurer expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those cash flows and
b. the contractual service margin – the expected profit for providing future insurance coverage (i.e., unearned profit).

The measurement of the fulfilment cash flows reflects the current value of any interest rate guarantees and financial options included in the insurance contracts.

To better reflect changes in insurance obligations and risks, IFRS 17 requires an entity to update the fulfilment cash flows at each reporting date, using current estimates that are consistent with relevant market information. This means that insurance obligations will be accounted for using current values instead of historical cost, ending the practice of using data from when a policy was taken out.

Current discount rates are also required to be used. These will reflect the characteristics of the cash flows arising from the insurance contract liabilities, a change from the previous situation where many entities used discount rates based on the expected return on assets backing the insurance contract liabilities.

Revenue is no longer equal to written premiums but to the change in the contract liability covered by consideration.

Insurance performance

IFRS 17 requires an entity to provide information that distinguishes two ways insurers earn profits from insurance contracts:

a. the insurance service result, which depicts the profit earned from providing insurance coverage
b. the financial result, which captures:
   - investment income from managing financial assets
   - insurance finance expenses from insurance obligations – the effects of discount rates and other financial variables on the value of insurance obligations.

When applying IFRS 17, changes in the estimates of the expected premiums and payments that relate to future insurance coverage will adjust the expected profit – i.e., the contractual service margin for a group of insurance contracts will be increased or decreased by the effect of those changes.

The effect of such changes in estimates will then be recognised in profit or loss over the remaining coverage period as the contractual service margin is earned by providing insurance coverage.

Onerous contracts

To make differences in profitability among insurance contracts visible, IFRS 17 requires an entity to distinguish groups of contracts expected to be loss-making from other contracts.

Companies should first identify portfolios of insurance contracts that are subject to similar risks and managed together. Once an entity has identified portfolios of contracts, it divides each portfolio into groups considering differences in the expected profitability of the contracts.

If the amounts that the insurer expects to pay out on a contract in the form of claims, benefits and expenses exceed the amounts that the insurer expects to collect from premiums, either at the inception of the contracts or subsequently, the contracts are loss making and the difference will be recognised immediately in profit or loss.

Reinsurance contracts

A separate measurement model applies to reinsurance contracts held. Modifications are allowed for qualifying short-term contracts and participating contracts.

Presentation

Statement of financial position

The statement of financial position should present in separate captions the assets and liabilities arising under insurance contracts issued and reinsurance contracts held.

In contrast to practices existing under various local GAAPs, entities should adopt a grossed-up presentation where contracts, which are assets, are not netted off against contracts, which are liabilities and vice versa. IFRS 17 does not mandate a layout for the statement of financial position. The reporting entities should follow the general requirements of IAS 1 'Presentation of Financial Statements' but need to ensure that certain captions are presented as a minimum on the face of the statement.

Statement of financial performance – measurement of revenue and expenses

IFRS 17 does not mandate a layout for the statement of financial performance. Reporting entities should follow the principles and requirements of IAS 1 and the measurement rules of IFRS 17, which require that revenue and incurred expenses presented in profit or loss exclude any investment components.

Measurement of insurance contract revenue

Revenue recognition is an area where IFRS 17 principles represent a significant change from practices previously followed in various local GAAPs. Previously revenue was often reported by reference to premium cash received or receivable.

Under IFRS 17, revenue represents the total change in the liability for remaining coverage that relates to coverage and services during the period for which the entity expects to receive consideration.

Supporting materials issued by the IASB

Following publication of IFRS 17, the IASB has announced various initiatives to support entities with the adoption of the Standard, including a dedicated implementation support page for IFRS 17 and a webinar on the Standard.

The IASB has also established a Transition Resource Group which discusses questions from stakeholders about the new accounting requirements. Grant Thornton is represented on the Group.

Disclosure

The objective of the disclosure requirements of IFRS 17 is to disclose information which allows the users of financial statements to assess the effect that contracts within the scope of the Standard have on the entity's financial position, financial performance and cash flows. Entities should provide quantitative and qualitative information about amounts recognised in the financial statements, significant judgements (and changes thereof), and the nature and extent of risks arising from contracts within the scope of the Standard.

Reporting entities are required to follow IAS 1's requirements on materiality and aggregation when deciding what aggregation bases are appropriate for disclosure. The type of contract, geographical area or reportable segment as defined in IFRS 8 'Operating Segments' are all examples suggested but not mandated by the Standard.

Effective date and transition

IFRS 17 has a revised effective date of January 1, 2023 but may be applied earlier provided the entity applies IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' at or before the date of initial application of the Standard (and subject to any considerations imposed by local legislation). The effective date was revised in June 2020 as part of a series of amendments to IFRS 17 – see below for more details.

In 2016, the IASB made narrow scope amendments to IFRS 4 'Insurance Contracts' to provide temporary accounting solutions for the practical challenges of implementing IFRS 9 before IFRS 17. These have been updated to reflect the revised effective date of IFRS 17.

The Insurance Commission (IC), considering the extension of IFRS 17 and the challenges of COVID-19 pandemic to the insurance industry, has deferred the implementation of IFRS 17 to January 1, 2025, granting an additional two-year period from the date of effectivity proposed by the IASB.

'IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies.'

Amendments to IFRS 17

After concerns raised by stakeholders, in June 2020 the IASB issued 'Amendments to IFRS 17 'Insurance Contracts' (the Amendments). The aim of the amendments is to address these concerns and help entities to more easily transition and implement the Standard.

The IASB also issued an amendment to the previous insurance Standard IFRS 4, 'Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)' so that entities can still apply IFRS 9 'Financial Instruments' alongside IFRS 17.

The amendments:

- ease transition by deferring the effective date of the Standard and by providing additional relief to reduce the effort required when applying IFRS 17 for the first time
- make financial performance easier to explain, and
- further reduce compliance costs by simplifying some requirements in the Standard.

These changes are summarised in the table below:

Area of change	Description
Effective date of IFRS 17 and the IFRS 9 temporary exemption	The amendments defer the effective date of IFRS 17 by two years from annual reporting periods beginning on or after 2021 to annual reporting periods beginning on or after 2023. The amendments also extend the temporary exemption (included in IFRS 4) from IFRS 9 by two years so that an entity applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after January 1, 2023.
Scope exclusions	The amendments add additional scope exclusions for credit card contracts that provide insurance coverage, and also an optional scope exclusion for loan contracts that transfer high insurance risk.
Expected recovery of insurance acquisition cash flows	The amendments include guidance on the recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognised in a business acquired in a business combination.
Contractual service margin attributable to investment-return service and investment-related service	The amendments clarify the application of contractual service margin (CSM) attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements.
Applicability of the risk mitigation option	The amendments extend the risk mitigation option to include reinsurance contracts held and non-financial derivatives.
Interim financial statements	The amendments clarify the application of IFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level.
Reinsurance contracts held — recovery of losses on underlying insurance contracts	The amendments require an entity that at initial recognition recognises losses on onerous insurance contracts issued to also recognise a gain on reinsurance contracts held.
Presentation in the statement of financial position	The amendments 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 rather than groups of insurance.
Transitional modifications and reliefs	The amendments add extra transitional reliefs for business combinations, the date of application of the risk mitigation option and the use of the fair value transition approach.
Minor amendments	The amendments add minor changes where the drafting of the Standard did not achieve the IASB's intended outcome.

Commercial significance

Some

Number of entities affected

IFRS 17 is a Standard about insurance contracts, not a Standard for the insurance industry. While insurance companies will be most affected, its effect will also be felt beyond the entities authorised to carry out regulated insurance activities in a jurisdiction.

High

Impact on affected entities

IFRS 17 fundamentally changes the accounting for insurance contracts. It will have a substantial impact on the financial statements of those with insurance contracts. Presently there is a huge diversity in the way insurance contracts are accounted for, IFRS 17 is set to harmonise these accounting practices and will transform data, people, technology solutions and investor relations. Implementation costs are likely to be high as entities get to grips with the new Standard.

> ‘To better reflect changes in insurance obligations and risks, IFRS 17 requires an entity to update the fulfilment cash flows at each reporting date, using current estimates that are consistent with relevant market information.’

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

In January 2020, the IASB published 'Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)' which clarify the Standard's guidance on whether a liability should be classified as either current or non-current.

IAS 1 says that if a company has an unconditional right to delay settlement of a liability for at least 12 months from the end of the reporting period, then it can be classified as non-current, if not it is classified as current. Some preparers have found this statement confusing and consequently similar liabilities have been classified differently, making comparisons by investors difficult.

The IASB therefore issued amendments to IAS 1 to clarify this guidance and rectify the above issue.

The amendments

The amendments clarify the guidance in IAS 1 by:

- clarifying that the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period
- stating that management's expectations around whether they will defer settlement or not does not impact the classification of the liability
- adding guidance about lending conditions and how these can impact classification
- including requirements for liabilities that can be settled using an entity's own instruments.

Effective date and transition

The amendments were initially effective from accounting periods beginning on or after January 1, 2022. However, as a result of the COVID-19 pandemic, the IASB decided to give entities more time to implement any classification changes that may result from the above amendments. As such in July 2020 changed the effective date of the amendments and they are now effective from January 1, 2023.

The amendments should be applied retrospectively, with entities being allowed to apply them to an earlier period, as long as they disclose that they have done so.

Commercial significance

Many Number of entities affected

The amendments affect entities with borrowing arrangements so therefore the impact could be widespread.

Medium Impact on affected entities

These amendments could have a significant impact on an entity's presentation of their borrowings which in turn could impact important financial ratios.

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