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ACCOUNTING UPDATE 2019

# Standards Issued and Effective Dates

## Introduction

The following is a summary of new standards and pronouncements that are in issue and effective in the 2019 sets of financial statements of entities or thereafter. Preparers should take note of these amendments during the preparation of their annual financial statements or when planning forthcoming data capturing requirements.

## Standards Issued and Effective on or after 1 January 2019

| | Standard | Change |
|---|---|---|
| 1 | IFRS 16 *Leases* | New standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.<br><br>A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use asset similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. Therefore, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7 *Statement of Cash Flows*.<br><br>IFRS 16 contains expanded disclosure requirements for lessees. Lessees will need to apply judgement in deciding upon the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee.<br><br>IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.<br>IFRS 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.<br><br>IFRS 16 supersedes the following Standards and Interpretations:<br>a) IAS 17 *Leases*.<br>b) IFRIC 4 *Determining whether an Arrangement contains a Lease*.<br>c) SIC-15 *Operating Leases – Incentives*; and<br>d) SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. |

## Narrow Scope Amendments Effective on or after 1 January 2019

| | Standard | Change |
|---|---|---|
| 1 | IFRS 9 *Financial Instruments* | *Prepayment Features with Negative Compensation* - Applying the amendments, particular financial assets with prepayment features that may result in reasonable negative compensation for the early termination of the contract are eligible to be measured at amortised cost or at fair value through other comprehensive income.<br><br>These amendments are:<br>• Changes regarding symmetric prepayment options: Prepayment Features with Negative Compensation amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Under the amendments, the sign of the prepayment amount is not relevant, i. e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favour of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of a early repayment gain.<br>• Clarification regarding the modification of financial liabilities: It clarifies that an entity recognises any adjustment to the amortised cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange. A retrospective change of the accounting treatment may therefore become necessary if in the past the effective interest rate was adjusted and not the amortised cost amount.<br><br>The amendments are to be applied retrospectively for financial years beginning on or after 1 January 2019. |
| 2 | IAS 28 *Investments in Associates and Joint Ventures* | *Long-term interest in Associates and Joint Ventures:* Clarifies that entities account for long-term interests in an associate or joint venture, to which the equity method is not applied, using IFRS 9 before accounting for any losses or impairment losses applying IAS 28.<br><br>The amendments are to be applied retrospectively for financial years beginning on or after 1 January 2019. |
| 3 | IAS 19 *Employee Benefits* | The IASB published *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19) to synchronize accounting practices and to provide more relevant information for decision-making.<br><br>An entity applies the amendments to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. |

| | Standard | Change |
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| 4 | IFRS 3 *Business Combinations* | *Annual Improvements 2015 - 2017 Cycle*: Clarification that when an entity obtains control of a business that is a joint operation, it is required to remeasure previously held interests in that business. |
| 5 | IFRS 11 *Joint Arrangements* | *Annual Improvements 2015 - 2017 Cycle*: Clarification that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. |
| 6 | IAS 12 *Income Taxes* | *Annual Improvements 2015 - 2017 Cycle*: Clarification that all income tax consequences of dividends should be recognised in profit or loss, regardless how the tax arises. |
| 7 | IAS 23 *Borrowing Costs* | *Annual Improvements 2015 - 2017 Cycle*: The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. |

## Interpretations Issued and Effective on or after 1 January 2019

| | Standard | Change |
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| 1 | IFRIC 23 *Uncertainty over Income Tax Treatments* | The interpretation specifies how an entity should reflect the effects of uncertainties in accounting for income taxes.<br><br>The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. |

## Narrow Scope Amendments Effective on or after 1 January 2020

| | Standard | Change |
|---|---|---|
| 1 | IFRS 3 *Business Combinations* | *Definition of Business:* The amendments:<br>• confirmed that a business must include inputs and a process, and clarified that:<br>▪ the process must be substantive; and<br>▪ the inputs and process must together significantly contribute to creating outputs.<br>• narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and |

| | Standard | Change |
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| | | • added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. |
| 2 | IFRS 7 *Financial Instruments Disclosures,* IFRS 9 *Financial Instruments &* IAS 39 *Financial Instruments: Recognition and Measurement* | *Interest Rate Benchmark Reform*: The amendments to IFRS 9, IAS 39 and IFRS 7 amend requirements for hedge accounting to support the provision of useful financial information during the period of uncertainty caused by the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs) on hedge accounting.<br>• The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform.<br>▪ In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. |
| 3 | IAS 1 *Presentation of Financial Statements* | *Definition of Material:* The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. |
| 4 | IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* | *Definition of Material:* The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. |
| 5 | References to the Conceptual Framework | The revised Conceptual Framework was published in March 2018. Together with the publication, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards.<br><br>The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. |

## Standards Issued and Effective on or after 1 January 2021 and later

| | Standard | Change |
|---|---|---|
| 1 | IFRS 17 *Insurance Contracts* | IFRS 17 creates one accounting model for all insurance contracts in all jurisdictions that apply IFRS.<br><br>This standard replaces IFRS 4 – Insurance contracts.<br><br>The key principles in IFRS 17 are that an entity:<br>a) identifies as insurance contracts those contracts under which the entity 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. |

| | Standard | Change |
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| | | b) separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts.<br>c) divides the contracts into groups it will recognise and measure.<br>d) recognises and measures groups of insurance contracts at a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all the available information about the fulfilment cash flows in a way that is consistent with observable market information plus (if this value is a liability) or minus (if this value is an asset) an amount representing the unearned profit in the group of contracts (the contractual service margin);<br>e) recognises the profit from a group of insurance contracts over the period the entity provides insurance coverage, and as the entity is released from risk, if a group of contracts is or becomes loss-making, an entity recognises the loss immediately.<br>f) presents separately insurance revenue, insurance service expenses and insurance finance income or expenses.<br>g) discloses information to enable users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of the entity. To do this, an entity discloses qualitative and quantitative information about:<br>• the amounts recognised in its financial statements from insurance contracts.<br>• the significant judgements, and changes in those judgements, made when applying the Standard; and<br>• the nature and extent of the risks from contracts within the scope of this Standard. |

## In conclusion

Preparers should note that IAS 8 requires an entity to disclose:

- the effects of adoption of a standard, amendment or pronouncement that is mandatory for the first time in the financial year presented. The disclosure required includes the title of the standard, nature of the change in accounting policy, the impact of the change and transitional provisions including any retrospective impacts.
- where an entity has not applied the requirements of a new standard, amendment or pronouncement that has been issued but is not effective/mandatory, the standard/pronouncement in question, the known or reliably measured impact of adoption of the change, the date that the change is effective and the date that the entity expects to adopt the change. The standard requires an entity that has not fully evaluated the impact to make a statement to that effect.