IFRS Update – ABIAL 1 June 2016

Building a better working world

Agenda

- Revenue Recognition (IFRS 15)
- Financial Instruments (IFRS 9)
- Leases (IFRS 16)

EFRAG
European Financial Reporting Advisory Group

The EU endorsement status report
Position as at 17 May 2016

IASB/IFRIC documents not yet endorsed *[Revisions to this schedule are marked in bold]*	EFRAG draft endorsement advice	EFRAG endorsement advice	ARC vote	When might endorsement be expected	IASB Effective Date	Expected to be endorsed before the effective date?
STANDARDS						
IFRS 9 Financial Instruments (*Issued on 24 July 2014*)	✓04/05/2015	✓15/09/2015	×Q2 2016	**×Q4 2016**	1/1/2018	▲
IFRS 14 Regulatory Deferral Accounts (*issued on 30 January 2014*)	The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.				1/1/2016	
IFRS 15 Revenue from Contracts with Customers (*issued on 28 May 2014*) including amendments to IFRS 15: Effective date of IFRS 15 (*issued on 11 September 2015*)	✓15/10/2014	✓17/03/2015	✓11/4/2016	×Q3 2016	1/1/2018	▲
IFRS 16 *Leases* (*Issued on 13 January 2016*)	×H2 2016	×H2 2016	**2017**	**2017**	1/1/2019	▲
AMENDMENTS						

IFRS 15 Revenue Recognition

Overview of the new revenue recognition standard

- A FASB and IASB joint revenue recognition project to develop a common standard
- IFRS 15 replaces all existing revenue standards and interpretations (e.g. IAS 18, IFRIC 13)
- It provides a more structured approach to measuring and recognising revenue, with an **entirely new 5-step model** and detailed application guidance. It also:
  - Requires entities to make many estimates and use significant judgement
  - May significantly affect business processes, systems and internal controls
- There is not a clear-cut change to previous standards: understanding the impact of the changes requires entities to **reassess all their 'in-scope' revenue streams under the new approach and the new guidance**
- **Disclosure requirements on revenue** are expanded significantly
- Entities can choose to adopt the standard using either a full retrospective approach or a modified retrospective approach

The five step model

Core principle – Recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity ***expects to be entitled*** in exchange for those goods or services

Step 1:	Identify the contract(s) with the customer
Step 2:	Identify the performance obligations (PO) in the contract
Step 3:	Determine the transaction price
Step 4:	Allocate the transaction price to the POs in the contract
Step 5:	Recognise revenue when (or as) each PO is satisfied

The five-step model applies to all the revenue streams for all types of contracts within the scope of the new standard

Disclosures

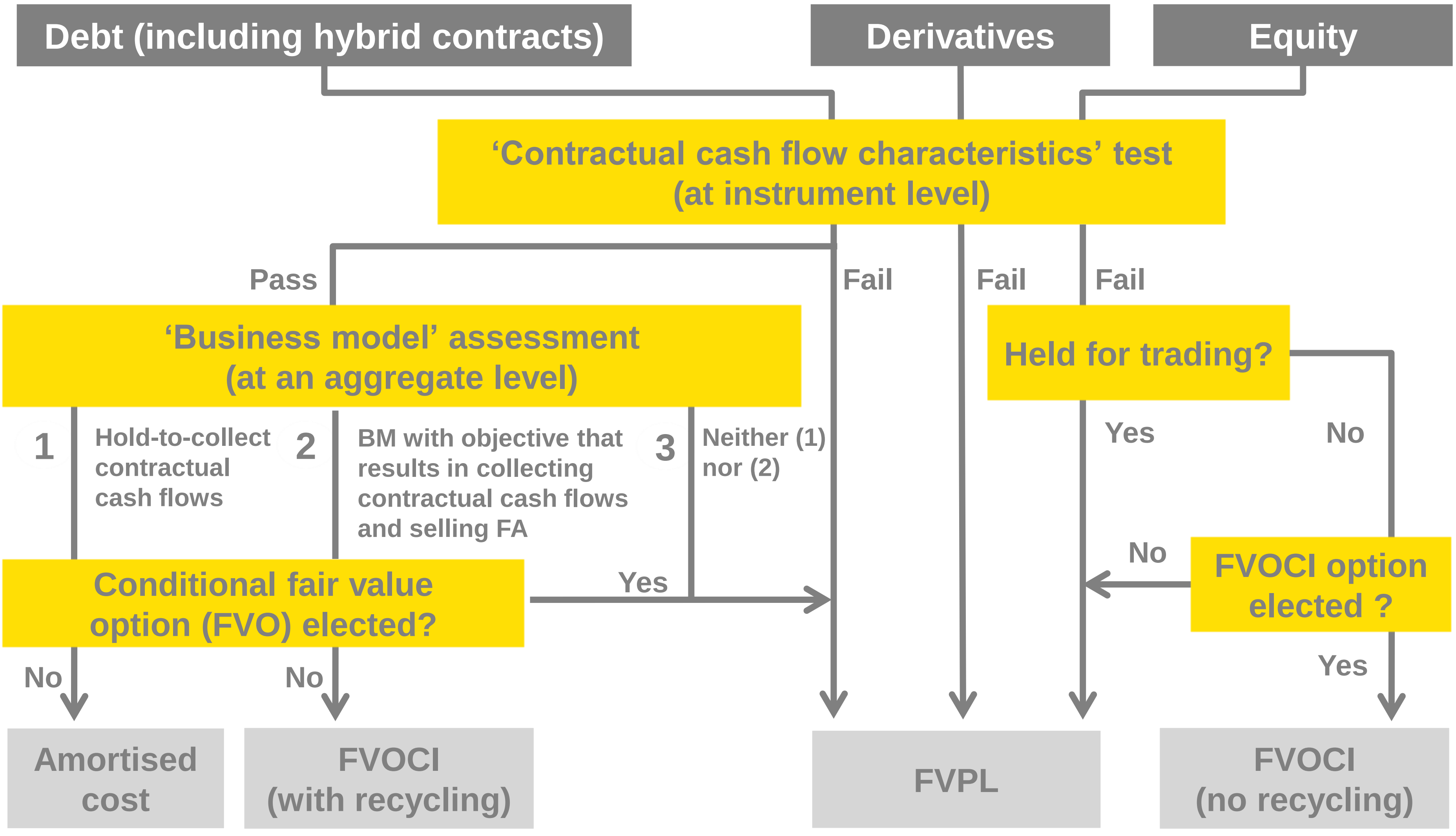
- **Entities are required to provide quantitative and qualitative disclosures to help users understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including information regarding:**
  - Disaggregation of revenue
  - Significant changes in contract assets and liabilities and costs
  - Performance obligations
  - Determination and allocation of transaction prices
  - Amounts allocated to remaining performance obligations and when these amounts would be recognized as revenue
  - Significant judgments and changes in judgments
  - Costs capitalized in obtaining or fulfilling contracts

IFRS 9 Financial Instruments

IAS 39 vs. IFRS 9: Classification and Measurement

IAS 39	IFRS 9
• Rule-based • Complex and difficult to apply • Multiple impairment models • Own credit gains/losses recognized in P&L for FVO liabilities • Complicated reclassification rules	• Principle-based • Based on business model and nature of cash flows • Single impairment model • Own credit gains/losses presented in OCI for FVO liabilities • Business model-driven reclassification

Synopsis of the key aspects of the new model for financial assets



EY

IAS 39 vs. IFRS 9: Impairment

IAS 39

- Incurred loss model
  - **Delays recognition of credit losses until there is evidence of a loss event**
  - **Only considered losses that arose from past events and current conditions (future credit loss events not considered)**
- Multiple impairment models for financial instruments

IFRS 9

- Expected loss model
  - **Eliminates the threshold for the recognition of expected credit losses**
  - **Measurement based on reasonable and supportable information available (past, current, and forecast)**
- Single impairment model for financial instruments

General approach

Start here

	Stage 1	Stage 2	Stage 3
Loss allowance updated at each reporting date	**12-month expected credit losses**	**Lifetime expected credit losses**	**Lifetime expected credit losses**
Lifetime expected credit losses criterion		**Credit risk has increased significantly since initial recognition (individual or collective basis)**	**Credit risk has increased significantly since initial recognition (individual or collective basis)** + **Credit-impaired**
Interest revenue calculated based on	**Effective interest rate on gross carrying amount**	**Effective interest rate on gross carrying amount**	**Effective interest rate on amortised cost**

Change in credit risk since initial recognition

Improvement ⟷ *Deterioration*

EY

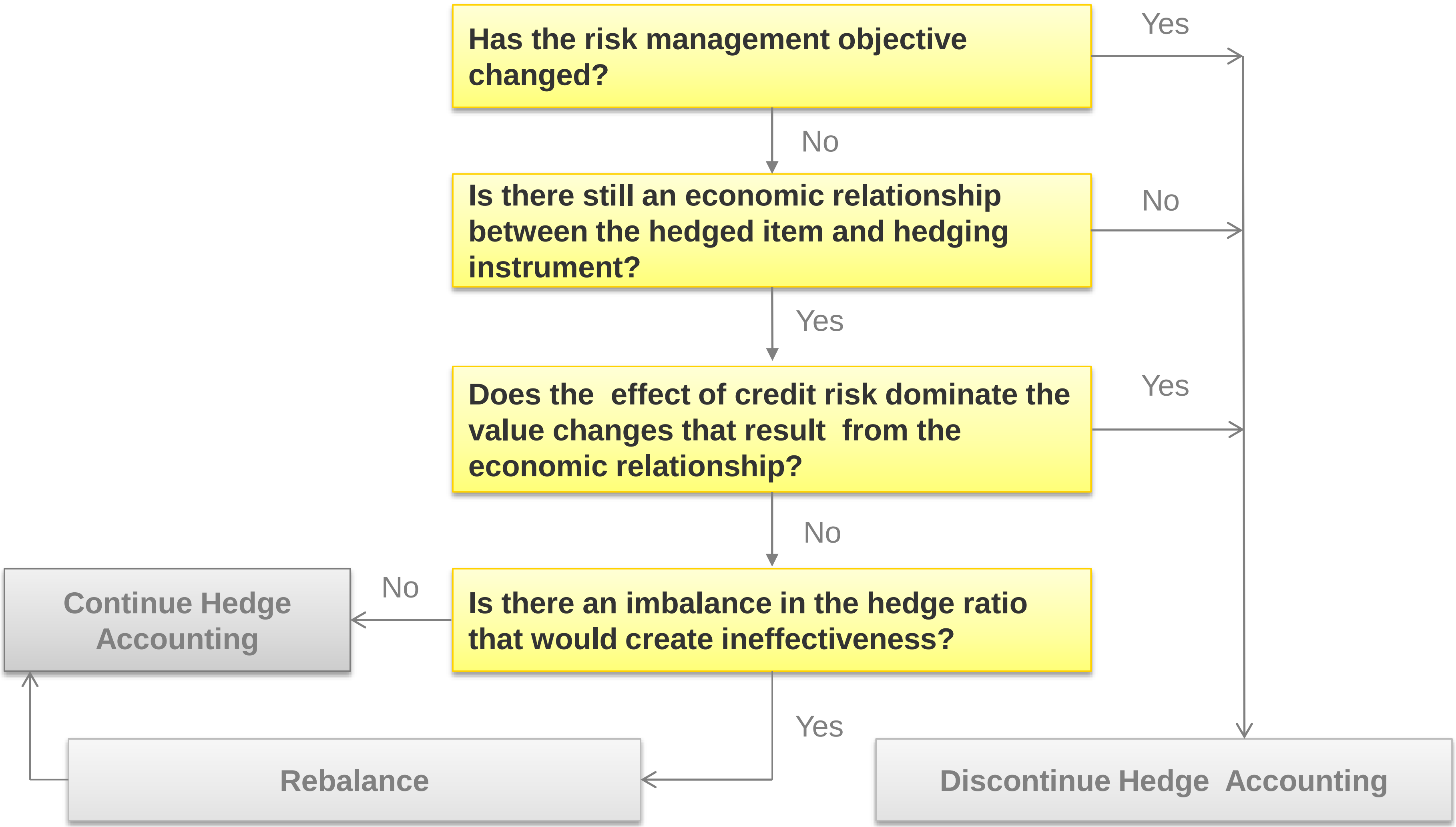
The new hedge accounting model: background and objective

- Hedge accounting under IAS 39 was criticised for being:
  - Complex
  - Rules based
  - Not aligned with risk management practices
- Objective of new hedge accounting model in IFRS 9: **Represent in the financial statements the effect of an entity's risk management activities**
- More economic hedging strategies should qualify for hedge accounting
- It should be easier for users of financial statements to understand hedging activities and the accounting consequences

Key differences: snapshot

Requirement	IAS 39	IFRS 9
Risk component as eligible hedged item	Financial items	All items
80%-125% test	✓	X
Prospective effectiveness testing	✓	✓
Retrospective effectiveness testing	✓	X
Quantitative effectiveness test	✓	Depends
Qualitative effectiveness test	X	Depends
All ineffectiveness must be recognised	✓	✓
Accounting for ‘costs of hedging’	X	✓
Rebalancing of hedge ratio	X	✓
Dedesignation (risk management objective unchanged)	✓	X
Discontinuation (risk management objective changed or other qualifying criteria not met)	✓	✓

IFRS 9: Subsequent Effectiveness Assessments, Rebalancing and Hedge Discontinuation



IFRS 16 Leases

Overview

2009
Discussion Paper

2010
1st Exposure Draft (ED)

2013
2nd ED

2014 – 2015
Redeliberations on 2nd ED

2016
IFRS 16

Key changes primarily affecting lessees

- Recognise assets and liabilities for most leases
- New presentation and disclosure requirements

Lessors

- Accounting substantially the same

New standard will be effective for annual periods beginning on or after 1 January 2019

Definition of a lease

There is an **identified asset**

+

The contract conveys the **right to control the use** of the identified asset for a period of time in exchange for consideration

→

Lease

Lessee accounting
Recognition and measurement

Initial recognition and measurement	► Initially measure right-of-use (ROU) asset[1] and lease liability at present value of lease payments
Subsequent measurement of lease liability	► Accrete the lease liability based on the interest method using a discount rate determined at lease commencement[2] ► Reduce lease liability by payments made
Subsequent measurement of ROU asset	► Depreciate ROU asset, based on IAS 16 *Property, Plant and Equipment* ► Alternative measurement of ROU asset under IAS 16 and IAS 40 *Investment Property*
Profit and loss	► Generally 'front-loaded' expense for individual lease ► Separate interest and depreciation

1 **Initial measurement of the ROU asset would also include the lessee's initial direct costs (IDCs), prepayments made to the lessor less lease incentives received from the lessor, if any, and restoration, removal and dismantling costs.**

2 **As long as a reassessment and a change in the discount rate have not occurred.**

Good Luck!

Building a better
working world