Deloitte.

IFRS in Focus
Closing Out 2019

Contents

IFRS 16 *Leases*

Recently implemented accounting standards

Information on an entity's financing activities

Reporting the effects of income tax

Impairment reviews

Brexit and 2019 annual reports

The use of 'non-GAAP' or Alternative Performance Measures

Changes resulting from the Interest Rate Benchmark Reform

Changes to the definition of a business

ESG disclosures

Currency and hyperinflation

Disclosure of judgements and estimates

Other topics

Appendices:

New and revised IFRS Standards and Interpretations mandatorily effective for years ending 31 December 2019

IFRS Interpretations Committee agenda decisions in 2019

New and revised IFRS Standards and Interpretations available for early application in years ending 31 December 2019

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

In this special edition of *IFRS in Focus*, we set out financial reporting issues that may be relevant for years ending on or after 31 December 2019 as a result of areas of regulatory focus, the current economic environment or changes in accounting standards.

IFRS 16 *Leases*

The biggest change in financial reporting for most entities this year will be the adoption of IFRS 16 *Leases*, which requires lessees to bring most of their leases that were previously operating leases on balance sheet.

Our publication **Leases – A guide to IFRS 16** remains a relevant source of information for understanding the key requirements in the Standard. The information in the guide should be considered together with additional guidance on the application of the Standard in DART (available through subscription).

Our 2019 **Model Financial Statements for IFRS Preparers** illustrate the initial application of IFRS 16 using a full retrospective approach. In an **Appendix to the Model Financial Statements**, we illustrate the changes required on initial application of IFRS 16 using the cumulative catch-up approach.

Transition

Disclosures should be entity-specific in order to help investors to understand the amounts and adjustments reported on transition to IFRS 16.

The information disclosed should include a meaningful explanation of the new accounting policies. Description of an accounting policy should not simply repeat the requirements of the relevant accounting standard, but should explain how those requirements have been applied to the entity's particular facts and circumstances. It should include information about the key judgements and assumptions made in applying the requirements of IFRS 16.

The approach to transition (retrospectively or the cumulative catch-up approach) will dictate the disclosure an entity is required to provide about the initial application of IFRS 16. In particular, lessees applying the cumulative catch-up approach are required to disclose:

- the weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application; and
- an explanation of any difference between:
  - operating lease commitments disclosed applying IAS 17 *Leases* at the end of the annual reporting period immediately preceding the date of initial application, discounted using the incremental borrowing rate at the date of initial application; and
  - lease liabilities recognised in the statement of financial position at the date of initial application.

Lessees are also required to disclose whether they have used one or more of the specified practical expedients permitted on transition under the cumulative catch-up approach.

The application of IFRS 16 will have a significant effect on lessees' statements of cash flows, as the payment of the principal on lease liabilities will be presented as part of the financing activities and the cash flows related to interest on leases as either operating or financing cash flows in accordance with the lessee's accounting policy (which should be disclosed if the amounts involved are material). Payments that do not result in the recognition of a right-of-use asset, such as payments for short-term leases and low value leases, or variable lease payments that are not included in the measurement of the lease liability, are presented in operating activities.

The effects of the application of IFRS 16 are potentially significant for many entities. That means that numerous key performance indicators (KPIs) may be affected. For example, a higher EBIT and EBITDA can be expected. Net debt and free cash flows KPIs may also be significantly affected. The entity should explain how the KPIs are affected by the transition adjustments. Similarly, if an entity changes the composition of its KPIs in light of the new accounting requirements, this should be communicated by way of disclosures.

Lease term

The determination of the lease term may be a significant judgement for many lessees and lessors, who will need to assess what the enforceable period of a lease is and whether renewal options are reasonably certain to be exercised (or not exercised in the case of termination options). Entities for which this is the case will need to provide sufficient disclosure on the judgements made in determining the lease term and should comply with the requirements of paragraphs 122 and 125 of IAS 1 *Presentation of Financial Statements*.

The determination of the lease term has proved challenging in the application of IFRS 16, in particular the assessment of the enforceable period. In November 2019, the IFRS Interpretations Committee decided to finalise an agenda decision considering how the requirements of IFRS 16 relating to the lease term apply to renewable and cancellable lease contracts (respectively, contracts that renew indefinitely at the end of an initial period unless terminated by either of the parties and contracts continue indefinitely until either party gives notice to terminate). As part of its analysis of this issue, the Committee considered how the requirement of IFRS 16:B34, that indicates that a lease is no longer enforceable when the lessee and the lessor each have the right to terminate the lease without permission from the other party with no more than an insignificant penalty, should be applied.

The Committee observed that in applying IFRS 16:B34 and determining the enforceable period of the lease described above, an entity considers:

- the broader economics of the contract, and not only contractual termination payments. For example, if either party has an economic incentive not to terminate the lease such that it would incur a penalty on termination that is more than insignificant, the contract is enforceable beyond the date on which the contract can be terminated; and
- whether each of the parties has the right to terminate the lease without permission from the other party with no more than an insignificant penalty. Applying IFRS 16:B34, a lease is no longer enforceable only when both parties have such a right. Consequently, if only one party has the right to terminate the lease without permission from the other party with no more than an insignificant penalty, the contract is enforceable beyond the date on which the contract can be terminated by that party.

If an entity concludes that the contract is enforceable beyond the notice period of a cancellable lease (or the initial period of a renewable lease), it then applies IFRS 16:19 and B37-B40 to assess whether the lessee is reasonably certain not to exercise the option to terminate the lease.

The existence of non-removable leasehold improvements that a lessee expects to use beyond the date on which the contract can be terminated may indicate that the lessee might incur a more than insignificant penalty if it terminates the lease. This may indicate that the contract is enforceable for at least the period of expected utility of the leasehold improvements.

At the time of writing, the agenda decision had not yet been published in IFRIC Update, and formal finalisation of the agenda decision was therefore still pending.

Discount rate

The determination of the discount rate can also be a significant judgement. IFRS 16 requires that a lessee measures the lease liability at the present value of the lease payments, using as a discount rate the interest rate implicit in the lease, if that rate can be readily determined.

Generally, the rate implicit in the lease would only be considered readily determinable when all of the material inputs used by the lessor to calculate the rate are readily determinable (i.e. the lessee can readily determine the fair value of the underlying asset, the amount the lessor expects to derive from the underlying asset at the end of the lease term and the lessor's initial direct costs, provided that each of these have a material effect on the rate).

If, as is expected to often be the case, the rate implicit in the lease cannot be readily determined, the lessee shall discount lease payments using its incremental borrowing rate. This requires a lessee to determine its incremental borrowing rate for a particular lease considering the terms and conditions of the lease, and determine a rate that reflects the rate it would have to pay to borrow:

- the amount needed to obtain an asset of a similar value to the right-of-use asset arising from the lease;
- over a similar term to the lease term;
- with a similar security to the security (collateral) in the lease; and
- in a similar economic environment to that of the lease.

In September 2019, the IFRS Interpretations Committee issued an **agenda decision** on the definition of the lessee's incremental borrowing rate. It noted that in applying judgement in determining its incremental borrowing rate, it would be consistent with the Board's objective when developing the definition of incremental borrowing rate for a lessee to refer as a starting point to a readily observable rate for a loan with a similar repayment profile to that of the lease (i.e. in the case of most leases, a loan for which the principal is repaid through periodic payments rather than through a single payment at maturity).

If the determination of the incremental borrowing rate is a significant accounting judgement, then it may be relevant to explain how the rate is determined, including whether the underlying term is the maturity of the lease liability or whether it follows its repayment profile.

Presentation and disclosure

On an on-going basis, a lessee will need to provide entity-specific disclosures (quantitative and qualitative) to enable users of the financial statements to assess the effect that leases have on its financial position, financial performance and cash flows.

This includes information about elections made in applying IFRS 16, in particular with respect to accounting for short-term leases and leases of assets of low value. If either of these elections is used, the lessee will need to provide specific information about the expenses relating to the leases.

The entity should disclose significant judgements and assumptions made in applying the requirements of IFRS 16. In addition to the determination of the lease term and the discount rate, the determination of whether an arrangement is or contains a lease may also be a significant judgement in certain circumstances.

Impairment

At the date of initial application of IFRS 16, a lessee applying the cumulative catch-up approach can use its previous assessment of whether an operating lease was onerous as a basis for assessing whether a right-of-use asset is impaired. Subsequent to that date, however, the normal requirements of IAS 36 *Impairment of Assets* should be applied.

Generally, right-of-use assets that do not generate independent cash inflows (for example, by being subleased) will be tested for impairment as part of a cash-generating unit. Entities will therefore need to adjust the calculation of the recoverable amounts when performing an impairment test of cash-generating units that comprise right-of-use assets. In typical circumstances, lease liabilities should be excluded from the cash-generating unit. The cash outflows associated with the lease liability would then also be excluded from the value in use calculation. However, variable lease payments that are not based on an index or rate, the effect of future changes in an index or rate as well as short-term and low-value leases, if the practical expedient is used, would have to be captured in the value in use calculation as they are not included in the lease liability. Similarly, if the cash-generating unit contains essential assets with a useful life longer than the lease term, cash flows for the replacement of the right-of-use asset (for example, expected periodic lease payments for the period beyond the lease term or the cost of a replacement asset to be purchased, depending on the entity's intended course of action) would need to be included in the cash flow projections. The discount rate used in the determination of the recoverable amount will need to be adjusted so that it is consistent with the underlying cash flows and cash-generating unit being tested.

If an entity makes significant judgements when testing for impairment, or if the impairment calculation includes assumptions and estimates that have a significant risk of resulting in material adjustments to the carrying amount of the right-of-use asset (or of a cash-generating unit that includes right-of-use assets) within the next financial year, an entity is required to disclose those in accordance with IAS 1:122 and 125.

Recently implemented accounting standards

Entities adopted two significant standards in 2018: IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. While the information provided might have been sufficient to enable users to understand the impact of adopting the new standard regulators observed that there is significant room for improvement and refinement in the disclosures provided. We highlight some of their key findings below.

IFRS 15 *Revenue from Contracts with Customers*

Accounting Policies

Entities should ensure that the accounting policies for revenue recognition have been updated for the new terminology introduced by IFRS 15 and references to any superseded accounting treatments have been removed.

The accounting policy for revenue recognition should include more than just a reproduction of the standard. For example, when explaining the five-step model for revenue recognition, entities should tailor the explanation to their particular circumstances. The following points should be considered:

- Performance obligations should be clearly described, including the specific nature of the goods and services that the entity has promised to transfer.
- The accounting policy disclosure should link to the information provided on operating segments and information about the entity's business model provided elsewhere outside the financial statements.
- The policy should clearly explain the point at which revenue is recognised (i.e. when control is transferred to the customer), and whether revenue is recognised at a point in time or over time for performance obligations described. When revenue is recognised over time, the policy should explain whether an input or output method is then used to measure the entity's progress in satisfying the performance obligation, including why the method used provides a faithful depiction of the transfer of goods or services.
- Significant payment terms (e.g. variable consideration or significant financing components) should be described and their impact on accounting explained.

Significant judgements and estimates

IAS 1 requires disclosure of the specific judgements an entity has made with regard to the requirements in IFRS 15, if those judgements have a significant effect on the amount and timing of revenue recognised. One example is when a revenue transaction involves a third party in providing goods or services to a customer. In that case, the entity must determine whether the nature of its promise to the customer is to provide the underlying goods or services itself (i.e. the entity is the principal in the transaction) or to arrange for the third party to provide the underlying goods or services directly to the customer (i.e. the entity is the agent in the transaction).

A Deloitte ***A Closer Look*** publication provides more detail on evaluating whether an entity is acting as a principal or an agent.

Revenue disaggregation

Revenue recognised from contracts with customers should be disaggregated into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. This disaggregation should be consistent with the entity's activities and environment and the objectives of IFRS 15. Examples of categories that might be appropriate include:

- Type of good or service (e.g. major product lines)
- Geographical region (e.g. country or region)
- Market or type of customer (e.g. government and non-government customers)
- Timing of transfer of goods or services (e.g. revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred over time)

To enhance the disclosures, an entity could consider presenting the information into a matrix that disaggregates revenue for each of the reportable segments. This would enable users to understand clearly the relationship between the information disclosed under IFRS 15 and that under IFRS 8 *Operating Segments*, which may have been determined applying non-IFRS 15 principles.

Contract balances

IFRS 15 requires that an entity should disclose the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed. An entity should also disclose the revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period and the revenue recognised in the period from performance obligations satisfied, or partially satisfied, in previous periods.

If the determination of revenue from performance obligations in prior periods involves significant judgements, these would also have to be disclosed.

As part of accounting policies that relate to contract balances it may be useful to describe the differences between contract assets and trade receivables to explain the different risks associated with each balance. Furthermore, an entity should explain how the timing of revenue recognition affects contract balances.

IFRS 9 *Financial Instruments*

Classification and measurement

As with IFRS 15, entities should carefully review their accounting policies with regard to financial instruments. IFRS 9 introduced new classification and measurement categories that resulted in new terminology. Accounting policies should therefore adequately describe the new classification categories and, in particular, refrain from using any superseded language from IAS 39 *Financial Instruments: Recognition and Measurement*, like "held to maturity" instruments or "loans and receivables".

Accounting policies should be clear, concise and relevant. The policy should avoid boilerplate language taken from the Standard when explaining the business model and 'solely payments of principal and interest' tests. Instead, the accounting policy should be tailored to the entity and only relate to instruments which are held by the entity.

The following key points should also be considered:

- The entity's business model(s) with regard to financial instruments should be explained in the financial statements.
- If an entity designates a financial liability at fair value through profit or loss and therefore recognises the changes in own credit risk in OCI, the accounting policy should explain the treatment of gains or losses attributable to changes in own credit risk.
- Similarly, entities should explain how instruments meet the criteria for a designation at fair value through profit or loss or fair value through other comprehensive income.

Impairment (for entities other than financial institutions)
IFRS 9 introduced a new impairment model based on expected credit losses (ECL). The following points should be considered:

- The new impairment model applies to certain assets outside the scope of IFRS 9, in particular contract assets recognised under IFRS 15 and lease receivables under IFRS 16.
- Applying the impairment model to intercompany loans can easily be forgotten, as they are eliminated in group financial statements. However, they can be material for an entity's separate financial statements.
- An entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition, and therefore the loss allowance is measured at an amount equal to 12-month ECL, if the financial instrument is determined to have low credit risk at the reporting date. Entities need to make it clear if they apply that expedient and how extensive is its use.
- Entities should provide an analysis of the gross carrying amount of financial assets and the exposure to credit risk by credit risk rating grades. For trade receivables, contract assets and lease receivables, if the simplified impairment approach is followed, this may be based on a provision matrix or on days past due. The analysis should be disclosed.
- Determining ECL may be a key source of estimation uncertainty. When this is the case, entities are required to disclose the key assumptions as well as a sensitivity analysis that shows how ECL would change with changing economic variables.

A Deloitte ***A Closer Look*** publication considers the new accounting requirements for impairment of financial assets and includes useful practical pointers on applying a provision matrix approach.

Another ***A Closer Look*** publication provides more detail on measuring expected credit losses for intercompany loan assets with no documented contractual terms.

Settlement of contracts to buy or sell a non-financial item

In March 2019, the IFRS Interpretations Committee published an **agenda decision** that explores how an entity applies IFRS 9 to particular contracts to buy or sell a non-financial item at a future fixed price. The contracts are not designated in a hedging relationship and do not meet the own use scope exception. Consequently, applying IFRS 9, they are accounted for as derivatives at fair value through profit or loss.

At the settlement date, the entity either delivers or takes delivery of the non-financial item. Depending on whether it is a purchase or sale contract, the entity either recognises inventory or revenue at that date, measured as the cash paid or received plus the gain or loss on derecognition of the derivative (i.e. the derivative's fair value on the settlement date).

The Committee observed that the requirements in IFRS 9 neither permit nor require an additional journal entry that reverses the accumulated gain or loss previously recognised in profit or loss on the derivative and recognises a corresponding adjustment to either revenue or inventory. The agenda decision goes on to explain the presentation and disclosure requirements in IAS 1 and IFRS 7 *Financial Instruments: Disclosures* that apply to gains and losses on derivatives. The Committee observed that for the purposes of those requirements, in the fact pattern considered, there is no gain or loss on the derivatives caused by settlement.

Information on an entity's financing activities

Supplier financing arrangements

Supplier financing arrangements (also referred to as 'reverse factoring') are often designed to benefit both the buyer and the supplier liquidity. In some jurisdictions, they have become common in response to public policy initiatives that encourage prompt payment to suppliers.

The terms of supplier financing arrangements vary, but typically involve suppliers being paid in line with, or in advance of, invoice terms by a third-party financial institution who are then reimbursed by the purchaser at a later date, which may be in line with invoice terms or later.

Arrangements of this type raise important financial reporting questions around:

- The classification of liabilities as either trade payables (as the original obligation arose from the purchase of goods or services) or borrowings (as the eventual payment will be made to a financial institution, possibly on a significantly deferred basis).
- The presentation of payments and receipts in the statement of cash flows when the liability is classified as borrowing (whether, following the form of the transaction, only a financing cash outflow arises on final payment to the financial institution, or whether the transaction should be 'grossed up' to present an operating cash outflow to the supplier and to impute a simultaneous financing inflow from the financial institution).

These issues should be considered carefully based on the facts and circumstances of the arrangement (which can vary significantly). Critically, full and clear disclosure should be provided of:

- The nature and terms of significant supplier financing arrangements.
- The approach to the presentation of significant supplier financing arrangements and (in accordance with IAS 1:122) the judgements made in applying that policy.
- The carrying amount of the liabilities in question and the line item(s) in which they are presented.
- How supplier financing transactions have been reflected in the entity's statement of cash flows, including the amount of any 'gross up' applied for liabilities classified as borrowings. The revised requirements of IAS 7 *Statement of Cash Flows* on the disclosure of movements in financing liabilities should also not be overlooked should any cash flows be presented as financing.
- When supplier financing arrangements have been used as a tool to manage liquidity risk, the disclosures required by IFRS 7:39(c).

Suppliers should also consider the effects of their participation in such arrangements, both in terms of accounting and disclosure. Similar to a 'traditional' factoring arrangement, this includes consideration of whether the arrangement is made on a 'recourse' or a 'non-recourse' basis and, as such, whether the receivable from the customer has been extinguished and a separate liability to the financial institution now exists.

Disclosure of changes in liabilities from financing activities

In 2017, amendments to IAS 7 came into effect that require the disclosure of changes in liabilities from financing activities (sometimes termed a 'gross debt reconciliation'). In September 2019, the IFRS Interpretations Committee published an **agenda decision** that reminds entities about the disclosure objective and makes it clear that a reconciliation alone might not be sufficient.

It should be noted that the reconciliation suggested in IAS 7 is different from a net debt reconciliation that has been historically presented in some jurisdictions, because it should only present movements in liabilities arising from financing activities and not movements in a net debt balance, which often includes cash and other assets that do not give rise to financing cash flows. In summary, the reconciliation required by IAS 7 should:

- not include any cash or cash equivalent balances;
- include all liabilities that give rise to cash flows that are classified as financing activities in the statement of cash flows (e.g. borrowings or lease liabilities, as well as supplier payables if they form part of the entity's financing activities);
- include all derivatives that give rise to cash flows that are classified as financing activities in the statement of cash flows, for example because they are hedging instruments for a liability that gives rise to financing cash flows;
- include both changes arising from cash flows and non-cash changes; and
- reconcile with the statement of cash flows.

Reporting the effects of income tax

The reporting of income tax remains an area of regulatory and investor focus.

In respect of financial statements, the effective tax rate reconciliation required by IAS 12 *Income Taxes* is an important source of information on the sustainability of an entity's effective tax rate and the factors affecting it. The nature of reconciling items and why they have arisen should be clearly explained and a clear distinction drawn between significant one-off or unusual items and those that are expected to recur.

Income tax is a common source of estimation uncertainty, particularly in respect of uncertain tax positions, to be disclosed in accordance with IAS 1. Significant risks of material adjustment in the next financial year should be disclosed, including quantitative information such as sensitivities or ranges of possible outcomes. The possibility of material adjustments in later periods is also valuable information which could be included in, for example, the tax note.

The effects of income tax should be appropriately reflected in any alternative performance measures. For example, a policy on presentation of 'adjusted' or 'underlying' profit should cover the reporting of items such as one-off tax credits.

Recognition of deferred tax assets

In July 2019, the European Securities and Markets Authority (ESMA) issued a Public Statement that sets out its expectations regarding the application of the requirements in IAS 12 relating to the recognition, measurement and disclosure of deferred tax assets (DTAs) arising from unused tax losses.

The Public Statement echoes challenges raised by regulators in various jurisdictions and while it addresses recognition of deferred tax assets arising from unused tax losses, similar considerations may also apply to the assessment of other deductible temporary differences.

When considering probability that future taxable profits will be available, issuers are reminded that:

- there is no specific time restriction in IAS 12 regarding the length of the 'look-forward' period used to determine whether taxable profits will be available.
- the length of the period used will depend on a number of entity-specific factors, including the entity's historical profitability, accuracy of budgetary controls and expected future activities.
- caution should be used when the planning period used to determine whether sufficient taxable income will be available exceeds an entity's normal planning cycle.
- although reliability decreases the further out into the future the forecast extends, it would generally not be appropriate for an entity to limit the number of years it uses to estimate future taxable profits solely on the basis of the subjective nature of estimates and it may be possible to project additional years of taxable profit with sufficient reliability on the basis of historical operating results.
- in some circumstances, there may be a limited number of years over which future taxable income can be estimated because significant changes are expected in the business (e.g. probable future withdrawal from the jurisdiction); in such circumstances, the time frame used would be limited and should not change until a change in facts and circumstances warrants an adjustment.

The reliability of an entity's estimate of future profits may be assessed by considering factors such as:

- the reasonableness of management's business plan and its impact on future taxable profits, including management's history of implementing its stated plans and its ability to carry out its plans (given contractual commitments, available financing, or debt covenants);
- the consistency with relevant industry data, including short- and long-term trends in the industry;
- the reasonableness of financial projections based on historical operating results;
- the reasonableness of financial projections when current economic conditions are considered;
- whether the assumptions are consistent with those used in prior periods and projections used in other financial statements estimates (e.g. goodwill impairment analysis), noting that key differences may be justified and expected when they reflect the differences in the objectives and requirements of other financial statements estimates;
- the persuasiveness of tax planning strategies and opportunities, including their consistency with the communicated business strategy; and
- the volatility of the entity's historical results (or lack of volatility).

Uncertainty over Income Tax Treatments

2019 December year-ends will be the first in which entities have to account for uncertain tax positions applying IFRIC 23 *Uncertainty over Income Tax Treatments*, which is an interpretation of IAS 12. The interpretation sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The conclusions it reaches are consistent with previously effective accounting.

In brief, its conclusions are as follows:

- Uncertainties in income tax liabilities or assets should be reflected in recognising a tax liability or asset only when payment or recovery is probable.
- Judgement is required in identifying the unit of account to be applied in assessing the probability of payment or recovery (i.e. whether there is a single tax uncertainty or group of related uncertainties).
- Full 'detection risk' (i.e. all relevant information being available to the tax authorities) is assumed in making these judgements.

A Deloitte ***IFRS in Focus*** provides more detail on the requirements of IFRIC 23.

Presentation of uncertain tax liabilities and assets
In September 2019, the IFRS Interpretations Committee issued an **agenda decision** that clarifies whether an entity is required to present uncertain tax liabilities (or assets) as current or deferred tax liabilities (or assets), or instead can present such liabilities (or assets) within another line item such as provisions.

The Committee observed that uncertain tax liabilities (or assets) recognised applying IFRIC 23 are liabilities (or assets) for current tax as defined in IAS 12, or deferred tax liabilities or assets as defined in IAS 12.

As neither IAS 12 nor IFRIC 23 contain requirements on the presentation of uncertain tax liabilities or assets, the presentation requirements in IAS 1 apply. Current and deferred tax assets and liabilities as defined in IAS 12 are listed as minimum line items in IAS 1, with IAS 1 explaining that those minimum line items are sufficiently different in nature or function to warrant separate presentation in the statement of financial position.

Accordingly, the Committee concluded that, applying IAS 1, an entity is required to present uncertain tax liabilities as current tax liabilities or deferred tax liabilities, and uncertain tax assets as current tax assets or deferred tax assets.

Impairment reviews

The challenging economic environment in many jurisdictions and high profile company failures continue to put impairment reviews in the spotlight. Furthermore, impairment reviews remain an area of regulatory challenge. The initial application of IFRS 16 (see above) increases the population of assets that fall under the impairment requirements of IAS 36.

Applying IAS 36, it is important to consider carefully all inputs into a calculation of value in use (both cash flow forecasts and the discount rate(s) applied to them). It is also important to exercise care in the identification of cash-generating units and in aggregating those cash-generating units for the purposes of testing goodwill for impairment. An appropriate discount rate should also be applied to each cash-generating unit (or group of cash-generating units) rather than the same rate being automatically applied across an entity.

In terms of disclosure, there is an expectation that entities will:

- disclose not only growth and discount rates, but also other key assumptions such as revenue growth, margins and operating costs used in estimating recoverable amounts;
- identify, when material, assumptions that are specific for an individual cash-generating unit rather than disclosing only an average value or range for an assumption covering multiple cash-generating units;
- clearly explain whether reasonably possible changes in key assumptions, individually or in combination, could result in an impairment;
- explain the period over which growth rates are applied, why certain growth rates were used and any significant changes in growth or discount rates; and
- indicate how impairment of subsidiaries, associates and joint ventures has been considered by a parent company whose net assets exceed its market capitalisation.

Impact of political, economic and social demands on the entity's business model
Across geographies and industries, many businesses face pressure to adapt their business model in response to environmental, social and governance (ESG) concerns and various political and economic events (e.g. Brexit or international trade disputes). Entities potentially affected by such issues should provide sufficient information to help users understand how the entity's financial position and performance may be impacted. This may require entities to provide a sensitivity analysis on the impact of their assumptions on how these factors will affect their business model on estimates made, for example in determining the value in use of cash-generating units.

Impact of climate-related factors on the determination of value in use in impairment reviews
Climate-related factors may result in changes to management's cash flow projections (based on reasonable and supportable assumptions that represent management's best estimate of economic conditions) or to the level of risk associated with achieving those cash flows, in which case they form part of a value in use assessment.

For example, an entity should consider the following with regard to value in use calculations:

- If management's best estimate is that a climate change-related event will affect cash flows beyond the forecast or budget period, it would be inappropriate to exclude this from a value in use calculation by simply extrapolating budgeted or forecast cash flows using an expected rate of general economic growth. Instead, the extrapolation of budgeted or forecast cash flows required by IAS 36:33(c) should be modified to incorporate a curve reflecting the anticipated timing, profile and magnitude of the effect of climate change (or any other longer-term factors expected to affect the economic environment). Alternatively, a single terminal growth rate incorporating climate change (or other longer-term factors) can be applied if it results in a reasonable approximation to its expected effect on the present value of the asset (or cash-generating unit's) future cash flows. As noted in IAS 36:36, the growth rate applied can be negative.
- As per IAS 36:33(a), the calculation of value in use should reflect the best estimate of the future cash flows that management expects to derive from the asset or cash-generating unit. As changes in consumer behaviour, for example a decreased demand for products with an environmental impact, are not dependent on any restructuring by the entity or change to the asset or cash-generating unit itself (IAS 36:44), management's best estimate of any forecast changes in consumer behaviour expected to result in (positive or negative) changes in either the volume or price of future sales should be included. The same approach should be applied to expected changes in the behaviour of an entity's suppliers or business customers, who may themselves react to changing expectations of society, resulting in changes to an entity's cost base.
- Judgement will be required in determining when expected government action, such as a levy on greenhouse gas emissions, affects cash flow projections. However, unlike for the recognition of a new liability under either IAS 12 or IFRIC 21 *Levies*, it is not necessary to wait for the enactment of a change before it is incorporated into an estimate of future cash flows supporting the carrying amount of an existing asset or cash-generating unit. If management's best estimate is that, whilst the exact nature or form of the government legislative or regulatory action is not certain, there will be an effect on the entity's cash flows, then the expected changes in cash flows should be included in a value in use calculation, based on reasonable and supportable assumptions as provided in IAS 36:33(a).
- When climate-related factors (or any other longer-term geopolitical uncertainty) play a significant role in a value in use calculation, the key assumptions applied together with a description of management's approach to determining the value assigned to each key assumption should be disclosed in accordance with IAS 36:134(d). When relevant, this disclosure should provide an explanation of not only the key assumption, but also of its forecast effects on the entity's future cash flows.

Brexit and 2019 annual reports

Regulators continue to highlight the importance of disclosure on the possible effects of the United Kingdom's decision to leave the European Union. It should be assumed that December 2019 annual reports of entities with material operations in the United Kingdom will include commentary on the possible effects of Brexit on the entity's results and future prospects.

Entities are encouraged to provide disclosure which distinguishes between the specific and direct challenges to their business model and operations from the broader economic uncertainties which may still attach to the UK's position when they report. Where there are particular threats, for example the possible effect of changes in import/export taxes or delays to their supply chain, these should be clearly identified and the annual report should explain any actions planned or taken to manage the potential impact. In some circumstances, this may mean recognising or remeasuring certain items in the statement of financial position.

The broad uncertainties that may still attach to Brexit when entities report will require disclosure of sufficient information to help users understand the degree of sensitivity of assets and liabilities to changes in management's assumptions. It is expected that many entities will want to consider a wider range of reasonably possible outcomes when performing a sensitivity analysis on their cash flow projections, which should be disclosed and explained. Not all entities will require extensive disclosure, but where sensitivity or scenario testing indicates significant issues, relevant information and explanation should be reflected in the appropriate parts of the annual report and accounts, for example in the impairment disclosures.

Some entities may also need to consider whether uncertainties arising from Brexit affect their ability to continue as a going concern.

The significant uncertainties and unknowns in respect of the final terms of the United Kingdom's departure (with the current deadline set at 31 January 2020) and a constantly changing UK political landscape mean that a comprehensive post balance sheet events review should be incorporated into the year-end reporting plan, in order to identify both adjusting and non-adjusting events and to make the necessary disclosures required by IAS 10 *Events after the Reporting Period*.

Brexit and corporation tax

As is the case with Brexit more broadly, the effect of the UK's withdrawal from the European Union on the tax regime applicable to UK entities with operations in Europe (and vice versa) is as yet unclear. Tax issues should be incorporated as appropriate into entities' disclosure of the risks and uncertainties arising from Brexit and updated to the date of approval of annual reports.

It should be noted, however, that tax accounting under IAS 12 is based on tax law as substantively enacted at the reporting date. As noted in a Deloitte ***IFRS in Focus*** the triggering of 'Article 50' did not in itself constitute substantive enactment of any changes to existing tax law.

The use of 'non-GAAP' or alternative performance measures

The use of 'non-GAAP' figures (sometimes referred to as 'alternative performance measures' (APMs)) has been an area of regulatory concern in many jurisdictions around the world. The adoption of new significant standards such as IFRS 16 may lead entities to define new APMs and/or change the basis of calculation of existing APMs. If this is the case, disclosure should be provided on the extent of and rationale for any change in the APMs used.

The Deloitte publication **Alternative performance measures: A practical guide** provides additional guidance on the use of APMs. It sets out what is considered best practice and provides real-life examples of how entities present such measures. It covers requirements as issued by IOSCO and ESMA, but entities should also consider any further requirements in their local jurisdictions.

IOSCO Statement on Non-GAAP Financial Measures

Scope
- Applies to 'non-GAAP financial measures' being numerical measures of an issuer's current, historical or future financial performance, financial position or cash flow that is not a GAAP measure (defined as a measure determined pursuant to the issuer's financial reporting framework included in, for example, a press release or narrative section of an annual report).
- Disclosures contained within the financial statements are not within the scope.
- An operating or statistical measure that is not a financial measure is not within scope.

Defining the non-GAAP Financial measure – The measure should be defined, explained (including a statement that it is not a standardised measure), clearly labelled and the reason for its use explained (including why the information is useful to investors).

Unbiased purpose – Non-GAAP measures should not be used to avoid the presentation of adverse information.

Prominence of presentation of GAAP measures – Non-GAAP measures should not be presented with more prominence than the most directly equivalent GAAP measure.

Reconciliation to comparable GAAP measures – A clear and quantitative reconciliation to the most directly equivalent GAAP measure should be provided.

Presentation consistently over time
- Comparative values should be presented and non-GAAP measures generally presented consistently from year to year.
- Any changes to a non-GAAP measure (or cessation of use of a non-GAAP measure) should be explained with comparative figure adjusted accordingly.

Recurring items – In IOSCO's experience, there are rarely circumstances in which restructuring costs or impairment losses can be justified as being 'non-recurring', 'infrequent' or 'unusual'.

Access to associated information – Information supporting the use and calculation of non-GAAP measures should be readily available to users either by directly accompanying the measure or by a cross-reference to where the information is available.

Changes resulting from the Interest Rate Benchmark Reform

Interest rate benchmarks such as interbank offered rates (IBORs) play a key role in global financial markets and index trillions of dollars in financial products. However, work is underway in multiple jurisdictions to transition to alternative risk free rates (RFRs) as soon as 2020. This is intended to result in rates that are more reliable and provide a robust alternative for products and transactions that do not need to incorporate the credit risk premium embedded in the IBORs.

The IASB has issued *International Rate Benchmark Reform—Amendments to IFRS 9, IAS 39 and IFRS 7* to address accounting issues arising from the uncertainty about the long-term viability of some existing interest rate benchmarks.

With these amendments, the IASB has modified specific hedge accounting requirements to enable entities to apply hedge accounting assuming that the interest rate benchmark on which the hedged cash flows and cash flows of the hedging instrument are based is not altered as a result of the interest rate benchmark reform.

The amendments affect the following areas:

- Highly probable requirement for cash flow hedges (IFRS 9 and IAS 39)
- Reclassification of the amount in the cash flow hedge reserve to profit or loss (IFRS 9 and IAS 39)
- Assessment of the economic relationship between the hedged item and the hedging instrument (IFRS 9)
- Prospective assessment and retrospective assessment (IAS 39)
- Designation of a component of an item as a hedged item (IFRS 9 and IAS 39)
- End of application of the relief (IFRS 9 and IAS 39)
- Disclosures (IFRS 7)

The amendments apply to annual periods beginning on or after 1 January 2020, with early application permitted. They are applied retrospectively to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies the amendments or were designated thereafter, and to the gain or loss in other comprehensive income that existed at the beginning of the reporting period in which an entity first applies the amendments.

A Deloitte ***IFRS in Focus*** publication provides more detail on the Interest Rate Benchmark Reform amendments.

Changes to the definition of a business

In October 2018, the IASB published *Definition of a Business (Amendments to IFRS 3)* to clarify the definition of a business as a result of many stakeholders' concerns about how to interpret and apply the definition of a business when applying IFRS 3.

The amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. The impact of the amendments is likely to be most significant for real estate entities and those in the pharmaceutical and extractive industries.

The key changes include:

- Clarification that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.
- Additional guidance to help determine whether a substantive process has been acquired. New illustrative examples assist with the interpretation of what is considered a business.
- Removal of the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs.
- The definitions of a business and of outputs are narrowed by focusing on goods and services provided to customers. The reference to an ability to reduce costs is removed.
- An optional concentration test permits a simplified assessment of whether an acquired set of activities and assets is not a business – it is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.
- A reminder to apply judgement where it is not clear whether an integrated set of activities and assets should be regarded as a business.

A Deloitte ***IFRS in Focus*** publication provides more detail on the amendments to the definition of a business.

ESG disclosures

In a statement published in January 2019, IOSCO reminded issuers that ESG matters, though sometimes characterised as non-financial, may have a material short-term and long-term impact on the business operations of entities as well as on risks and returns for investors and thus are important for their investment and voting decisions. The ESG impact can be wide-ranging, for example:

- regulations can affect costs or require capital expenditure, or lead to impairment or stranded assets;
- changing consumer preferences or competitor innovations can lead to changes in market share, resulting in lost revenues;
- moving to new, more sustainable solutions may require increased capital expenditure;
- failings identified in governance, performance or culture can lead to lost revenue, or exposure to litigation or regulatory fines, damage to reputation, and loss of a company's 'social license to operate'; and
- crises or failures in production or supply chains, including natural disasters can increase costs and undermine supply and demand.

Investors are increasingly demanding information that would help them understand how ESG matters affect the entity's approach to long-term value creation, the nature of strategic and financial risks, and the way the entity intends to manage them.

IOSCO observed that disclosure practices remain varied among entities. The type of information disclosed, as well as the quality of information, differs in and between markets, depending, for example and among other reasons, on the disclosure frameworks used, the disclosure requirements and definitions of materiality imposed by jurisdictions, or the materiality of specific ESG matters to a particular entity.

Regulators around the world have rising expectations in relation to reporting on climate change. Entities should, where relevant, report on the effects of climate change on their business (both direct and indirect). Entities have been challenged where the business model appears to give rise to significant climate risk but no disclosures are included to that effect in the annual report. Boilerplate disclosures should be avoided as they are subject to regulatory challenge.

There is an increasing gap between current reporting and investor expectations as economies transition towards low carbon and climate resilient futures. Regulators expect that relevant information will be disclosed on both the impact of a company's operations on the environment and on how environmental matters may affect the entity's development, performance or position.

The Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) has developed **climate-related financial risk disclosure recommendations** that are designed to be used by companies to provide information to investors, lenders, insurers, and other stakeholders.

A Deloitte ***IFRS in Focus*** discusses the final report issued by the TCFD.

A Deloitte *A Closer Look* on climate change is expected to be published shortly.

Deloitte, in collaboration with the Institute of Chartered Accountants in England and Wales (ICAEW), has launched a dedicated **climate change website** and video learning programme that are designed to help businesses and finance professionals to learn more about tackling climate change.

Currency and hyperinflation

Increasing levels of inflation and restrictions on exchange between local and internationally traded currencies are a feature of many economies around the world. These issues present financial reporting challenges in:

- Determining whether an economy is hyperinflationary (as that term is defined in IAS 29 *Financial Reporting in Hyperinflationary Economies*, which includes several characteristics of hyperinflation, including a cumulative inflation rate over three years that approaches or exceeds 100 per cent) and, if so, which general price index should be applied to amounts in the financial statements.
- Identifying a suitable exchange rate for translating monetary items in individual financial statements and in retranslating the financial statements of a foreign operation in its parent's presentation currency.

When the inflation or exchange issues result in a significant judgement or give rise to a source of estimation uncertainty, disclosure should be provided as required by IAS 1:122 and 125.

Based on data available at the time of writing, including inflation forecasts from the International Monetary Fund and the indicators laid out in IAS 29, the following economies should be considered hyperinflationary economies for the purposes of applying IAS 29 and for retranslation of foreign operations in accordance with IAS 21 *The Effect of Changes in Foreign Exchange Rates* in financial statements for the year ending 31 December 2019:

- Argentina
- South Sudan
- Sudan
- Syrian Arab Republic
- Venezuela
- Zimbabwe

Angola was considered hyperinflationary as at 31 December 2018, but following a decrease in inflation levels in 2019 it is not considered to be so until further notice.

Inflation and exchange issues currently affecting two significant economies from the above list are discussed below.

Argentina – New regulation on currency control

The Argentine economy continues to be considered hyperinflationary. A Deloitte ***IFRS in Focus*** publication provides more details on the measurement of inflation in Argentina.

Since that publication, the Argentine government has issued a decree on 1 September 2019 that imposes currency controls on both companies and individuals. On the same day, Argentina's central bank (BCRA) issued a communication that sets out details of how the exchange control procedures will operate in practice. The currency control regulations, which respond to the recent rapid devaluation of the Argentine peso, apply from 1 September 2019 through 31 December 2019.

Under the regulations, exporters are required to enter and convert into Argentinean pesos the foreign currency obtained, and both companies and individuals are required to obtain authorisation from the BCRA to purchase foreign currency on the local foreign exchange market (MULC) or to transfer funds abroad, in certain situations. The BCRA will regulate transactions involving bonds and any other instruments to ensure that the currency control rules are not circumvented.

Additionally, a tax reform re-established the adjustment for inflation procedures in the income tax law.

Discussions are ongoing locally and internationally to assess the impact of the restrictions on various transactions (transfer dividends, purchase of US dollars, etc.) as well as the significant devaluation. Entities with material exposures to the Argentine economy should provide relevant disclosure of the impact of the recent events on their business and financial information.

Zimbabwe – Inflation accounting as of 1 July 2019

In February 2019, Zimbabwe introduced the Real Time Gross Settlement (RTGS) dollar as the local currency and allowed its value to float against the US dollar. Since June 2019, local trade must be conducted in RTGS dollar.

The annual inflation rate through June 2019 increased to 176 percent (based on inflation rates published by the National Reserve Bank of Zimbabwe), resulting in a three-year inflation rate for Zimbabwe of 185 percent. The latest forecasts from the **International Monetary Fund** indicate that cumulative inflation in Zimbabwe for the three years to December 2019 is expected to be over 300 per cent.

IAS 29 requires that the financial statements of entities whose functional currency is that of a hyperinflationary economy be adjusted for the effects of changes in a suitable general price index, with IAS 21:42 then requiring that all amounts in the financial statements of a foreign operation be translated into its parent's presentation currency at the closing rate of exchange. These requirements apply equally to annual financial statements and interim statements prepared under IAS 34 *Interim Financial Reporting*.

IAS 29 also stresses the need for consistency between entities in the application of inflation accounting, with IAS 29:4 stating that "it is preferable that all entities that report in the currency of the same hyperinflationary economy apply this Standard from the same date" and IAS 29:37 that "it is preferable that all entities that report in the currency of the same economy use the same index."

For entities with material operations in Zimbabwe that have concluded that the RTGS is the functional currency, there is a general agreement that inflation accounting should be applied for interim and annual financial statements for periods ending on or after 1 July 2019.

Application of these requirements as at 31 December 2019 therefore requires the identification of an appropriate price index and (for retranslations of Zimbabwean foreign operations) exchange rate at that date.

Annual official inflation statistics ceased being available in August 2019, although monthly inflation statistics are available, and are being used to determine an annual rate.

Although the official exchange rate, as at the date of publication, is the only legal exchange rate, entities will also need to monitor whether multiple legal rates emerge as a result of the foreign currency restrictions implemented by the Zimbabwean government which would require determination of the appropriate exchange rate for measurement.

When the identification of an appropriate exchange rate or inflation rate is a significant judgement or gives rise to a source of estimation uncertainty, disclosure should be provided as required by IAS 1:122 and 125.

IAS 21 also requires that entities reconsider their functional currency when events occur that may result in a change. Entities in Zimbabwe that previously determined that their functional currency was the US dollar should consider whether this continues to be appropriate or whether the functional currency is now the RTGS.

Disclosure of judgements and estimates

A Deloitte ***IFRS in Focus*** publication provides more detail on the disclosure of significant judgements and sources of estimation uncertainty.

Throughout this publication we emphasised the need for entities to consider the need to disclose significant judgements and estimation uncertainty. This remains an area of regulatory focus, because these disclosures are viewed as critical to an investor's ability to assess an entity's financial position and performance and to gauge their sensitivity to changes in assumptions.

It is important to be clear about what each disclosure represents, that is:

- distinguishing between a *judgement* and a *source of estimation uncertainty*; and
- between the items required by IAS 1 to be disclosed and any additional disclosures provided voluntarily.

Significant judgements (disclosure required by IAS 1:122)
This refers to judgements other than estimations made in applying an entity's accounting policies, often in how an item is characterised. For example, an assessment of whether an entity is acting as agent or principal in a revenue transaction may require significant judgement, but once that judgement is made, the measurement of revenue may be straightforward. It may also be the case that assessing whether an entity has control, joint control or significant influence over another entity (or the date it has lost control, joint control or significant influence over another entity) requires significant judgement, although the accounting requirements to be applied once this assessment is made are clear.

IAS 1:122 then requires disclosure, if the judgement has a significant effect on the amounts recognised in the financial statements. Information disclosed should aid understanding of the judgement made, why it is significant and how the entity's conclusion was reached.

Sources of estimation uncertainty (disclosure required by IAS 1:125)
This refers to assumptions or other sources of estimation uncertainty (including judgement involving estimation), primarily over the value of an item. For example, it may be clear that an uncertain tax position exists, but assigning a value to that exposure may involve a significant degree of estimation, particularly if there is wide range of potential outcomes.

IAS 1:125 then requires disclosure, if the source of estimation uncertainty results in a significant risk of material adjustment to assets or liabilities within the next financial year. The disclosures should explain the nature of the uncertainty and carrying amount of affected assets and liabilities and provide sufficient information for users to understand the judgements made about sources of estimation uncertainty.

IAS 1 includes sensitivity analyses and ranges of possible outcomes as examples of disclosures that explain the estimates made and there is a clear regulatory expectation that such disclosures will be provided for all items identified as sources of estimation uncertainty disclosed under IAS 1:125.

Voluntary disclosures on items not strictly falling into either category (for example, longer term sources of estimation uncertainty not expected to be resolved within the next financial year) can also be of value to investors. It is recommended that such additional disclosures are clearly identified as such and the rationale for their inclusion is explained.

It is also important that the key judgements and sources of estimation uncertainty identified are reviewed and, if necessary, refreshed each year (the application of the new lease accounting model under IFRS 16 could, for example, eliminate the need for some previous judgements but also introduce new ones) and that they are consistent with other aspects of the annual report. If, for example, an issue has been focused on by the audit committee, it might (depending on its nature) be a likely candidate for identification as a key judgement or a source of estimation uncertainty.

Other topics
Other items to consider include:

- **European Single Electronic Format (ESEF)** – Issuers that are subject to the requirements of the EU Transparency Directive to make their annual financial report public will be required to prepare their annual report containing consolidated financial statements for financial years beginning on or after 1 January 2020 using ESEF from 1 January 2020. The new format aims at improving accessibility and at making the information more user-friendly.

- **Statement of cash flows** – In addition to the new requirements on changes in financing liabilities and the need for clarity on the treatment of supplier financing and factoring arrangements discussed above, the reporting of cash flows more generally remains an area of focus. In particular, care should be taken in determining the correct classification of cash flows. Common pitfalls include non-cash transactions (like commencement of a lease) that should be appropriately excluded from the statement of cash flows.
- **Provisions and contingent liabilities** – The recognition and measurement of provisions is an inherently judgemental area and clear disclosure of the key judgements involved is important, e.g. about the point at which an obligation arises and uncertainties in the amount and timing of subsequent cash flows.
- **Fair value measurement** – Similarly, the determination of fair value, particularly when the use of unobservable 'Level 3' inputs is required, can be a subjective exercise. Clear disclosure of the valuation techniques used and of significant unobservable inputs and sensitivities should be provided to enable investors understand the estimates involved.
- **Defined benefit pension plans** – Given the size of many defined benefit obligations, judgements on issues such as mortality assumptions and the recoverability of plan surpluses can be highly material and should be clearly disclosed.

Negative discount rates for defined benefit obligations
IAS 19 *Employee Benefits* requires that the discount rate applied to defined benefit obligations be determined by reference to market yields on high quality corporate bonds with a currency and estimated term consistent with the obligation (or, if a deep market in such bonds does not exist, on government bonds).

In the current economic climate, bond yields in some currencies have become negative. IAS 19 has no 'floor' for the discount rate at zero and if it is determined that the most appropriate market rate at the reporting date is negative then that rate should be applied to the defined benefit obligation.

Appendices

New and revised IFRS Standards and Interpretations mandatorily effective for years ending 31 December 2019

IFRS
New Standards
IFRS 16 ***Leases***

Amended Standards
Amendments to IAS 19 – **Plan Amendment, Curtailment or Settlement**
Amendments to IAS 28 – **Long-term interests in Associates and Joint Ventures**
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 issued in the **Annual Improvement Cycle 2015-2017**
Amendments to IFRS 9 – **Prepayment Features with Negative Compensation**

IFRIC Interpretations
IFRIC 23 ***Uncertainty over Income Tax Treatments***

IFRS 16 *Leases*
IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in financial statements of both lessees and lessors. Issues arising in the application of IFRS 16 are discussed in the main body of this publication.

Amendments to IAS 19 *Employee Benefits* – Plan Amendment, Curtailment or Settlement
The amendments clarify that the past service cost (or the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position or a minimum funding requirement applies).

The amendments also require the use of updated assumptions from measuring the current service cost and the net interest on the net defined benefit liability (asset) to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. The amendments clarify that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19:99 by the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

Amendments to IAS 28 *Investments in Associates and Joint Ventures* – Long-term interests in Associates and Joint Ventures
The amendments clarify that IFRS 9, including its impairment requirements, applies to long-term interests in associates and joint ventures that form part of an entity's net investment in those investees.

Amendments to IFRS 3 *Business Combinations,* IFRS 11 *Joint Arrangements,* IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs* issued in the Annual Improvement Cycle 2015-2017

- The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation to fair value.
- The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its previously held interest in the joint operation.
- The amendments to IAS 12 clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits.
- The amendments to IAS 23 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.

Amendments to IFRS 9 *Financial Instruments* – Prepayment Features with Negative Compensation
The amendments remedy an unintended consequence to the notion of 'reasonable additional compensation'. The amendments allow financial assets with a prepayment option that could result in the option's holder receiving compensation for early termination to meet the SPPI condition if specified criteria are met.

Additionally, the amendments include in the Basis for Conclusions the IASB's observations about the appropriate accounting for financial liabilities that are modified or exchanged but are not derecognised. The IASB observes that the accounting in such cases is the same as it is for modifying a financial asset. If the gross carrying amount is changed, it will lead to an immediate gain or loss in profit or loss.

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*

The Interpretation sets out how to determine the accounting tax position when there is uncertainty over income tax treatments.

The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

IFRS Interpretations Committee agenda decisions in 2019

Along with its activity developing formal interpretations of IFRS Standards and proposing that the IASB make amendments to Standards, the IFRS Interpretations Committee regularly publishes summaries of issues that it has decided not to add to its agenda, often accompanied by a discussion of the accounting issue submitted.

Whilst the commentary included in an agenda decision is not formally part of IFRS Standards, it is an important and persuasive source of guidance that should be carefully considered when selecting a suitable accounting policy for a transaction. In many jurisdictions, there is an expectation from regulators that entities will take into consideration agenda decisions when applying IFRS Standards.

In December 2018, the IASB confirmed its view that it expects companies to be entitled to sufficient time to implement changes in accounting policy that result from an agenda decision published by the Committee. The IASB also agreed to ensure that this view is visible to stakeholders, including by proposing that it be added to the Due Process Handbook.

The IASB did not define what it meant by sufficient time as it depends on the particular facts and circumstances. It will depend on the accounting policy change required and the specific circumstances of the reporting entity. Preparers, auditors and regulators will need to apply judgement to determine what is sufficient. But the IASB confirmed that it had in mind a matter of months rather than years.

In 2019, the following agenda decisions have been **published by the Committee**. The agenda decisions are also available in one document titled ***Compilation of Agenda Decisions – Volume 1.***

January IFRIC Update	IAS 37 – Deposits relating to taxes other than income tax
	IFRS 15 – Assessment of promised goods or services
	IAS 27 – Investment in a subsidiary accounted for at cost: Partial disposal
	IAS 27 – Investment in a subsidiary accounted for at cost: Step acquisition
March IFRIC Update	IFRS 9 – Application of the highly probable requirement when a specific derivative is designated as a hedging instrument
	IFRS 9 – Physical settlement of contracts to buy or sell a non-financial item
	IFRS 9 – Credit enhancement in the measurement of expected credit losses
	IFRS 9 – Curing of a credit-impaired financial asset
	IFRS 11 – Sale of output by a joint operator
	IFRS 11 – Liabilities in relation to a joint operator's interest in a joint operation
	IAS 23 – Over time transfer of constructed good
	IAS 38 – Customer's right to receive access to the supplier's software hosted on the cloud
June IFRIC Update	Holdings of cryptocurrencies
	IFRS 15 – Costs to fulfil a contract
	IFRS 16 – Subsurface rights
	IAS 19 – Effect of a potential discount on plan classification
September IFRIC Update	IFRS 15 – Compensation for delays or cancellations
	IFRS 16 – Lessee's incremental borrowing rate
	IFRS 9 – Fair value hedge of foreign currency risk on non-financial assets
	IAS 1 – Presentation of liabilities or assets related to uncertain tax treatments
	IAS 7 – Disclosure of changes in liabilities arising from financing activities
	IAS 41 – Subsequent expenditure on biological assets

New and revised IFRS Standards and Interpretations available for early application in years ending 31 December 2019

Paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires entities to consider and disclose the potential impact of new and revised IFRS Standards that have been issued but are not yet effective. As discussed above, the sufficiency of these disclosures is a current area of regulatory focus.

The list below reflects a cut-off date of 30 November 2019. The potential impact of the application of any new and revised IFRS Standards issued by the IASB after that date, but before the financial statements are issued, should also be considered and disclosed.

IFRS	Effective date – periods commencing on or after:
New Standards	
IFRS 14 ***Regulatory Deferral Accounts***	First time adopters whose first annual IFRS financial statements are for a period beginning on or after 1 January 2016.
IFRS 17 ***Insurance Contracts***	1 January 2021*

Amended Standards	
Amendments to IFRS 10 and IAS 28 – **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**	The IASB decided in December 2015 to defer indefinitely the effective date of these amendments.
Amendments to the ***Conceptual Framework for Financial Reporting,*** including amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 3 – **Definition of a Business**	1 January 2020
Amendments to IAS 1 and IAS 8 – **Definition of Material**	1 January 2020
Amendments to IAS 39, IFRS 7 and IFRS 9 – **Interest Rate Benchmark Reform**	1 January 2020

*In June 2019, the IASB issued Exposure Draft *Amendments to IFRS 17*. In this Exposure Draft, the IASB proposes to defer the mandatory effective date of IFRS 17 by one year, so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022 and that the fixed expiry date for the temporary exemption in IFRS 4 *Insurance Contracts* from applying IFRS 9 should be amended so that all entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2022.

A Transition Resource Group for Insurance Contracts has been set up following publication of IFRS 17. At this point, there are no further TRG meetings scheduled. However, the TRG remains in place for the time being and issues can still be submitted to the group. Details of this group's discussions can be found **here**.

Key contacts

Global IFRS Leader
Veronica Poole
ifrsglobalofficeuk@deloitte.co.uk

IFRS centres of excellence

Americas		
Argentina	Fernando Lattuca	arifrscoe@deloitte.com
Canada	Karen Higgins	ifrsca@deloitte.ca
LATCO	Miguel Millan	mxifrscoe@deloittemx.com
United States	Robert Uhl	iasplus-us@deloitte.com
Asia-Pacific		
Australia	Anna Crawford	ifrs@deloitte.com.au
China	Gordon Lee	ifrs@deloitte.com.cn
Japan	Shinya Iwasaki	ifrs@tohmatsu.co.jp
Singapore	James Xu	ifrs-sg@deloitte.com
Europe-Africa		
Belgium	Thomas Carlier	ifrs-belgium@deloitte.com
Denmark	Jan Peter Larsen	ifrs@deloitte.dk
France	Laurence Rivat	ifrs@deloitte.fr
Germany	Jens Berger	ifrs@deloitte.de
Italy	Massimiliano Semprini	ifrs-it@deloitte.it
Luxembourg	Eddy Termaten	ifrs@deloitte.lu
Netherlands	Ralph Ter Hoeven	ifrs@deloitte.nl
Russia	Maria Proshina	ifrs@deloitte.ru
South Africa	Nita Ranchod	ifrs@deloitte.co.za
Spain	Cleber Custodio	ifrs@deloitte.es
Switzerland	Nadine Kusche	ifrsdesk@deloitte.ch
United Kingdom	Elizabeth Chrispin	deloitteifrs@deloitte.co.uk

Deloitte.

Designed by CoRe Creative Services. RITM0357414