IFRS Global Office
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IFRS in Focus

IASB issues an Interpretation and minor changes to IFRS

Contents

This edition of IFRS in Focus describes a new Interpretation and a batch of minor amendments the IASB has made to IFRS

The Bottom Line

Transfers of Investment Property (Amendments to IAS 40)
- The amendments are intended to clarify that an entity can only reclassify a property to/from investment property when, and only when, there is evidence that a change in the use of the property has occurred.
- The Standard has a list of circumstances that evidence a change in use, which is perceived by some as being exhaustive. The amendment makes clear that they are only examples.
- The amendments apply to annual periods beginning on or after 1 January 2018 and entities may elect to apply them either retrospectively or prospectively.

IFRIC 22 Foreign Currency Transactions and Advance Consideration
- The Interpretation clarifies that when an entity pays or receives consideration in advance in a foreign currency, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date of the advance consideration, i.e. when the prepayment or income received in advance liability was recognised.
- The amendments apply to annual periods beginning on or after 1 January 2018 and entities may elect to apply them either retrospectively or prospectively.

Annual Improvements – the 2014–2016 Cycle
This annual improvements package amended three Standards:
- IFRS 1 *First-time Adoption of International Financial Reporting Standards*, effective for annual periods beginning on or after 1 January 2018.
- IFRS 12 *Disclosure of Interests in Other Entities*, effective for annual periods beginning on or after 1 January 2017, with retrospective application.
- IAS 28 *Investments in Associates and Joint Ventures*, effective for annual periods beginning on or after 1 January 2018, with retrospective application.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

Transfers of Investment Property (Amendments to IAS 40)

Background

Paragraph 57(a) to (d) of IAS 40 requires transfers to, or from, investment property when, and only when, there is a change in use of property supported by evidence. The Board observed that the words 'when, and only when' and 'supported by evidence' suggest that the circumstances listed in that paragraph are exhaustive. This is precluding some entities from transferring a property to, or from, investment property in other instances even when there is evidence of a change in use.

The amendments

The Board has amended IAS 40.57 to reflect the principle that a change in use would involve:
(a) an assessment of whether a property meets, or has ceased to meet, the definition of investment property; and
(b) supporting evidence that a change in use has occurred.

Observation

Applying this principle, an entity would transfer a property under construction or development (which could be classified as inventories or property, plant and equipment) to or from investment property when, and only when, there is a change in the use of such property, supported by evidence. The amendments do not provide any guidance on what constitutes substantive evidence of a change in use; instead, this is an area where management is required to apply professional judgement to assess whether facts and circumstances evidence such a change and whether the property, under the changed conditions, meets the definition of an investment property.

The Board retained the words 'when, and only when' to emphasise that a transfer should be limited to situations in which a change in use has occurred. Nevertheless, the list of circumstances in IAS 40.57(a)–(d) has been re-characterised as a non-exhaustive list of examples to allow for other circumstances to be accounted as a transfer so long as that change is supported by appropriate evidence.

The amendments also emphasise that a change in management's intentions, alone, would not be enough to support a transfer of property. An entity must have taken observable actions to support such a change.

Observation

The Board has made other subtle changes to paragraph 57(a) and (d) of IAS 40 to include 'commencement of development with a view to owner-occupation' and to refer to 'inception' of an operating lease (as the construction of the related property might not be complete at that point) respectively, in order to indicate that a change in use can occur not only for completed properties, but also for properties that are under construction or development.

Effective date and transition requirements

The Amendments to IAS 40 apply to annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted.

Entities can apply the amendments either retrospectively (but only if this is possible without the use of hindsight), or prospectively. If an entity takes the prospective approach, it must apply the amendments to changes in use that occur on or after the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). At the date of initial application, the entity reassesses the classification of all properties held at that date, and reclassifies properties as necessary to reflect the conditions that exist at that date.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IAS 21 *The Effects of Changes in Foreign Exchange Rates* requires an entity to record a transaction in a foreign currency transaction, initially, at the spot rate at "the date of the transaction." IAS 21 defines the date of the transaction as "the date on which the transaction first qualifies for recognition in accordance with IFRSs."

The practice issue

A question arose in practice about how to determine that date when an entity pays or receives consideration in advance in a foreign currency. When that happens, the normal approach is to recognise a non-monetary asset or non-monetary liability. Recognition of the related asset, expense or income comes later.

The Interpretations Committee considered whether the date of the transaction is the date of the advance payment or the later date when the related asset, expense or income (or part of it) is recognised by applying the relevant IFRS.

The consensus

The consensus reached by the Interpretations Committee was that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date of the advance consideration—i.e. when the non-monetary asset or non-monetary liability is recognised.

If there is more than one advance payment, or receipt, you must determine a date of the transaction for each payment or receipt of advance consideration.

Effective date and transition requirements

The Interpretation applies to annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted.

Entities can elect to apply the Interpretation either retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, or prospectively.

For those electing to apply the Interpretation prospectively, they can elect to apply it to the relevant assets, expenses and income recognised in the first set of financial statements for the reporting period in which they first apply the Interpretation or from the beginning of a prior reporting period presented as comparative information in those financial statements.

Annual Improvements – 2014-2016 Cycle

The latest annual improvements package amended three Standards.

Standard	Subject of amendment	Details
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	Deletion of short-term exemptions for first-time adopters	The amendments delete the short-term exemptions in IFRS 1 that relate to Disclosures about financial instruments (IFRS 7), Employee benefits (IAS 19) and Investment entities (IFRS 12 and IAS 27). Paragraphs IFRS 1.E3-E7 have been deleted because they are redundant. The reporting period to which the exemptions applied have already passed and as such, these exemptions are no longer applicable. The amendments are effective for annual periods beginning on or after 1 January 2018.
IFRS 12 *Disclosure of Interests in Other Entities*	Clarification of the scope of the Standard	IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified, or included in a disposal group that is classified, as held for sale (in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*) The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests. The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2017.
IAS 28 *Investments in Associates and Joint Ventures*	Measuring an associate or joint venture at fair value	The amendments clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

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