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IFRS Update Event 2016

Deloitte Academy

28 November 2016

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Programme

Part I	15.00 – 16.30
Break	16.30 – 17.00
Part II	17.00 – 18.30
Drinks & Snacks	18.30

IFRS Update Event 2016

Deloitte Academy

28 November 2016

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Agenda

Introduction

Top 5 on IFRS developments

Top 5 on IFRS 16 ‘Leases’

Top 5 on IFRS 15 ‘Revenue from contracts with customers’

9 characteristics of good corporate reporting

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28 November 2016

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Ralph ter Hoeven

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IFRS Update Event 2016

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28 November 2016

Introduction

Implementation of IFRS 9, IFRS 15 & IFRS 16

Are you ready?

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Top 5 on IFRS developments

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28 November 2016

Top 5 on IFRS developments

Overview

1. IASB work plan
2. Changes to IFRS effective 1 January 2016
3. Notional cash pooling
4. Risk paragraph management board’s report
5. ESMA enforcement priorities

IASB work plan

IASB work plan 2017-2021

Key features

- Completion of the remaining standard-setting projects
- Better communication in financial reporting
- Continued development of implementation support
- A more focused research programme

IASB work plan

Standard-setting and related projects

Conceptual Framework	Issue Conceptual Framework (after 6 months)
Disclosure initiative: Materiality practice statement	Publish practice statement (after 6 months)
Insurance contracts	Issue IFRS standard (June 2017) Published amendments to IFRS 4 (Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts)
Rate-regulated activities	Publish discussion paper (after 6 months)

IASB work plan

Research projects

Disclosure initiative: Principles of disclosure	Publish discussion paper (within 6 months)
Business combinations under common control	Publish discussion paper (after 6 months)
Financial instruments with characteristics of equity	Publish discussion paper (after 6 months)
Dynamic risk management	Publish discussion paper (after 6 months)
Goodwill and impairment	Decide project direction (after 6 months)

Changes to IFRS effective 1 January 2016

Disclosure initiative (Amendments to IAS 1)

Effective 1 January 2016

Materiality	• Not obscure useful information by aggregating or disaggregating information • Materiality considerations apply to the primary statements, notes, and specific disclosure requirements
Disaggregation and subtotals	• Specific line items can be disaggregated and aggregated as relevant • Additional guidance on the presentation of subtotals
Notes structure	• Flexibility when designing the structure of the notes
Other	• Presentation of OCI items

Other IFRS changes

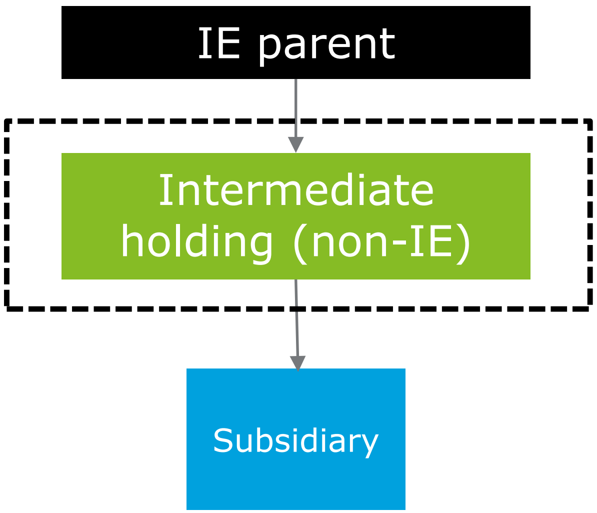
Effective 1 January 2016

- Applying the consolidation exemption by intermediate holding & equity method exemption
- Interest in investment entity associate/joint venture
- Equity method in separate financial statements
- Accounting for acquisitions of interests in joint operations

- Clarification of acceptable methods of depreciation and amortisation
- Agriculture: Bearer plants
- Annual improvements 2012-2014 cycle
  - IFRS 5
  - IFRS 7
  - IAS 19
  - IAS 34

Applying the consolidation exemption by intermediate holding

Amendments to IFRS 10



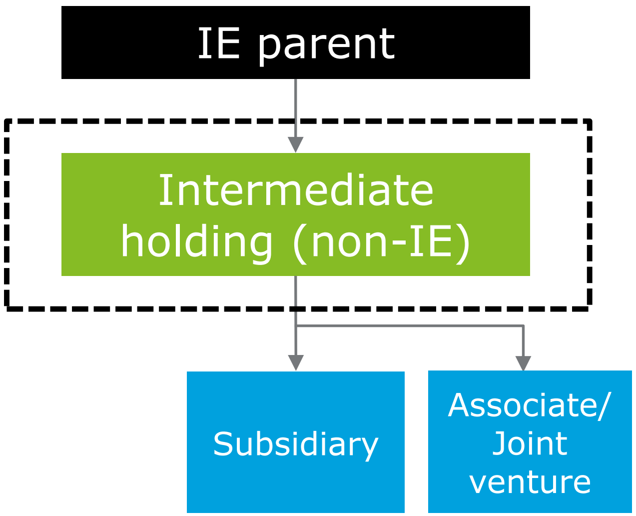
Exemption from preparing consolidated FS if its (ultimate or any intermediate) parent produces FSs that are available for public use and comply with IFRSs, in which subsidiaries are consolidated <u>or are measured at FVTPL in accordance with IFRS 10</u>

Fair value
(IFRS 10.31)

Accounting by IE parent in its consolidated FSs

Applying the equity method exemption by intermediate holding

Amendments to IAS 28

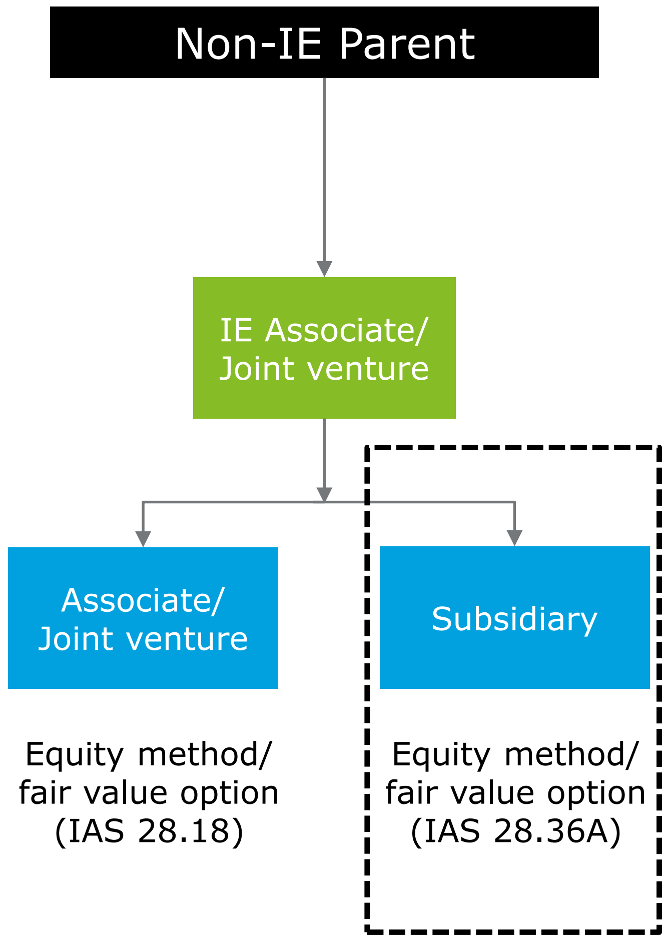


Exemption from applying the equity method to its investment in an associate or a joint venture if its (ultimate or any intermediate) parent produces FSs that are available for public use and comply with IFRSs, in which subsidiaries are consolidated <u>or are measured at FVTPL in accordance with IFRS 10</u>

Fair value (IFRS 10.31)	Fair value (IAS 28.18)	Accounting by IE parent in its consolidated FSs

Interest in investment entity associate/joint venture

Amendments to IAS 28

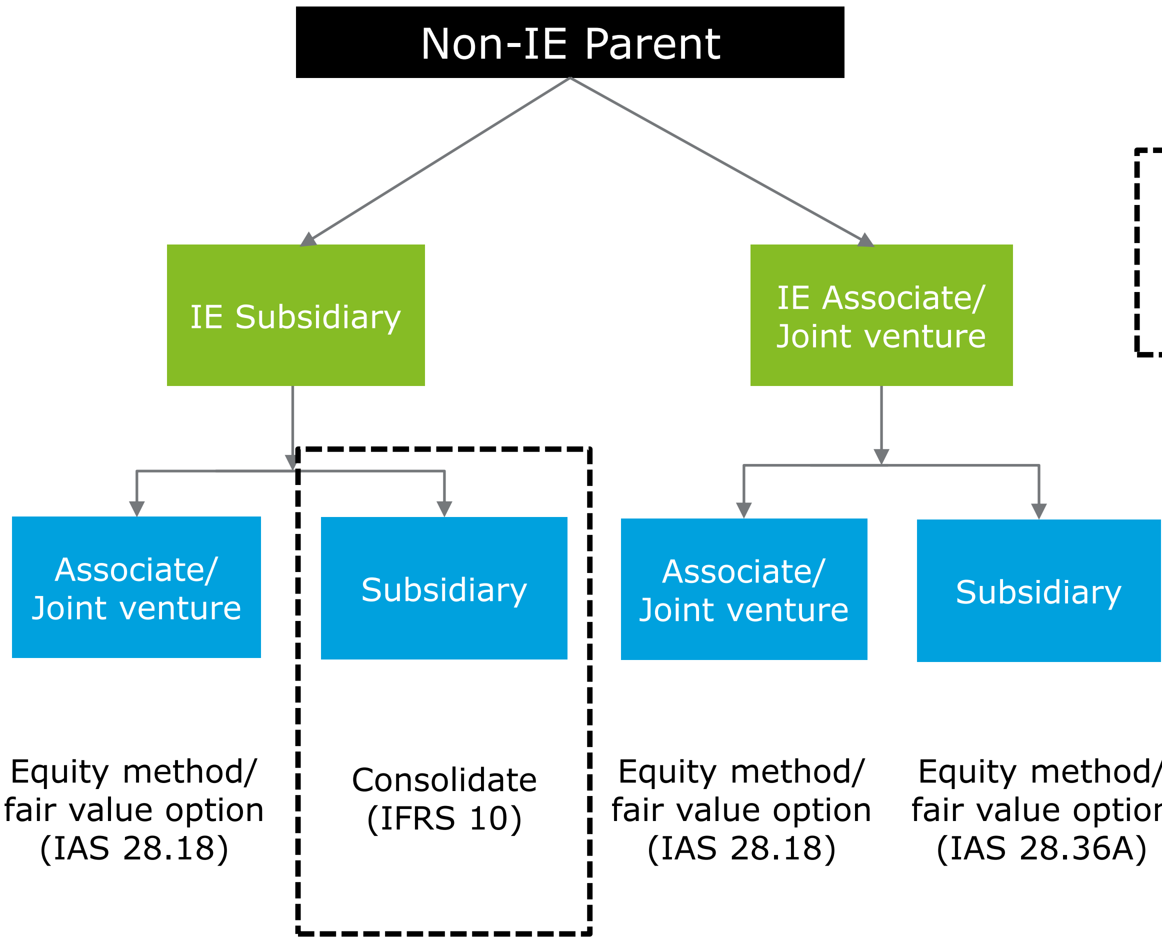


If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries

Accounting by non-IE Parent in its FSs

Interest in investment entity subsidiary

Not changed

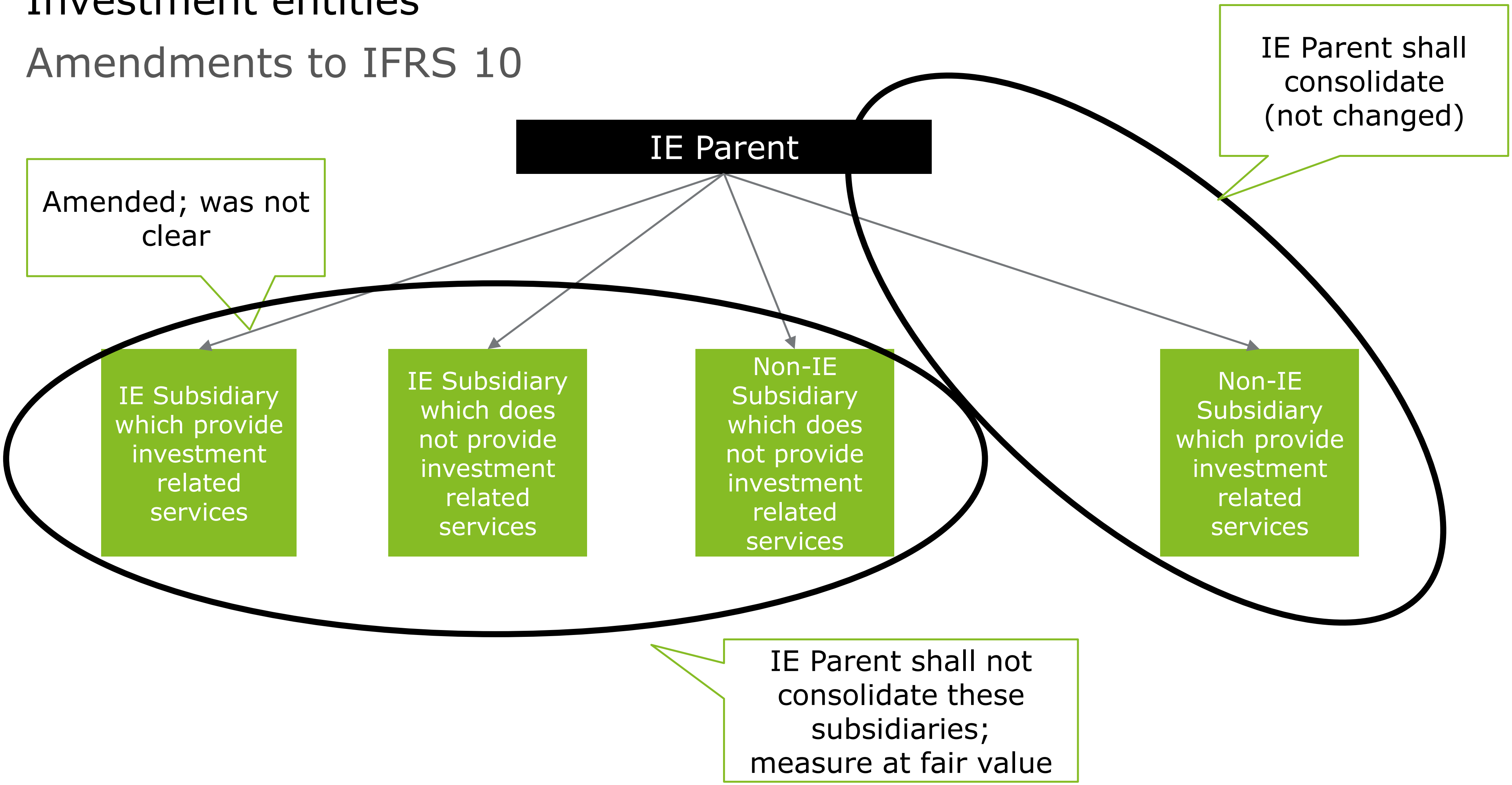


Look out:
A non-IE Parent shall consolidate a indirect subsidiary held by IE Subsidiary

Accounting by non-IE Parent in its consolidated FSs

Investment entities

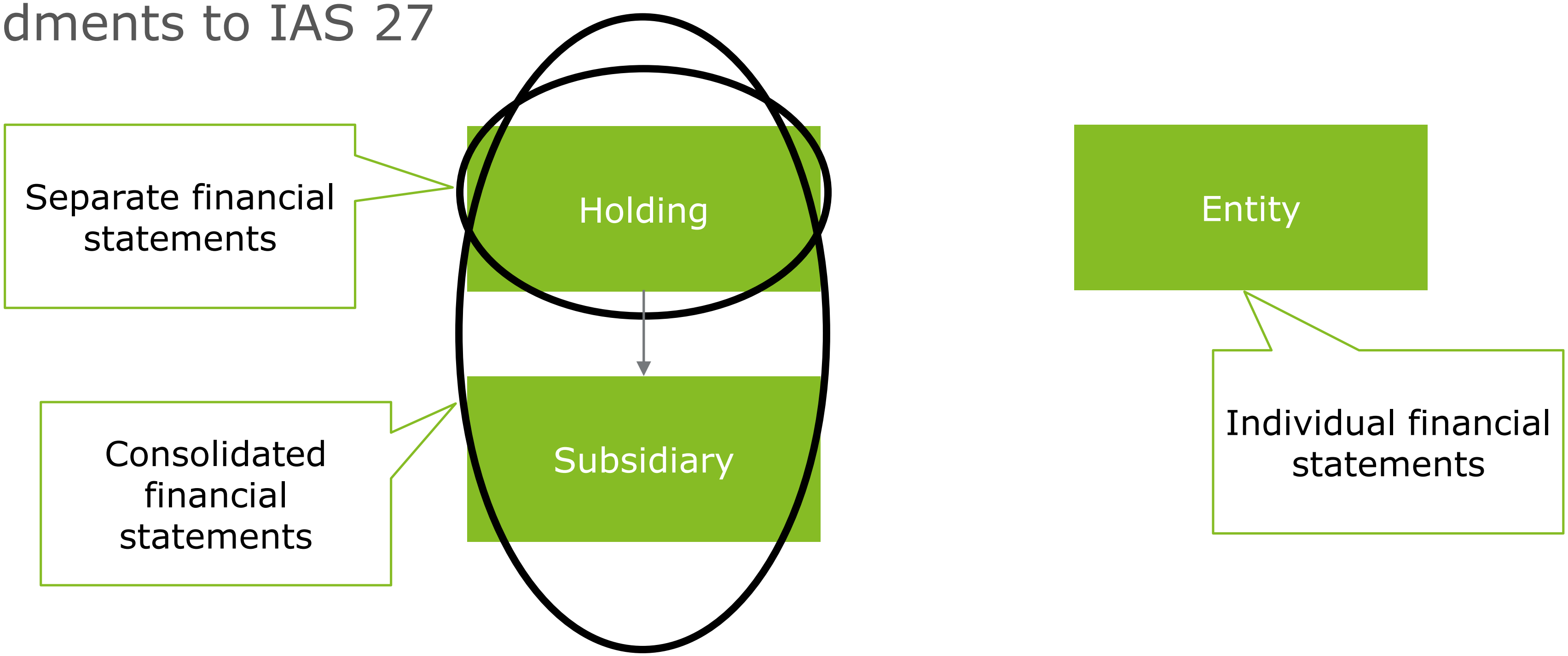
Amendments to IFRS 10



As a result of the amendment, intermediate investment entities are not permitted to be consolidated by their IE Parent

Equity method in separate financial statements

Amendments to IAS 27

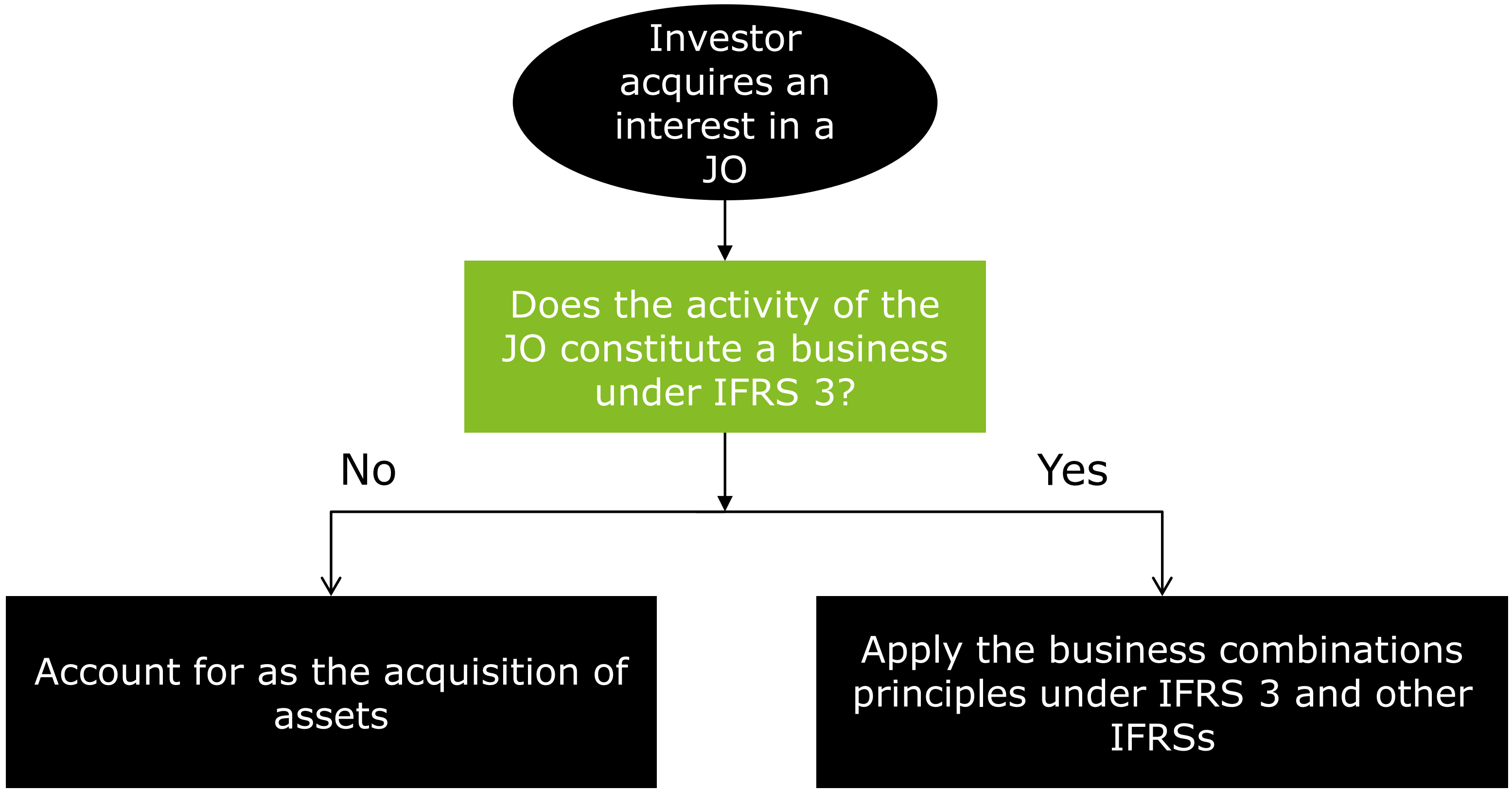


If separate financial statements are prepared under IFRS an entity can measure investments in subsidiaries, joint ventures and associates:

- at cost
- at fair value in accordance with IAS 39/IFRS 9; or
- <u>using the equity method</u>

Accounting for acquisitions of interests in joint operations (JO)

Amendments to IFRS 11



Allocate the total cost of the acquisition on the basis of relative fair value of the assets and liabilities of JO

- Fair value measurement of identifiable assets and liabilities
- Recognise goodwill, deferred tax assets and liabilities
- Expense acquisition-related costs

Notional cash pooling

Top 5 on IFRS developments

Number 3

Notional cash pooling

Issue referred to the IFRIC

- A Group has multiple subsidiaries, each with a separate bank account with Bank B
- At any time, some of the accounts have a positive cash balance and others a negative balance (overdraft)
- The Group operates a **notional** (rather than a physical) cash pooling arrangement
  - Bank B calculates the net balance on designated accounts with interest paid or received based on the net amount
  - There are regular transfers of balances into a single account, but no transfer is effected at the reporting date
  - Further, the Group expects that its subsidiaries will use their bank accounts before the next settlement date by placing further cash on deposit or by withdrawing cash
  - The parties have the necessary legally enforceable right to set off these balances

Notional cash pooling

IFRIC issues NIFRIC

- IAS 32.46: net presentation is appropriate **only** when there is an **intention** to exercise a legally enforceable right to set off

- IAS 32.47: in assessing its intention to settle net, an entity considers its **normal (usual) business practices**, requirement of financial markets and other circumstances that may limit the ability to settle net

- Since the Group **expects** its subsidiaries to **use their bank accounts** in their normal course of business ► presentation on a net basis would not appropriately reflect the amount and timing of expected future cash flows

- Many different types of cash-pooling arrangements exist in practice. Consequently, the determination of what constitutes an intention to settle on a net basis would depend on the individual facts and circumstances of each case

- *IFRIC decided that neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the Interpretations Committee decided not to add this issue to its agenda*

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Risk paragraph management board's report

Top 5 on IFRS developments
Number 4

Risk paragraph management board's report

RJ 400.110c

- The risks to which the company is exposed
- The related uncertainties
- How those risks are managed
- The (potential) impact of those risks and uncertainties

The risk paragraph in the management board's report

Good practices

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The risk paragraph in the management board's report
Good practices

ESMA enforcement priorities

ESMA enforcement priorities

Listed companies’ 2016 financial statements

- Presentation of financial performance (and use of alternative performance measures)
- Financial instruments: distinction between equity instruments and financial liabilities
- Disclosures of the impact of the new standards on IFRS financial statements
  - IFRS 9
  - IFRS 15
  - IFRS 16
- Disclosure of impact of Brexit

Top 5
on
IFRS 16

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Introduction

Introduction

Major changes to lessee accounting

Effective date: 1 January 2019

Limited changes to scope of IAS 17
Enhanced guidance on identifying a lease

Lessee accounting	Lessor accounting

Operating lease vs Finance lease	Right-of-use asset and Lease liability	Operating lease vs Finance lease

Introduction

Impact on financial statements

IAS 17

Balance Sheet	FY 2018

Income statement	FY 2018
Lease payments	xxx
EBITDA	**xxx**
Profit before tax	**xxx**

Cash flow statement	FY 2018
Operating activities	xxx

IFRS 16

Balance Sheet	FY 2019
Lease assets	xxx
Lease liabilities	xxx

Income statement	FY 2019
Low-value/short-term leases	xxx
EBITDA	**xxx**
Depreciation and amortisation	xxx
Finance cost	xxx
Profit before tax	**xxx**

Cash flow statement	FY 2019
Operating activities	xxx
Financing activities	xxx

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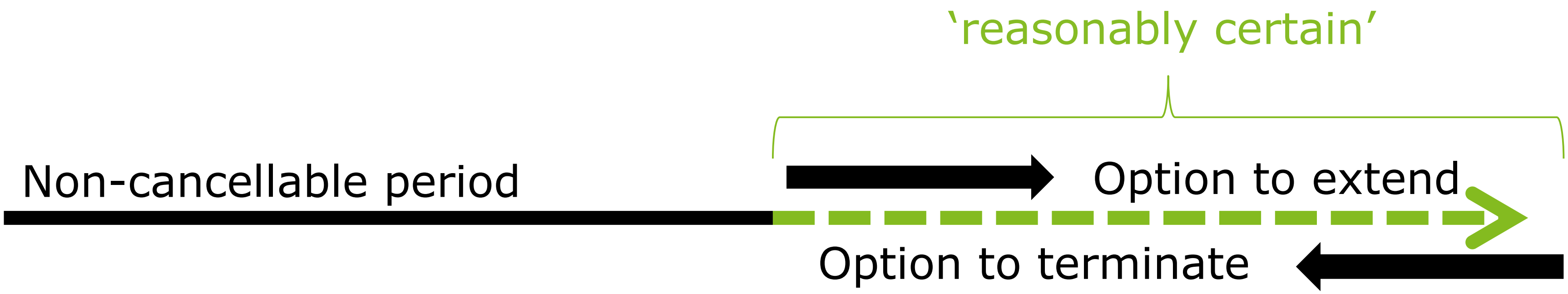
Determination of lease term

Determination of lease term

Introduces subjectivity



Consider all facts and circumstances that create an **economic incentive**, including expected changes:

- Contractual terms for optional periods
- Significant leasehold improvements
- Costs of termination and return
- Importance to operations (specialised, location, alternatives)
- Conditionality associated with option

Reassess significant event or change in circumstances that lessee controls and affects whether exercise 'reasonably certain'
Revise: change in non-cancellable period

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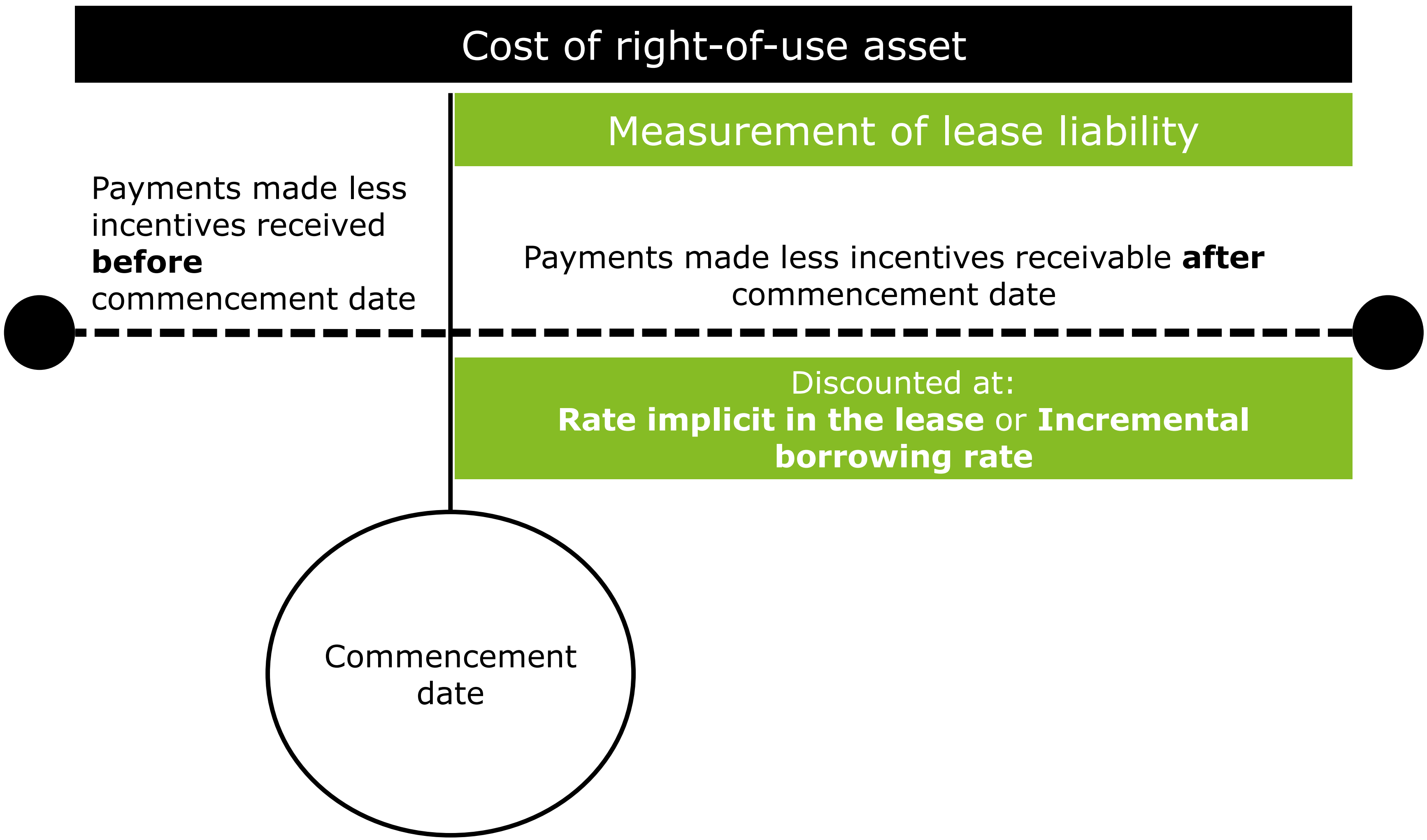
Measurement of right-of-use asset & lease liability

Top 5 on IFRS 16

Number 2

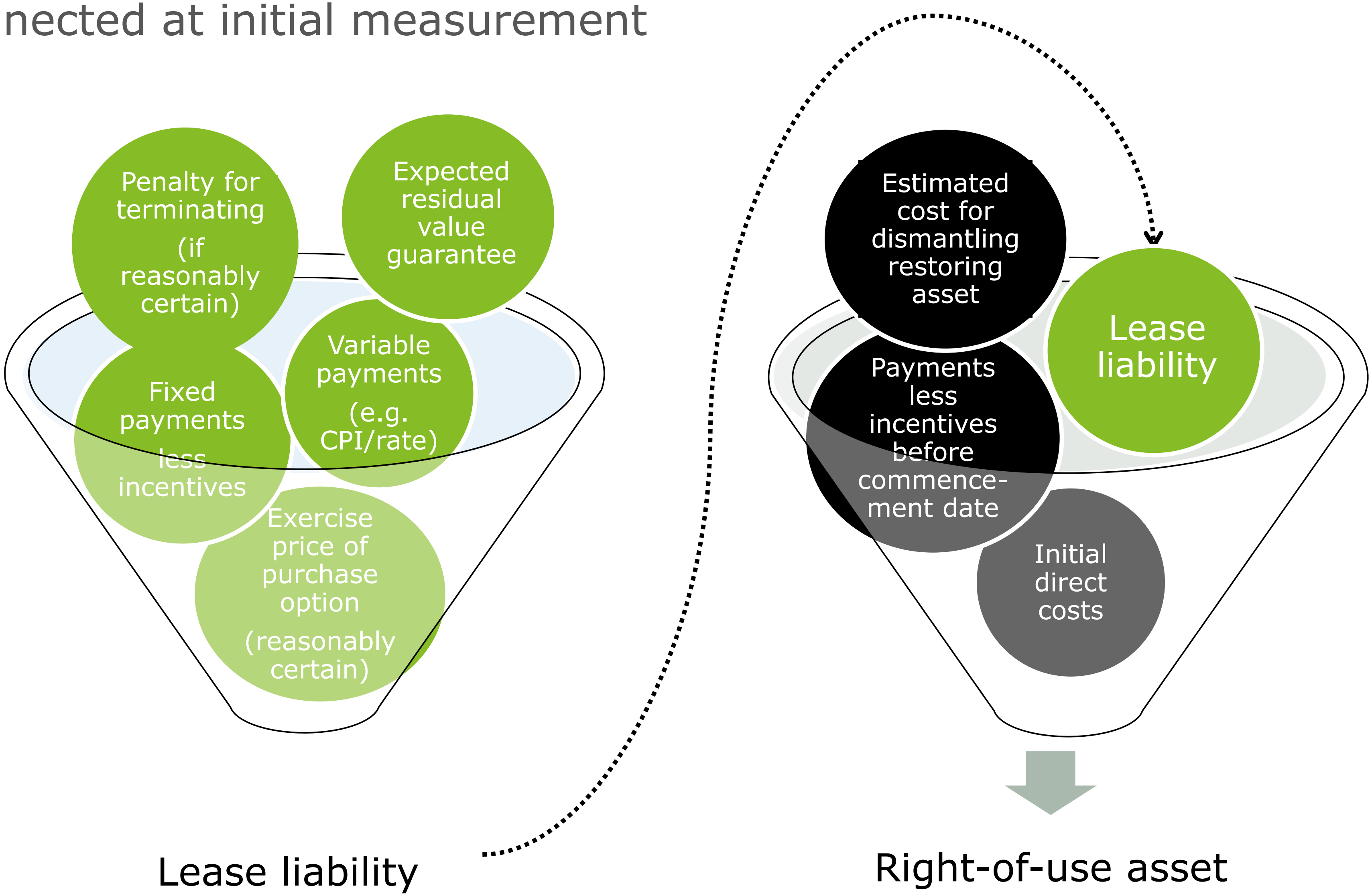
Measurement of right-of-use asset & lease liability

Right-of-use asset measured at cost



Measurement of right-of-use asset & lease liability

Connected at initial measurement



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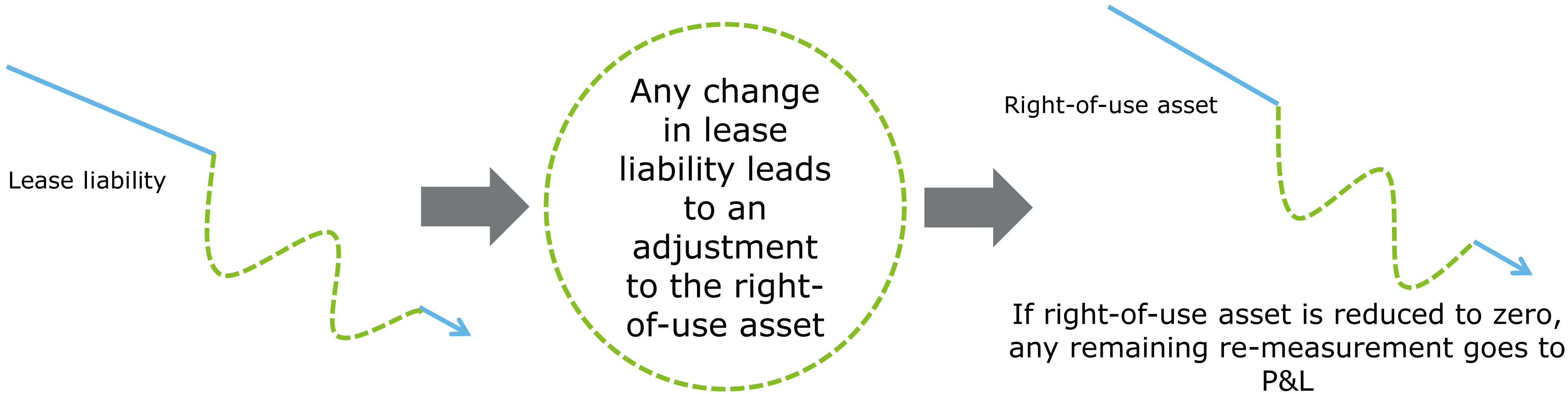
Subsequent measurement

Subsequent measurement

Adjustment of lease liability & right-of-use asset



Original discount rate (unless changes result from floating interest rates) if changes in:

- Residual value guarantees expectation
- Payments due to changes in an index or rate (when they take effect)

Revised discount rate if:

- Change in the lease term
- Significant change in circumstances within the control of the lessee regarding an option to purchase

Exemptions

Number 4

Top 5 on IFRS 16

Exemptions

To reduce administrative costs

Short-term leases
(12 months or less)

Low-value leases

Short-term leases	Low-value leases
A lease that contains a purchase option is not a short-term lease	Assessment on an absolute basis
Election by class of underlying asset	Election on a lease-by-lease basis

Presentation

Top 5 on IFRS 16
Number 5

Presentation

Accounting policy choice

Balance Sheet	2019
Lease assets	xxx
Lease liabilities	xxx

Present separately (except if investment property)

OR

Balance Sheet	2019
Property, plant and equipment	xxx
Liabilities	xxx

Present in the line item it would have been if it was owned

Disclose the line item in which they are included

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Top 5 on IFRS 15

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Introduction

Introduction

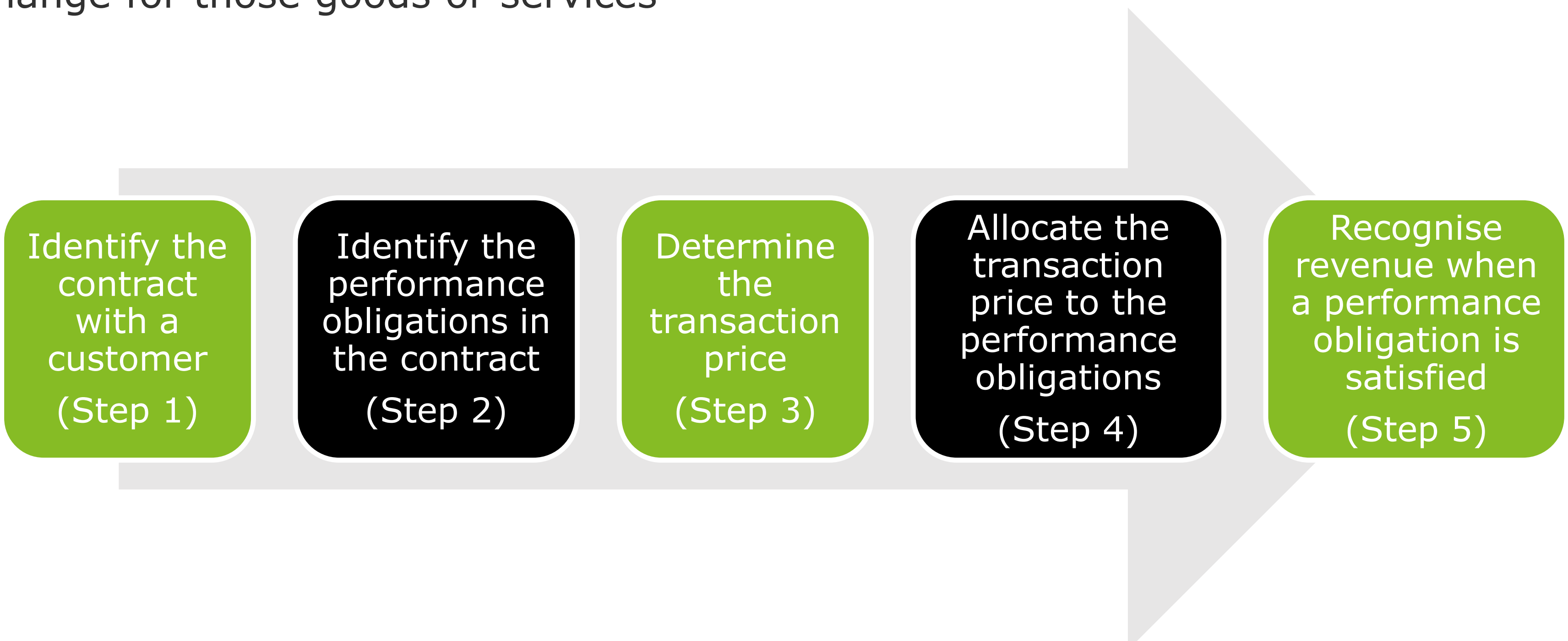
New requirements

Current requirements	New requirements (2018)
IAS 11 Construction Contracts IAS 18 Goods IAS 18 Services IFRIC 15 Construction Real Estate	IFRS 15: at a point in time or over time
IAS 18 Royalties	IFRS 15: at a point in time or over time
IFRIC 13 Customer Loyalty Programmes	IFRS 15: at a point in time or over time
IFRIC 18 Transfers of Assets to Customers SIC 31 Barter Transactions	IFRS 15: New specific guidance
IAS 18 Interest and Dividends	IAS 39 or IFRS 9

Introduction

Control approach

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



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Identify the performance obligations in the contract

Top 5 on IFRS 15

Number 1

Identify the performance obligations in the contract (step 2)

Disctinct good/service

Identify all (incl. implicit) promised goods/services in the contract

Is the good/service distinct?

CAPABLE OF BEING DISTINCT

Can the customer benefit from the good or service on its own or together with other readily available resources?

AND

DISTINCT IN CONTEXT OF CONTRACT

Is the good or service separately identifiable from other promises in the contract?

YES

Account for as a separate performance obligation

NO

Combine two or more promised goods or services

Identify the performance obligations in the contract (step 2)

Distinct in the context of the contract

- **No significant service of integrating** the good or service with other goods or services promised in the contract into a bundle of goods or services that represent the combined output for which the customer has contracted

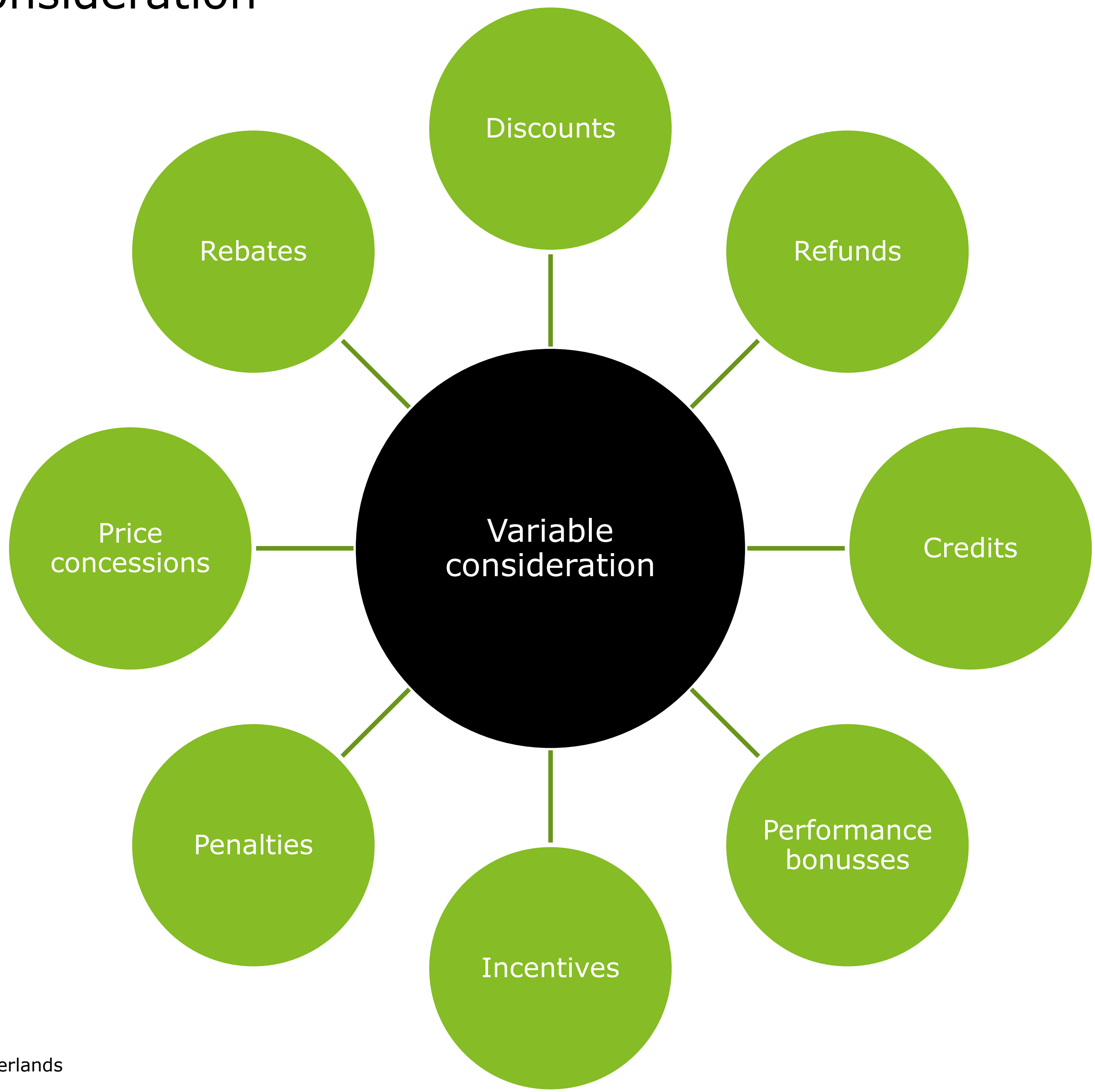
- The good or service does **not significantly modify or customise** another good or service promised in the contract

- The good or service is **not highly dependent on,** or **highly interrelated with**, other goods or services promised in the contract

Variable consideration

Variable consideration

Examples



Variable consideration

Estimating

Which method to use?

Expected value **OR** **Most likely amount**

The same method should be used to estimate the transaction price throughout the life of a contract

Exception for sales/usage based royalties of IP

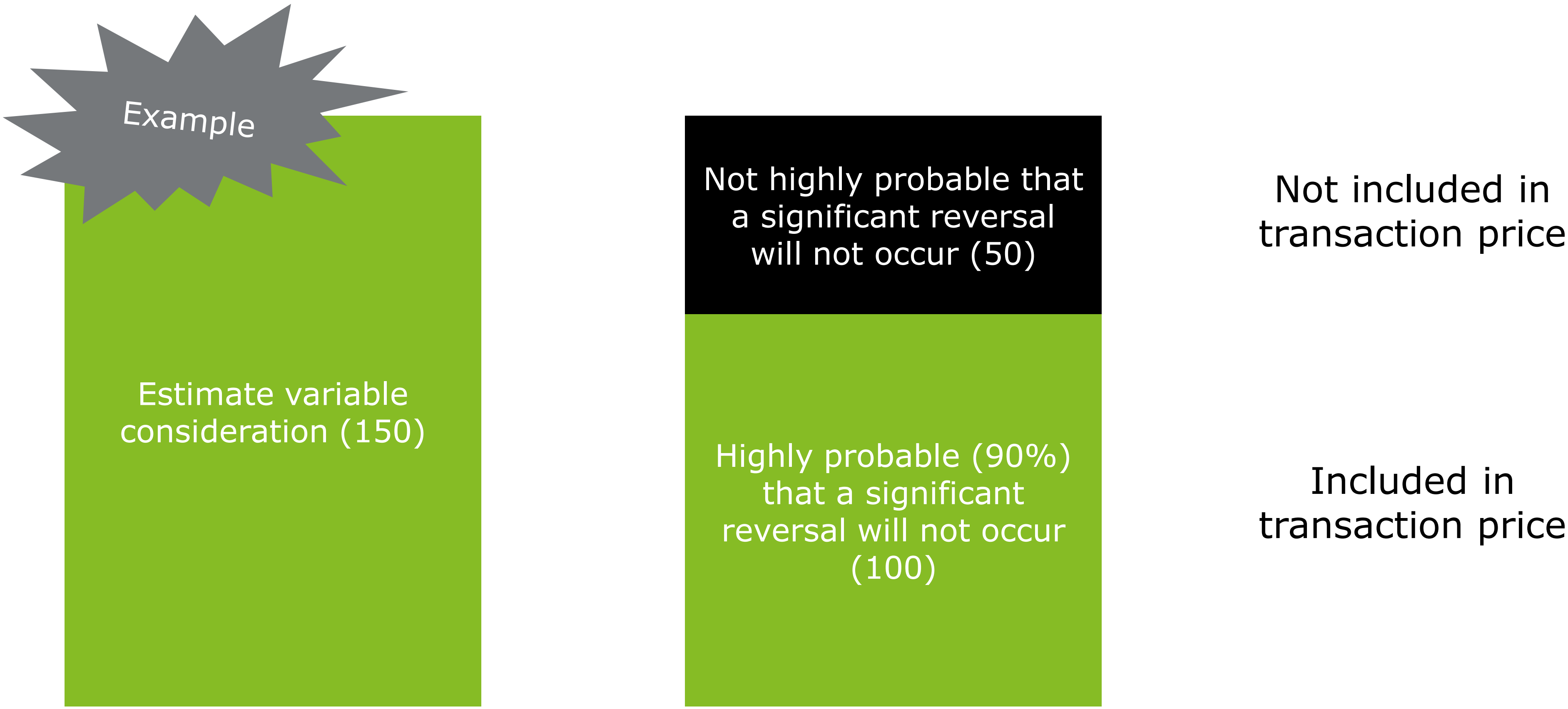
Do not include in the transaction price an estimate of sales or usage-based royalties from licences of intellectual property until the customer's subsequent sales or usage occur

Variable consideration

Constraining estimates of variable consideration

Variable consideration is included in the transaction price to the extent that it is:

highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved



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Recognise revenue when a performance obligation satisfied

Recognise revenue when a performance obligation satisfied (step 5)

Transfer of control

Performance satisfied over time = Revenue recognised over time

The seller's performance creates or enhances an asset controlled by the customer

or

The customer simultaneously receives and consumes the benefit of the seller's performance as the seller performs

or

The seller creates an asset that does not have an alternative use to the seller and the seller has the right to be paid for performance to date

IF NOT

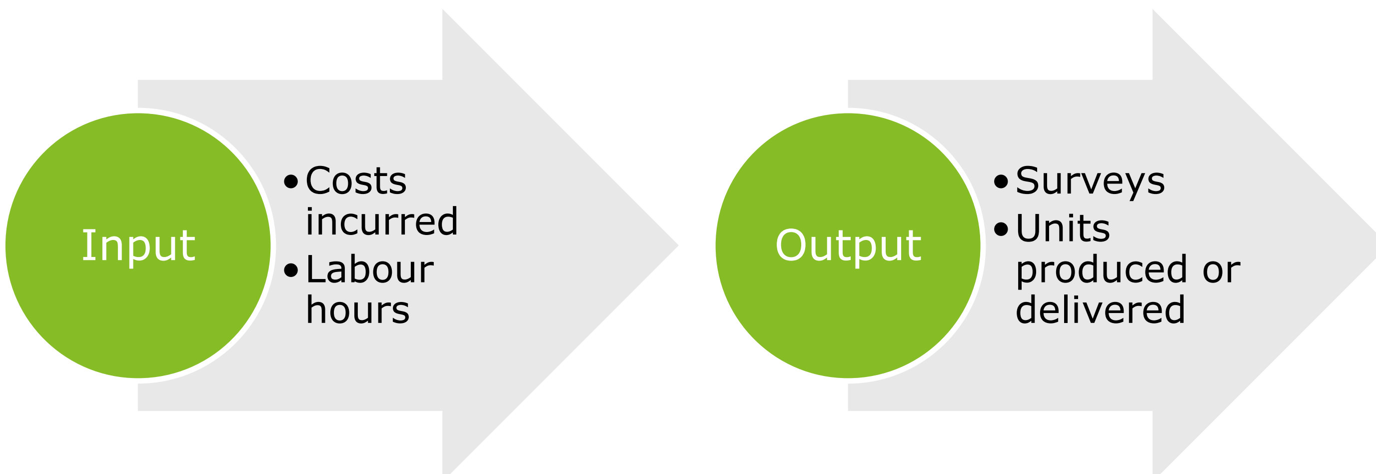
Revenue recognised at a point in time

Revenue recognised over time

Methods for measuring progress

- The objective when measuring progress is to depict the entity’s performance in transferring control of goods or services to the customer

- Appropriate methods of measuring progress include output methods and input methods



Revenue recognised over time

Input methods

- Inefficiencies and wasted materials
- Costs incurred not proportionate to the entity’s progress in satisfying the performance obligation
- Incremental costs of obtaining a contract

Revenue recognised at a point in time

Indicators

Transfer of physical possession of the asset

Present right to payment for the asset

Legal title to the asset

Significant risks and rewards of ownership

Customer acceptance

Principal vs agent

Top 5 on IFRS 15
Number 4

Principal vs agent

Presentation of revenue

Is the entity a principal or a agent?

Principal	Analysis required	Agent
Present revenue at the gross amount		Present revenue at the net amount

Principal vs agent

Comparison with IAS 18

Under IAS 18	Under IFRS 15
Purpose of indicators: To identify whether the entity has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services	Purpose of indicators: To determine whether the entity controls the goods or services before they are transferred to the customer
The entity has the primary responsibility for providing the goods or services to the customer or for fulfilling the order	The entity is primarily responsible for fulfilling the promise to provide the specified good or service
The entity has inventory risk before or after the customer order, during shipping or on return	The entity has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer
The entity has latitude in establishing prices, either directly or indirectly	The entity has discretion in establishing the price for the specified good or service
The entity bears the customer’s credit risk for the amount receivable from the customer	Indicator not used

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Contract costs

Top 5 on IFRS 15

Number 5

Contract costs

Two types

Costs of obtaining a contract

Costs of fulfilling a contract

Contract costs

Costs of obtaining a contract

- The incremental costs of obtaining a contract are capitalised if the entity expects to recover those costs
- As a practical expedient, an entity may choose to expense the costs to obtain a contract if the amortisation period is one year or less
- Costs that will be incurred regardless of whether the entity obtains the contract are expensed as incurred, unless they are explicitly chargeable to the customer

Contract costs

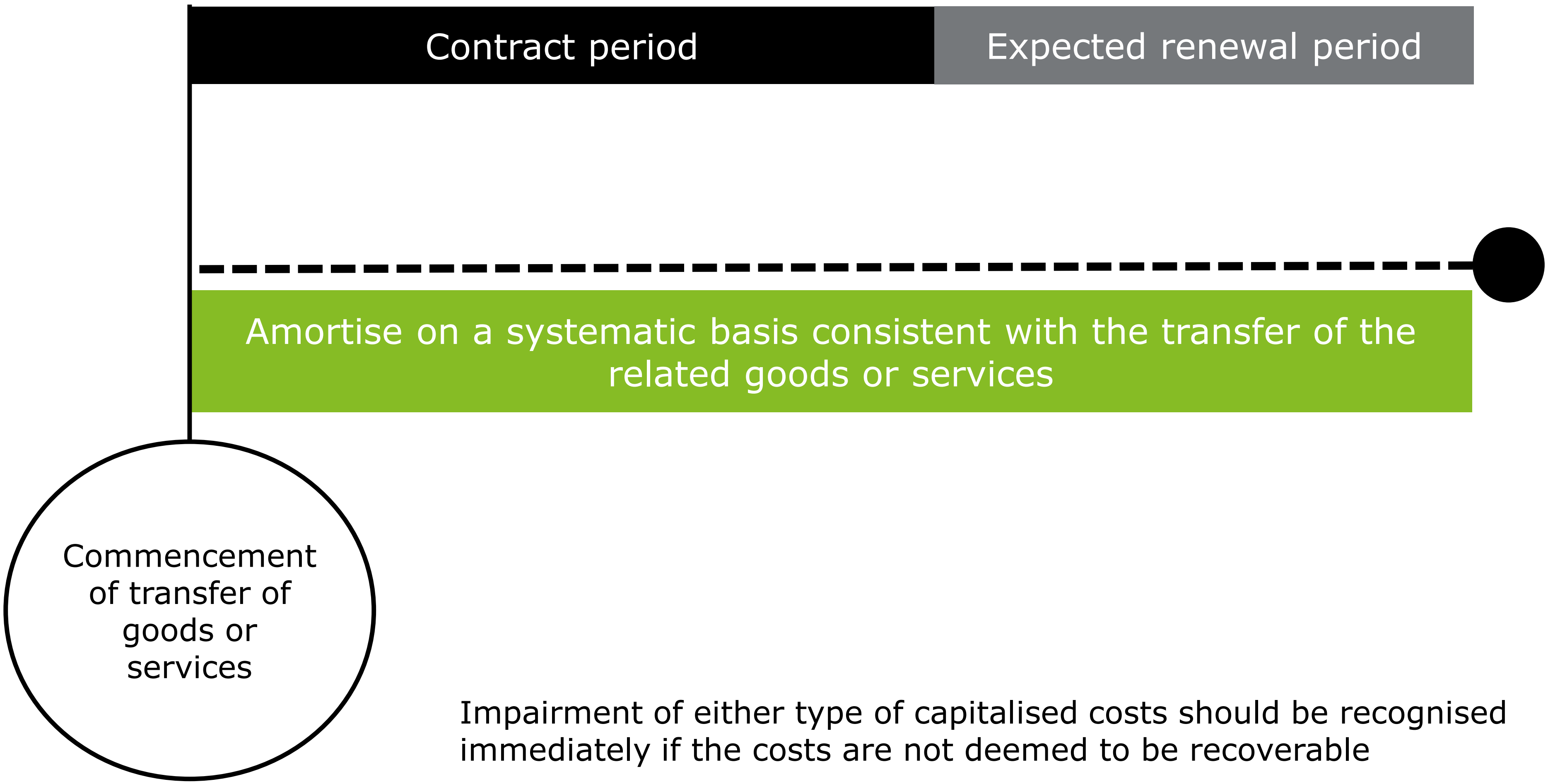
Costs of fulfilling a contract

- If costs incurred to fulfil a contract are covered under another standard, an entity accounts for those costs in accordance with the other standards
  - IAS 2 relating to inventories
  - IAS 16 relating to PPE

- Costs to fulfil a contract should be capitalised if they meet all the following criteria:
  - relate directly to the contract (or specific anticipated contract);
  - generate/enhance a resource that will be used to satisfy obligations in the future; and
  - are expected to be recovered

Contract costs

Amortisation



Impairment of either type of capitalised costs should be recognised immediately if the costs are not deemed to be recoverable

9 characteristics of good corporate reporting

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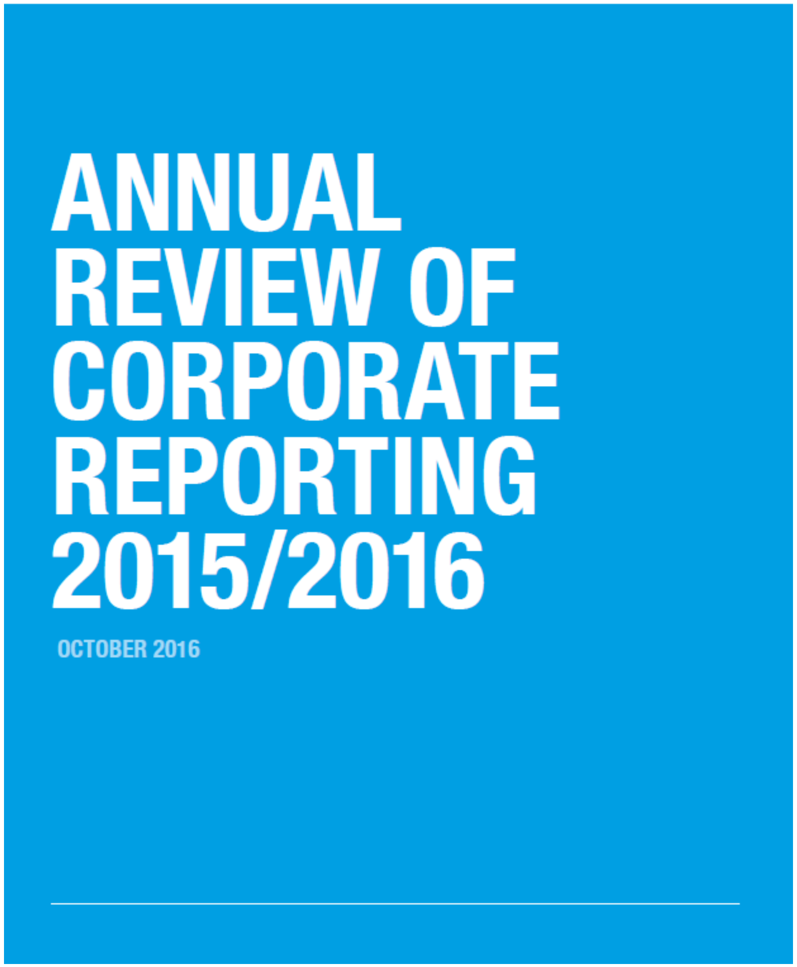
9 characteristics of good corporate reporting

Annual review of corporate reporting 2015/2016 – FRC

FRC Financial Reporting Council


ANNUAL REVIEW OF CORPORATE REPORTING 2015/2016

OCTOBER 2016

1. A single story
2. How the money is made
3. What worries the board
4. Consistency
5. Cut the clutter
6. Clarity
7. Summarise
8. Explain change
9. True and fair