

# Amendments to IFRSs effective from 1 January 2018 (Lecture A645 – 11.42 minutes)

IFRS frequently changes as a result of the IASB's work plan. The following standards were amended as part of the IASB's work plan and the amendments take effect for annual periods commencing on or after 1 January 2018:

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*
- IFRS 2 *Share-based Payment*
- IFRS 1 *First-time Adoption of International Financial Reporting Standards*
- IAS 28 *Investments in Associates and Joint Ventures*
- IAS 40 *Investment Property*
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

## **IFRS 9 Financial Instruments**

IFRS 9 was issued in July 2014 and is effective for annual periods commencing on or after 1 January 2018. In addition, on 12 September 2016, the IASB published '*Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"*' which provides a deferral option. This provides two options for entities which issue insurance contracts that are within the scope of IFRS 4. An entity choosing to apply the IFRS 9 deferral approach does so for annual periods beginning on or after 1 January 2018.

## **IFRS 15 Revenue from Contracts with Customers**

This standard is effective for annual periods beginning on or after 1 January 2018. On 12 April 2016, the IASB issued '*Clarifications to IFRS 15 "Revenue from Contracts with Customers"*' and applies to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018.

## **IFRS 2 Share-based Payment**

On 20 June 2016, the IASB published final amendments to IFRS 2 which clarify the classification and measurement of share-based payment transactions. The amendments are effective for annual periods beginning on or after 1 January 2018, with earlier adoption permissible.

Prior to the amendments, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. The revised IFRS 2 now includes guidance that introduces accounting requirements for cash-settled share-based payments and follows the same approach as used for equity-settled share-based payments.

There is an exception in the revised IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the

share-based payment would have been classified as equity-settled had it not included the net settlement feature.

Prior to the revisions, IFRS 2 did not address the situation when a cash-settled share-based payment changes to an equity-settled share-based payment due to modifications of the terms and conditions. The revised IFRS 2 now clarifies that:

- on such modifications, the original liability recognised in respect of the cash-settled share-based payment is derecognised and the equity-settled share-based payment is recognised at the modification date fair value to the extent that services have been rendered up to the modification date;
- any difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date would be recognised in profit and loss immediately.

### **IFRS 1 First-time adoption of International Financial Reporting Standards**

On 8 December 2016, the IASB issued *'Annual Improvements to IFRS Standards 2014-2016 Cycle'*. The amendments to IFRS 1 are effective for annual periods beginning on or after 1 January 2018.

The amendments delete the short-term exemptions in paragraphs E3 to E7 of IFRS 1 because they have served their intended purpose.

### **IAS 28 Investments in Associates and Joint Ventures**

As with IFRS 1, IAS 28 contains amendments as part of the *'Annual Improvements to IFRS Standards 2014-2016 Cycle'* which are effective for annual periods beginning on or after 1 January 2018.

The amendments to IAS 28 clarify that the election to measure at fair value through profit or loss an investment in an associate or joint venture that is held by an entity which is a venture capital organisation (or other qualifying entity) is available for each investment in an associate or joint venture on an investment-by-investment basis upon initial recognition.

### **IAS 40 Investment Property**

On 8 December 2016, the IASB issued *'Transfers of Investment Property (Amendments to IAS 40)'*. These amendments are effective for periods beginning on or after 1 January 2018 with earlier application permissible.

Paragraph 57 has been amended to state that an entity shall transfer property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

In addition, the list of evidence in paragraph 57(a) to (d) was designated as 'non-exhaustive' rather than the previous 'exhaustive' list.

## **IFRIC 22 Foreign Currency Transactions and Advance Consideration**

IFRIC 22 was issued on 8 December 2016. This interpretation becomes effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permissible.

IFRIC 22 clarifies the accounting for transactions which include the receipt or payment of advance consideration in a foreign currency. It covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment, or receipt, of advance consideration before the entity recognises the related asset, expense or income. The IFRIC does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. In addition, IFRIC 22 need not be applied to income taxes, insurance contracts or reinsurance contracts.

The 'date of the transaction' for the purpose of determining the exchange rate is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

Where there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

On initial application of IFRIC 22, the entity has a choice of application, either:

- retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; or
- prospectively to all foreign currency assets, expenses and income in the scope of the interpretation initially recognised on or after the beginning of the reporting period an entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information.