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# In depth

## New IFRSs for 2019

March 2019



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# Introduction

Since March 2018, the IASB has issued the following:

- Conceptual framework
- Amendments to IFRS 3, 'Business combinations', Definition of a business
- Amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', Definition of material

This guide summarises the amendments plus those standards, amendments and IFRICs issued previously that are effective from 1 January 2019.

It is designed to be used by preparers, users and auditors of IFRS financial statements. It includes a quick reference table of each standard/amendment/interpretation categorised by the effective date, whether early adoption is permitted and the EU endorsement status as of 1 March 2019. The publication gives an overview of the impact of the changes, which may be significant for some entities, helping companies understand if they will be affected and to begin their considerations. It will help entities plan more effectively by flagging up where new processes and systems or more guidance may be needed.

## Introduction

Standard/amendment/interpretation	Effective date	Adoption status	EU status (as of 1 March 2019)	Page
<b>1 January 2019</b>				
IFRS 16, 'Leases'	Annual periods on or after 1 January 2019		Endorsed	10
Amendments to IFRS 9, 'Financial instruments' – Prepayment features with negative compensation	Annual periods on or after 1 January 2019		Endorsed	8
Amendments to IAS 28, 'Investments in associates'	Annual periods on or after 1 January 2019		Endorsed	4
Long term interests in associates and joint ventures				
Amendments to IAS 19, 'Employee benefits' – Plan amendment, curtailment or settlement	Annual periods on or after 1 January 2019		Not yet endorsed	5
Annual improvements 2015-2017	Annual periods on or after 1 January 2019		Not yet endorsed	16
IFRS 3, 'Business combinations'				
IFRS 11, 'Joint ventures'				
IAS 12, 'Income taxes'				
IAS 23, 'Borrowing costs'				
IFRIC 23, 'Uncertainty over income tax'	Annual periods on or after 1 January 2019		Endorsed	17
<b>1 January 2020</b>				
Amendments to IFRS 3, 'Business combinations', definition of a business	Annual periods 1 January 2020	Early adoption is permitted	Not yet endorsed	6
Amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors' definition of material	Annual periods 1 January 2020	Early adoption is permitted	Not yet endorsed	7
Amendments to the Conceptual framework	Annual periods 1 January 2020	Early adoption is permitted	Not yet endorsed	19
<b>1 January 2021</b>				
IFRS 17, 'Insurance contracts'	Annual periods on or after 1 January 2021	Early adoption is permitted once IFRS 15 and IFRS 9 are applied.	Not yet endorsed	12

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# Long term interests in associates and joint ventures

## Amendments to IAS 28, 'Investments in associates'

### Effective date

Annual periods beginning on or after 1 January 2019.

### EU adoption status

Endorsed.

### Issue

Investors could have long-term interests (for example, preference shares or long-term loans) in an associate or joint venture that form part of the net investment in the associate or joint venture. The IASB was asked to clarify whether these long-term interests are within the scope of IFRS 9, and whether IFRS 9 impairment requirements are applicable.

### Insight

The IASB issued a narrow scope amendment to IAS 28 that clarified that these long-term interests in an associate or joint venture to which the equity method is not applied should be accounted for using IFRS 9. This includes the impairment requirements in IFRS 9. An illustrative example is also provided.

The amendments are effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted.

# Plan amendment, curtailment or settlement

## Amendments to IAS 19, 'Employee benefits'

### Effective date

Annual periods beginning on or after 1 January 2019.

### EU adoption status

Not adopted at time of going to print.

### Issue

This amendment requires an entity:

- to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
- to recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

### Impact

Changes in the terms or membership of a defined benefit plan might result in a plan amendment or a curtailment or settlement. IAS 19 requires an entity to determine the amount of any past service cost, or gain or loss on settlement, by remeasuring the net defined benefit liability before and after the amendment, using current assumptions and the fair value of plan assets at the time of the amendment.

Current service cost and net interest are usually calculated using assumptions determined at the beginning of the period. However, if the net defined benefit liability is remeasured to determine past service cost, or the gain or loss on curtailment or settlement, current service cost and net interest for the remainder of the period are remeasured using the same assumptions and the same fair value of plan assets. This will change the amounts that would otherwise have been charged to profit or loss in the period after the plan amendment, and it might mean that the net defined benefit liability is remeasured more often.

A plan amendment, curtailment or settlement might reduce or eliminate a surplus, which could change the effect of the asset ceiling. Past service cost, or a gain or loss on settlement, is calculated in accordance with IAS 19, and it is recognised in profit or loss. This reflects the substance of the transaction, because a surplus that has been used to settle an obligation or provide additional benefits is recovered. The impact on the asset ceiling is recognised in other comprehensive income, and it is not reclassified to profit or loss. The impact of the amendments is to confirm that these effects are not offset.

### Who is affected

The amendments will affect any entity that changes the terms or the membership of a defined benefit plan such that there is past service cost or a gain or loss on settlement.

The amendments are applied prospectively to plan amendments, settlements or curtailments that occur after the beginning of the first annual reporting period beginning on or after 1 January 2019.

# Definition of a business

## Amendments to IFRS 3, 'Business combinations'

### Effective date

Annual periods beginning on or after 1 January 2020.  
Early adoption is permitted.

### EU adoption status

Not adopted at time of going to print.

### Issue

To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present (including for early stage companies that have not generated outputs). To be a business without outputs, there will now need to be an organised workforce.

The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets.

An entity can apply a 'concentration test' that, if met, eliminates the need for further assessment. Under this optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business.

### Impact

The changes to the definition of a business will likely result in more acquisitions being accounted for as asset acquisitions across all industries, particularly real estate, pharmaceutical, and oil and gas. Application of the changes would also affect the accounting for disposal transactions.

Differences in accounting between business combinations and asset acquisitions include, among other things, the recognition of goodwill, recognition and measurement of contingent consideration, accounting for transaction costs, and deferred tax accounting.



# Definition of material

## Amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors'

### Effective date

Annual periods beginning on or after 1 January 2020.  
Early adoption is permitted.

### EU adoption status

Not adopted at time of going to print.

### Issue

The amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information.

The amended definition is:

'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendment clarifies that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information. It also states that an entity assesses materiality in the context of the financial statements as a whole.

The amendment also clarifies the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

### Impact

The amendments clarify the definition of material and make IFRSs more consistent, but are not expected to have a significant impact on the preparation of financial statements.

# Prepayment features with negative compensation

## Amendments to IFRS 9, 'Financial instruments'

### Effective date

Annual periods beginning on or after 1 January 2019.

### EU adoption status

Endorsed.

This amendment covers two issues:

- What financial assets may be measured at amortised cost. The amendment permits more assets to be measured at amortised cost than under the previous version of IFRS 9, in particular some prepayable financial assets. It is likely to have the biggest impact on banks and other financial services entities and be broadly welcomed by companies.
- How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowings.

All companies should ensure that their projects to implement IFRS 9 identify what assets and transactions are or may be affected. Significant judgement may be required to apply the amendment, so early identification of the issues is advised.

### Issue

The IASB issued a narrow-scope amendment to IFRS 9 to enable companies to measure at amortised cost some prepayable financial assets with negative compensation. The assets affected, that include some loans and debt securities, would otherwise have been measured at fair value through profit or loss (FVTPL).

Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest. However, to qualify for amortised cost measurement, the negative compensation<sup>1</sup> must be 'reasonable compensation for early termination of the contract'.

An example of such reasonable compensation is an amount that reflects the effect of the change in the relevant benchmark rate of interest. However, the standard does not define 'reasonable compensation' and significant judgement may be required to assess if this test is met.

In addition, to qualify for amortised cost measurement, the asset must be held within a 'held to collect' business model.

<sup>1</sup> That is the difference between the prepayment amount and unpaid amount of principal and interest.

## Impact

The amendment is likely to be welcomed by preparers. In practice, there is a broad range of prepayment features with potentially negative compensation in many kinds of debt instruments:

- The prepayment option may be contingent on the occurrence of a trigger event (for example, sale or fall in value of collateral to a loan).
- The prepayment option may be held by only one party to the contract or both parties.
- Prepayment may be permitted or required (in particular circumstances).
- The compensation formula may differ. In many cases judgement will be required to assess whether the compensation meets the test of being 'reasonable compensation for early termination of the contract'.

## Effective date

The amendment is effective for annual periods beginning on or after 1 January 2019.

## Modification of financial liabilities – IFRS 9 accounting change confirmed

As expected, the IASB confirmed the accounting for modifications of financial liabilities under IFRS 9. That is, when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss should be recognised in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This will impact all companies, particularly those applying a different policy for recognising gains and losses under IAS 39 today.

# Leases

## IFRS 16

### Effective date

Annual periods beginning on or after 1 January 2019.

### EU adoption status

Endorsed.

### Issue

In January 2016, the IASB finished its long-standing project on lease accounting and published IFRS 16, 'Leases', which replaces the current guidance in IAS 17. This will require far-reaching changes in accounting by lessees in particular.

### Key provisions

Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets, however, this exemption can only be applied by lessees.

For lessors, the accounting stays almost the same. However, as the IASB has updated the IAS 17 guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

### Impact

IFRS 16 is likely to have a significant impact on the financial statements of a number of lessees.

### Statement of financial position

The new standard will affect both the balance sheet and related ratios, such as debt/equity ratios. Depending on the particular industry and the number of lease contracts previously classified as operating leases under IAS 17, the new approach will result in a significant increase in debt on the balance sheet.

### Statement of comprehensive income

Lessees will have to present interest expense on the lease liability and depreciation on the right-of-use asset in their income statement. In comparison with operating leases under IAS 17, this will change not only the allocation of expenses but also the total amount of expenses recognised for each period of the lease term. The combination of a straight-line depreciation of the right-of use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term.

**Statement of cash flows**

The new guidance will also change the cash flow statement, because lease payments that relate to contracts that have previously been classified as operating leases are no longer presented as operating cash flows in full. Only the part of the lease payments that reflects interest on the lease liability can be presented as an operating cash flow (if it is the entity's policy to present interest payments as operating cash flows). Cash payments for the principal portion of the lease liability are classified within financing activities. Payments for short-term leases, for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are presented within operating activities.

**Transition**

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. In order to facilitate transition, entities can choose a 'simplified approach' that includes certain reliefs related to the measurement of the right-of-use asset and the lease liability, rather than full retrospective application, furthermore, the 'simplified approach' does not require a restatement of comparatives. In addition, as a practical expedient entities are not required to reassess whether a contract is, or contains, a lease at the date of initial application (that is, such contracts are 'grandfathered').

# Insurance contracts

## IFRS 17

### Effective date

Annual periods beginning on or after 1 January 2021.  
Early adoption is permitted.

### EU adoption status

Not adopted at time of going to print.

### Issue

On 18 May 2017, the IASB finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, 'Insurance Contracts'. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

The standard applies to annual periods beginning on or after 1 January 2021, with earlier application permitted.

### Key provisions

#### Scope

IFRS 17 applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features if an entity also issues insurance contracts. For fixed-fee service contracts whose primary purpose is the provision of services, entities have

an accounting policy choice to account for them in accordance with either IFRS 17 or IFRS 15. Similar to the position under IFRS 4, financial guarantee contracts are allowed to be within the scope of IFRS 17 if the entity previously asserted explicitly that it regarded them as insurance contracts. Insurance contracts (other than reinsurance) where the entity is a policyholder are not within the scope of IFRS 17.

Embedded derivatives and distinct investment and service components should be 'unbundled' and accounted for separately in accordance with the related IFRSs. Voluntary unbundling of other components is prohibited.

#### The measurement model

IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ('CSM') representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability-weighted cash flows.

For presentation and measurement, entities are required at initial recognition to disaggregate a portfolio (that is, contracts that are subject to similar risks and managed together as a single pool) into three groups of contracts: onerous; no significant risk of becoming onerous; and remaining contracts. Contracts that are issued more than one year apart should not be in the same group.

Changes in cash flows related to future services should be recognised against the CSM. The CSM cannot be negative, so changes in future cash flows that are greater than the remaining CSM are recognised in profit or loss. Interest is accreted on the CSM at rates locked in at initial recognition of a contract. To reflect the service provided, the CSM is released to profit or loss in each period on the basis of passage of time.

Under IFRS 17, entities have an accounting policy choice to recognise the impact of changes in discount rates and other assumptions that relate to financial risks either in profit or loss or in other comprehensive income ('OCI'). The OCI option for insurance liabilities reduces some volatility in profit or loss for insurers where financial assets are measured at amortised cost or fair value through OCI under IFRS 9.

The variable-fee approach is required for insurance contracts that specify a link between payments to the policyholder and the returns on underlying items, such as some 'participating', 'with profits' and 'unit linked' contracts. The interest on the CSM for such contracts is accreted implicitly through adjusting the CSM for the change in the variable fee. The variable fee represents the entity's share of the fair value of the underlying items less amounts payable to policyholders that do not vary based on the underlying items. The CSM is also adjusted for the time value of money and the effect of changes in financial risks not arising from underlying items such as options and guarantees.

Requirements in IFRS 17 align the presentation of revenue with other industries. Revenue is allocated to periods in proportion to the value of expected coverage and other services that the insurer provides in the period, and claims are presented when incurred. Investment components (that is, amounts repaid to policyholders even if the insured event does not occur) are excluded from revenue and claims.

Insurers are required to disclose information about amounts, judgements and risks arising from insurance contracts. The disclosure requirements are more detailed than currently required under IFRS 4.

On transition to IFRS 17, an entity applies IFRS 17 retrospectively to groups of insurance contracts, unless it is impracticable. In this case, the entity is permitted to choose between a modified retrospective approach and the fair value approach. In applying a modified retrospective approach, the entity achieves the closest outcome to retrospective application using reasonable and supportable information and choosing from a list of available simplifications. Alternatively, the CSM at transition can be based on fair value at transition. In practice, using different approaches to transition could result in significantly different outcomes that will drive profit recognised in future periods for contracts in force on transition.

## Impact and insights

IFRS 17 will impact businesses well beyond the finance, actuarial and systems development areas (for example, product design and distribution, development of revised incentive and wider remuneration policies and reconfigured budgeting and forecasting methodologies feeding into business planning). There could also be an impact on the cash tax position and dividends, both on transition and going forward. Gap analysis and impact assessments to develop an implementation roadmap will enable entities to begin the detailed implementation project. A fundamental shift might be required in the way in which data is collected, stored and analysed, changing the emphasis from a prospective to a retrospective basis of analysis and introducing a more granular level of measurement and additional disclosures. Before the effective date, insurers will need to carefully consider their 'IFRS 17 story' for investors and analysts, as well as the key metrics that they will apply in the new world.

# Transition requirements when applying IFRS 16 and 17

## Issue

This section highlights the differences between how existing reporters and first time adopters will transition to the new standards. Those preparing a longer 'track record' of financial information for initial public offerings or other transactions as a first time adopter may also be affected.

IFRS 1, the relevant standard for first time adoption of IFRS, requires the same accounting policies to be applied in the opening IFRS statement of financial position and throughout all periods presented in the first IFRS financial statements. Those accounting policies must comply with the IFRS standards effective at the end of the first IFRS reporting period, except for those IFRS 1 mandatory exceptions or voluntary exemptions. The transition provisions of other standards do not apply to first-time adopters, except where specified in IFRS 1.

A first time adopter may choose to early adopt any new standards that are not mandatory at the end of an entity's first IFRS reporting period. IFRS 1 does not require an entity to use newly issued but not yet mandatory versions of an IFRS, but it explains the advantages of doing so.

Subsidiaries (including carve out entities) of existing IFRS reporting groups have additional flexibility when they choose to move to IFRS after their parent.

## Impact

### Impact of IFRS 16 – Leases

IFRS 16, effective for annual reporting periods beginning on or after 1 January 2019, allows either fully retrospective adoption or a 'simplified approach' similar to that of IFRS 15. The simplified approach is not available to first time adopters.

IFRS 1 requires first time adopters to use the fully retrospective approach when applying IFRS 16. First time adopters that

are lessees are permitted to apply some of the transition reliefs that are available to existing IFRS preparers under the 'simplified approach'. For example, the lessee may measure the lease liability at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of transition to IFRS.

The right-of-use asset can be measured either as if IFRS 16 has always been applied but discounted using the lessee's incremental borrowing rate at the date of transition or at an amount equal to the lease liability (adjusted by the amount of any prepaid or accrued lease payments). A lessee that chooses these simplifications has to test the right-of-use assets for impairment at the date of transition applying IAS 36.

However, a first time adopter must re-assess all contracts for leases either at inception of the contract or at the date of transition to IFRS. It also has to restate comparative information.

### Impact of IFRS 17 – Insurance contracts

IFRS 17 applies to annual periods beginning on or after 1 January 2021, with earlier application permitted if IFRS 15 and IFRS 9 are also applied. The standard should be applied retrospectively unless impracticable.

IFRS 17 must be applied fully retrospectively. IFRS 1 mirrors the transition guidance set out in Appendix C of IFRS 17.

### Subsidiaries (including carveout entities) moving to IFRS after their parent

There are two options set out in IFRS 1 para D16 for a subsidiary that adopts IFRS at a date later than the group headed by its parent (or entity that has significant influence or joint control over it). It can measure its assets and liabilities at either:

- a. the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs; or
- b. the carrying amounts required by IFRS 1, based on the subsidiary's date of transition to IFRSs.



## Transactions scenarios

An entity may undertake a transaction such as a material business combination or a listing of shares and need to present IFRS financial information as a first time adopter. The financial information presented typically includes the latest reporting period plus one or more comparative periods, commonly known as the 'track record'. The financial information is usually presented on a consistent basis across all

periods. Market regulations may require that the reporting entity applies the standards that will be in force at the end of the following reporting period. A good understanding of the relevant regulator's requirements is recommended.

The date of transition is the opening day of the earliest comparative period presented. The new standards might then be adopted at a much earlier date than would be applicable for an existing reporter.

If there are any new standards that are not effective in the track record period then, similar to an existing IFRS reporter, the reporting entity can choose to apply them in the future. The entity should include relevant IAS 8 disclosures concerning the impact that the new standards will have when applied.

These differences can be summarised as follows:

	Existing IFRS reporter or subsidiaries choosing to apply IFRS 1 para D16(a)	First time adopter or subsidiaries choosing to apply IFRS 1 para D16(b)
<b>IFRS 16, 'Leases'</b>		
Fully retrospective adoption	Yes – C5(a)	Yes – para 13
or		
'Simplified approach'	Yes – C5(b)	No
Retrospective with cumulative effect recognised on date of initial application		
No need to re-assess whether a contract contains a lease	Yes – C3	No
Assess whether a contract contains a lease at inception	Yes, ignore C3 and apply IFRS 16 para 9	Yes, ignore D9 and apply IFRS 16 para 9
Assess whether a contract contains a lease on date of transition to IFRS	N/a	Yes. apply D9 and ignore IFRS 16 para 9
Lease liabilities discounted at incremental borrowing rate	If apply fully retrospective: at the date of inception para 26 if apply simplified approach: at the date of initial application C8(a)	At the date of inception Ignore D9B(a), apply IFRS 16 para 26 or at the date of transition to IFRS D9B(a)
Apply IAS36 impairment to right of use assets	Yes if apply fully retrospective. para 33 Optional if apply simplified approach C8(c); C10(b)	Yes – D9B(c)
Apply IAS37 onerous contracts instead of IAS36	No if apply fully retrospective. Para 33 Optional if apply simplified approach C8(c); C10(b)	No
<b>IFRS 17, 'Insurance contracts'</b>		
Retrospective application	Transition is the same – fully retrospective (unless impracticable)	

# Annual improvements 2015-2017 cycle

## Effective date

Annual periods beginning on or after  
1 January 2019.

## EU adoption status

Endorsed.

Standard/Interpretation	Amendment	Effective date
IFRS 3, 'Business combinations'	The amendments clarify that obtaining control of a business that is a joint operation, is a business combination achieved in stages. The acquirer should re-measure its previously held interest in the joint operation at fair value at the acquisition date.	Annual periods beginning on or after 1 January 2019.
IFRS 11, 'Joint arrangements'	The amendments clarify that the party obtaining joint control of a business that is a joint operation should not re-measure its previously held interest in the joint operation.	Annual periods beginning on or after 1 January 2019.
IAS 12, 'Income taxes'	The amendment clarifies that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. These requirements apply to all income tax consequences of dividends.  Previously, it was unclear whether the income tax consequences of dividends should be recognised in profit or loss, or in equity, and the scope of the existing guidance was ambiguous.	Annual periods beginning on or after 1 January 2019.
IAS 23, 'Borrowing costs'	The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.	Prospectively for borrowing costs incurred on or after the beginning of annual periods beginning on or after 1 January 2019.

# IFRIC 23

## Uncertainty over income tax

### Effective date

Annual periods beginning on or after 1 January 2019.

### EU adoption status

Endorsed.

### Issue

This interpretation clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments.

### Impact

#### When does the Interpretation apply?

The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability

is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

#### What is the unit of account?

Each uncertain tax treatment is considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty. The factors that an entity might consider to make this determination include:

1. how it prepares and supports the tax treatment; and
2. the approach that it expects the tax authority i.e. take during an examination.

#### What should an entity assume about the examination of tax treatments by taxation authorities?

An entity is required to assume that a tax authority with the right to examine and challenge tax treatments will examine those treatments and have full knowledge of all related information. Detection risk is not considered in the recognition and measurement of uncertain tax treatments.

#### When should an entity account for any uncertain tax treatments?

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made (for example, by recognising an additional tax liability or applying a higher tax rate).

### **How is the effect of uncertainty recognised?**

The entity should measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The most likely amount method might be appropriate if the possible outcomes are binary or are concentrated on one value. The expected value method might be appropriate if there is a range of possible outcomes that are neither binary nor concentrated on one value. Some uncertainties affect both current and deferred taxes (for example, an uncertainty over the year in which an expense is deductible). IFRIC 23 requires consistent judgements and estimates to be applied to current and deferred taxes.

### **What about changes in circumstances?**

The judgements and estimates made to recognise and measure the effect of uncertain tax treatments are reassessed whenever circumstances change or when there is new information that affects those judgements. New information might include actions by the tax authority, evidence that the tax authority has taken a particular position in connection with a similar item, or the expiry of the tax authority's right to examine a particular tax treatment. IFRIC 23 states specifically that the absence of any comment from the tax authority is unlikely to be, in isolation, a change in circumstances or new information that would lead to a change in estimate.

### **What about the disclosures?**

There are no new disclosure requirements in IFRIC 23. However, entities are reminded of the need to disclose, in accordance with IAS 1, the judgements and estimates made in determining the uncertain tax treatment.

### **Effective date and transition**

The Interpretation is effective for annual periods beginning on or after 1 January 2019. An entity can, on initial application, elect to apply this Interpretation either:

1. retrospectively applying IAS 8, if possible without the use of hindsight; or
2. retrospectively, with the cumulative effect of initially applying the Interpretation recognised at the date of initial application as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate).

### **Insight**

IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. For example, the Interpretation specifies how to determine the unit of account and the recognition and measurement guidance to be applied to that unit. There is no specific guidance in IAS 12, and entities today might be using different models to determine the unit of account and measure the consequences of tax uncertainties. The Interpretation also explains when to reconsider the accounting for a tax uncertainty, and it states specifically that the absence of comment from the tax authority is unlikely, in isolation, to trigger a reassessment.

Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management should assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting.

# Amendments to the Conceptual framework

## Effective date

Annual periods beginning on or after 1 January 2020.  
Early adoption is permitted.

## EU adoption status

Not adopted at time of going to print.

## Issue

The IASB has revised its Conceptual Framework. This will not result in any immediate change to IFRS, but the Board and Interpretations Committee will use the revised Framework in setting future standards. It is therefore helpful for stakeholders to understand the concepts in the Framework and the potential ways in which they might impact future guidance.

## Impact

### Level in the IFRS hierarchy

The Framework is not an IFRS standard and does not override any standard, so nothing will change in the short term. The revised Framework will be used in future standard-setting decisions, but no changes will be made to current IFRS. Preparers might also use the Framework to assist them in developing accounting policies where an issue is not addressed by an IFRS.

## Key changes

Key changes include:

- Increasing the prominence of stewardship in the objective of financial reporting, which is to provide information that is useful in making resource allocation decisions.
- Reinstating prudence, defined as the exercise of caution when making judgements under conditions of uncertainty, as a component of neutrality.
- Defining a reporting entity, which might be a legal entity or a portion of a legal entity.
- Revising the definition of an asset as a present economic resource controlled by the entity as a result of past events.
- Revising the definition of a liability as a present obligation of the entity to transfer an economic resource as a result of past events.
- Removing the probability threshold for recognition, and adding guidance on derecognition.
- Adding guidance on the information provided by different measurement bases, and explaining factors to consider when selecting a measurement basis.
- Stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where the relevance or faithful representation of the financial statements would be enhanced.

The Board did not make any changes that address challenges in classifying instruments with characteristics of both liability and equity. That will be addressed through the IASB's standard-setting project on that topic. Other amendments to the Framework might be needed at the conclusion of that project.

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