IFRS Update

of standards and interpretations in issue at 31 August 2014
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Companies reporting under International Financial Reporting Standards (IFRS) continue to face a steady flow of new standards and interpretations. The nature of the resulting changes ranges from significant amendments of fundamental principles to some minor changes from the annual improvements process (AIP). They will affect many different areas of accounting ranging from recognition and measurement to presentation and disclosure.

Some of the changes have implications that go beyond matters of accounting, potentially also impacting the information systems of many entities. Furthermore, the changes may impact business decisions, such as the creation of joint arrangements or the structuring of particular transactions.

The challenge for preparers is to gain an understanding of what lies ahead.

Purpose of this publication

This publication provides an overview of the upcoming changes in standards and interpretations (pronouncements). It does not provide an in-depth analysis or discussion of the topics. Rather, the objective is to highlight key aspects of these changes. Reference should be made to the text of the pronouncements before taking any decisions or actions.

This publication consists of three sections, which are summarised below.

Section 1 provides a high-level overview of the key requirements of each pronouncement issued by the IASB and the IFRS Interpretations Committee as at 31 August 2014 that is applicable for the first time for fiscal years ended September 2014 and thereafter. This overview provides a summary of the transitional requirements and a brief discussion of the potential impact that the changes may have on an entity’s financial statements.

This section is presented in the numerical order of the pronouncements, except for the AIP. All AIP amendments are presented at the end of Section 1.

In addition, a table comparing mandatory application for different year ends is presented at the beginning of Section 1. In the table, the pronouncements are presented in order of their effective dates. However, many pronouncements contain provisions that would allow entities to adopt in earlier periods.

When a standard or interpretation has been issued, but has yet to be applied by an entity, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors requires the entity to disclose any known (or reasonably estimable) information relevant to understanding the possible impact that the new pronouncement will have on the financial statements, or indicate the reason for not doing so. The table at the beginning of Section 1 is helpful in identifying the pronouncements that fall within the scope of this disclosure requirement.

Section 2 provides a summary of the agenda rejection notices published in the IFRIC Update since September 2013 that are considered to provide relevant guidance on the application of IFRS. In some rejection notices, the Interpretations Committee refers to the existing pronouncements that provide guidance. These rejection notices provide a view on the application of the pronouncements and fall within ‘other accounting literature and accepted industry practices’ in paragraph 12 of IAS 8.

Section 3 lists expected pronouncements from the IASB. As mentioned above, if a standard or interpretation is published prior to the date on which the financial statements are authorised for issue, an entity will have to provide the IAS 8 disclosures for pronouncements that are issued but not yet effective.

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1 The IFRIC Update is available on the IASB’s website at http://www.ifrs.org/Updates/IFRIC+Updates/IFRIC+Updates.htm.
IFRS Core Tools

This publication provides an overview of new pronouncements issued as at 31 August 2014 that contribute to a significant amount of accounting change expected in the coming years. Frequent changes to IFRS add to the complexity entities face when approaching the financial reporting cycle.

EY’s IFRS Core Tools provide the starting point for assessing the impact of these changes to IFRS. Our IFRS Core Tools include a number of practical building blocks that can help the user to navigate the changing landscape of IFRS. In addition to this publication, EY’s IFRS Core Tools include the publications described below.

International GAAP® Disclosure Checklist

Our 2014 International GAAP® Disclosure Checklist captures disclosure requirements applicable to periods ended 31 December 2014, disclosures that are permitted to be adopted early, and disclosure requirements for all pronouncements issued as at 31 August 2014. This tool assists preparers to comply with the presentation and disclosure requirements of IFRS in their interim and year-end IFRS financial statements.

Good Group (International) Limited

Good Group (International) Limited for the year ended 31 December 2014 is a set of illustrative financial statements, incorporating presentation and disclosure requirements that are in issue as at 31 August 2014 and effective for the year ended 31 December 2014. Good Group (International) Limited Interim for the period ended 30 June 2014 supplements Good Group (International) Limited. Among other things, these illustrative financial statements can assist in understanding the impact accounting changes may have on the financial statements.

Good Group (International) Limited is supplemented by illustrative financial statements that are aimed at specific sectors, industries and circumstances. These include:

- Good Bank (International) Limited
- Good Construction (International) Limited
- Good First-time Adopter (International) Limited
- Good Insurance (International) Limited
- Good Investment Fund Limited (Equity)
- Good Investment Fund Limited (Liabilities)
- Good Mining (International) Limited
- Good Petroleum (International) Limited
- Good Real Estate Group (International) Limited

Also available from EY:

Other EY publications

References to other EY publications that contain further details and discussion on these topics are included throughout the IFRS Update, all of which can be downloaded from our website www.ey.com/ifrs.

International GAAP® 2014

Our International GAAP® 2014 is a comprehensive guide to interpreting and implementing IFRS. It includes pronouncements mentioned in this publication that were issued prior to September 2013, and it provides examples that illustrate how the requirements are applied. International GAAP® 2015 will be published early in 2015.

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2 International GAAP® is a registered trademark of Ernst & Young LLP (UK).
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AIP  Annual IFRS Improvements Process
* Effective for annual periods beginning on or after this date

- Pronouncements effective for the previous reporting period
- New pronouncements effective for the current reporting period
- New pronouncements that will become effective for the next reporting period
- New pronouncements that will become effective in periods subsequent to the next reporting period
IFRS 1 Government Loans – Amendments to IFRS 1
Effective for annual periods beginning on or after 1 January 2013.

Key requirements
The IASB added an exception to the retrospective application of IFRS 9 Financial Instruments (or IAS 39 Financial Instruments: Recognition and Measurement, as applicable) and IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. These amendments require first-time adopters to apply the requirements of IAS 20 prospectively to government loans existing at the date of transition to IFRS. However, entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans.

The exception will give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. As a result of not applying IFRS 9 (or IAS 39, as applicable) and IAS 20 retrospectively, first-time adopters will not have to recognise the corresponding benefit of a below-market rate government loan as a government grant.

Transition
Early application is permitted and must be disclosed.

Impact
These amendments give first-time adopters the same relief that existing preparers of IFRS financial statements had on the first-time application of IAS 20 (as revised in May 2008) and, therefore, will reduce the cost of transition to IFRS.

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7
Effective for periods beginning on or after 1 January 2013.

Key requirements
The amendments require an entity to disclose information about rights of set-off and related arrangements (e.g., collateral agreements). The disclosures will provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or ‘similar agreement’, irrespective of whether they are set off in accordance with IAS 32.

Transition
The amendments must be applied retrospectively. Early application is permitted and must be disclosed. If an entity chooses to early adopt the amendments, it also must make the disclosure required by IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7.

Impact
To extract the necessary data to prepare the new disclosures, entities (in particular, banks) may need to modify management information systems and internal controls, including linking their credit systems to accounting systems.

Other EY publications
Applying IFRS: Offsetting financial instruments: clarifying the amendments (May 2012) EYG no. AU1182.

IFRS Developments Issue 22: Offsetting of financial instruments (December 2011) EYG no. AU1053.
IFRS 9 Financial Instruments

Effective for annual periods beginning on or after 1 January 2018.

Key requirements
Classification and measurement of financial assets

- All financial assets are measured at fair value on initial recognition, adjusted for transaction costs if the instrument is not accounted for at fair value through profit or loss (FVTPL). However, trade receivables without a significant financing component are initially measured at their transaction price as defined in IFRS 15 Revenue from Contracts with Customers.
- Debt instruments are subsequently measured on the basis of their contractual cash flows and the business model under which the debt instruments are held. If a debt instrument has contractual cash flows that are solely payments of principal and interest on the principal outstanding and is held within a business model with the objective of holding the assets to collect contractual cash flows, it is accounted for at amortised cost. If a debt instrument has contractual cash flows that are solely payments of principle and interest on the principal outstanding and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, it is measured at fair value through other comprehensive income (FVOCI) with subsequent reclassification to profit or loss.
- All other debt instruments are subsequently accounted for at FVTPL. Also, there is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch.
- Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in OCI (without subsequent reclassification to profit or loss).

Classification and measurement of financial liabilities

- For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability’s credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- All other IAS 39 classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

Impairment

- The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model.
- The ECL model applies to: debt instruments accounted for at amortised cost or at FVOCI; most loan commitments; financial guarantee contracts; contract assets under IFRS 15; and lease receivables under IAS 17 Leases.
- Entities are generally required to recognise either 12-months’ or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition (or when the commitment or guarantee was entered into). For trade receivables without a significant financing component, and depending on an entity’s accounting policy choice for other trade receivables and lease receivables, a simplified approach applies whereby lifetime ECL are always recognised.
- The measurement of ECL must reflect a probability-weighted outcome, the effect of the time value of money, and based on reasonable and supportable information that is available without undue cost or effort.

Hedge accounting

- Hedge effectiveness testing must be prospective and can be qualitative, depending on the complexity of the hedge.
- A risk component of a financial or non-financial instrument may be designated as the hedging item if the risk component is separately identifiable and reliably measurable.
- The time value of an option, the forward element of a forward contract and any foreign currency basis spread can be excluded from the designation as the hedging instrument and accounted for as costs of hedging.
- More designations of groups of items as the hedged item are possible, including layer designations and some net positions.

Transition

An entity may elect to apply earlier versions of IFRS 9 if, and only if, the entity’s relevant date of initial application is before 1 February 2015. Otherwise, early application is only permitted if the complete version of IFRS 9 is adopted in its entirety for reporting periods beginning after 24 July 2014. The transition to IFRS 9 differs by requirements and is partly retrospective and partly prospective. Despite the requirement to apply IFRS 9 in its entirety, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as at FVTPL without applying the other requirements in the standard. An entity that elects to do so is required to disclose that fact and provide the related disclosures set out in paragraphs 10-11 of IFRS 7 Financial Instruments: Disclosures.

Impact

The application of IFRS 9 will likely result in significant changes to an entity’s current accounting, systems and processes. For entities considering early application, there are a number of benefits and challenges that should be considered. Careful planning for this transition will be necessary.

Other EY publications

IFRS Developments Issue 87: IASB issues IFRS 9 Financial Instruments - expected credit losses (July 2014) EYG no. AU2537

IFRS Developments Issue 86: IASB issues IFRS 9 Financial Instruments - classification and measurement (July 2014) EYG no. AU2536

Applying IFRS - Hedge accounting under IFRS 9 (February 2014) EYG no. AU2185.
IFRS 10 Consolidated Financial Statements,
IAS 27 Separate Financial Statements
Effective for annual periods beginning on or after 1 January 2013.

Key requirements
IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation – Special Purpose Entities, which resulted in SIC-12 being withdrawn. IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures, and associates in separate financial statements.

IFRS 10 does not change consolidation procedures (i.e., how to consolidate an entity). Rather, IFRS 10 changes whether an entity is consolidated by revising the definition of control. Control exists when an investor has:

- Power over the investee (defined in IFRS 10 as when the investor has existing rights that give it the current ability to direct the relevant activities)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect the amount of the investor’s returns

IFRS 10 also provides a number of clarifications on applying this new definition of control, including the following key points:

- An investor is any party that potentially controls an investee; such party need not hold an equity investment to be considered an investor
- An investor may have control over an investee even when it has less than a majority of the voting rights of that investee (sometimes referred to as de facto control)
- Exposure to risks and rewards is an indicator of control, but does not in itself constitute control
- When decision-making rights have been delegated or are being held for the benefit of others, it is necessary to assess whether a decision-maker is a principal or an agent to determine whether it has control
- Consolidation is required until such time as control ceases, even if control is temporary

Transition
IFRS 10 must be applied using a modified retrospective approach. The entity will need to make an assessment of whether control exists at the date of initial application (i.e., the beginning of the annual reporting period in which IFRS 10 is applied for the first time). If the control assessment is the same between IFRS 10 and IAS 27/SIC-12, no retrospective application is required. However, if the control assessment under the two standards is different, retrospective adjustments have to be made. If more than one comparative period is presented, additional relief is given to require only one period to be restated.

Earlier application is permitted if the entity also applies the requirements of IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 (as revised in 2011) and IAS 28 Investments in Associates (as revised in 2011) at the same time.

Impact
IFRS 10 creates a new, and broader, definition of control. This may result in changes to a consolidated group (i.e., more or fewer entities being consolidated).

Assessing control requires a comprehensive understanding of an investee’s purpose and design, and the investor’s rights and exposures to variable returns, as well as rights and returns held by other investors. This may require input from sources outside of the accounting function, such as operational personnel and legal counsel, and information external to the entity. It will also require significant judgement of the facts and circumstances.

Other EY publications
Applying IFRS: Challenges in adopting and applying IFRS 10
(December 2013) EYG no. AU1981.

IFRS Developments Issue 35: Transition guidance amendments for IFRS 10, IFRS 11 and IFRS 12 (July 2012) EYG no. AU1235.

IFRS Practical Matters: What do the new consolidation, joint arrangements and disclosures accounting standards mean to you? (June 2011) EYG no. AU0853.

IFRS Developments Issue 1: IASB issues three new standards: Consolidated Financial Statements, Joint Arrangements, and Disclosure of Interests in Other Entities (May 2011) EYG no. AU0839.
IFRS 10, IFRS 12 and IAS 27 Investment Entities (Amendments)

Effective for annual periods beginning on or after 1 January 2014.

Key requirements

The investment entities amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity.

The key amendments include:

- ‘Investment entity’ is defined in IFRS 10
- An entity must meet all three elements of the definition and consider whether it has four typical characteristics, in order to qualify as an investment entity
- An entity must consider all facts and circumstances, including its purpose and design, in making its assessment
- An investment entity accounts for its investments in subsidiaries at fair value through profit or loss in accordance with IFRS 9 (or IAS 39, as applicable), except for investments in subsidiaries that provide services that relate to the investment entity’s investment activities, which must be consolidated
- An investment entity must measure its investment in another controlled investment entity at fair value
- A non-investment entity parent of an investment entity is not permitted to retain the fair value accounting that the investment entity subsidiary applies to its controlled investees
- For venture capital organisations, mutual funds, unit trusts and others that do not qualify as investment entities, the existing option in IAS 28, to measure investments in associates and joint ventures at fair value through profit or loss, is retained

Transition

The amendments must be applied retrospectively, subject to certain transition reliefs.

Early application is permitted and must be disclosed.

Impact

The concept of an investment entity is new in IFRS. The amendments represent a significant change for investment entities, which are currently required to consolidate investees that they control. Significant judgement of facts and circumstances may be required to assess whether an entity meets the definition of investment entity.

Other EY publications

IFRS Developments Issue 44: Investment entities final amendment – exception to consolidation (October 2012)
EYG no. AU1330.

IFRS 11 Joint Arrangements, IAS 28 Investments in Associates and Joint Ventures

Effective for annual periods beginning on or after 1 January 2013.

Key requirements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. Joint control under IFRS 11 is defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. ‘Control’ in ‘joint control’ refers to the definition of ‘control’ in IFRS 10.

IFRS 11 also changes the accounting for joint arrangements by moving from three categories under IAS 31 to the following two categories:

Joint operation – An arrangement in which the parties with joint control have rights to the assets and obligations for the liabilities relating to that arrangement. In respect of its interest in a joint operation, a joint operator must recognise all of its assets, liabilities, revenues and expenses, including its relative share of jointly controlled assets, liabilities, revenue and expenses.

Joint venture – An arrangement in which the parties with joint control have rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method. The option in IAS 31 to account for joint ventures as defined in IFRS 11 using proportionate consolidation has been removed.

Under these new categories, the legal form of the joint arrangement is not the only factor considered when classifying the joint arrangement as either a joint operation or a joint venture, which is a change from IAS 31. Under IFRS 11, parties are required to consider whether a separate vehicle exists and, if so, the legal form of the separate vehicle, the contractual terms and conditions, and other facts and circumstances.

IAS 28 has been amended to include the application of the equity method to investments in joint ventures.

Transition

IFRS 11 must be applied using a modified retrospective approach. Similar to IFRS 10, relief is given to require only one period to be restated, if more than one comparative period is presented.

Early application of IFRS 11 is permitted, provided that an entity also applies the requirements of IFRS 10, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011) at the same time.
**Impact**

IFRS 11 represents a significant change for entities accounting for interests in jointly controlled entities using proportionate consolidation, if such arrangements are classified as joint ventures under IFRS 11. It is also possible that arrangements that were considered to be jointly controlled entities will be considered joint operations under IFRS 11, which will affect the accounting for such entities, regardless of whether they have been accounted for using the equity method or proportionate consolidation.

Since ‘control’ in ‘joint control’ refers to the new definition of ‘control’ in IFRS 10, it is possible that what is considered a joint arrangement under IFRS 11 will change. Significant judgement of the facts and circumstances may be required to assess whether joint control exists and to determine the classification of the arrangement.

**Other EY publications**

*Applying IFRS: Challenges in adopting and applying IFRS 11* (June 2014) EYG no. AU2512.

*IFRS Developments Issue 35: Transition guidance amendments for IFRS 10, IFRS 11 and IFRS 12* (July 2012) EYG no. AU1235.

*IFRS Practical Matters: What do the new consolidation, joint arrangements and disclosures accounting standards mean to you?* (June 2011) EYG no. AU0853.

*IFRS Developments Issue 1: IASB issues three new standards: Consolidated Financial Statements, Joint Arrangements, and Disclosure of Interests in Other Entities* (May 2011) EYG no. AU0839.

**IFRS 11 Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11**

Effective for annual periods beginning on or after 1 January 2016.

**Key requirements**

The amendments require an entity acquiring an interest in a joint operation in which the activity of the joint operation constitutes a business to apply, to the extent of its share, all of the principles on business combination accounting in IFRS 3 *Business Combinations*, and other IFRSs, that do not conflict with the requirements of IFRS 11. Furthermore, entities are required to disclose the information required in those IFRSs in relation to business combinations.

The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by the entity to the joint operation on its formation.

The amendments also clarify that for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be remeasured if the joint operator retains joint control.

**Transition**

The amendments are applied prospectively. Early application is permitted and must be disclosed.

**Impact**

The amendments effectively eliminate diversity in practice and give preparers a consistent set of principles to apply for such transactions.

**Other EY publications**

*Applying IFRS: Challenges in adopting and applying IFRS 11* (June 2014) EYG no. AU2512.
IFRS 12 Disclosure of Interests in Other Entities
Effective for annual periods beginning on or after 1 January 2013.

Key requirements
IFRS 12 applies to an entity that has an interest in subsidiaries, joint arrangements, associates and/or structured entities. Many of the disclosure requirements of IFRS 12 were previously included in IAS 27, IAS 31, and IAS 28, while others are new.

The objective of the IFRS 12 disclosure requirements is to help the users of financial statements understand the following:

- The effects of an entity’s interests in other entities on its financial position, financial performance and cash flows
- The nature of, and the risks associated with, the entity’s interest in other entities

Some of the more extensive qualitative and quantitative disclosures of IFRS 12 include:

- Summarised financial information for each subsidiary that has non-controlling interests that are material to the reporting entity
- Significant judgements used by management in determining control, joint control and significant influence, and the type of joint arrangement (i.e., joint operation or joint venture), if applicable
- Summarised financial information for each individually material joint venture and associate
- Nature of the risks associated with an entity’s interests in unconsolidated structured entities, and changes to those risks

Transition
IFRS 12 must be applied retrospectively, with some relief being provided:

- Disclosure requirements of IFRS 12 need to be applied only for the current period and one comparative period, if more than one is presented
- Comparatives for disclosures relating to unconsolidated structured entities are not required

An entity may early adopt IFRS 12 before adopting IFRS 10, IFRS 11, IAS 27 and IAS 28. Entities are encouraged to provide some of the information voluntarily, even if they are not adopting all of IFRS 12 before its effective date.

Impact
The new disclosures will assist users to make their own assessment of the financial impact of management’s conclusion regarding consolidation. Additional procedures and changes to systems may be required to gather information for the preparation of the additional disclosures.

Other EY publications
Applying IFRS: IFRS 12 - Structured entities for fund managers (February 2014) EYG no. AU2099.

Applying IFRS: IFRS 12 - Example disclosures for interests in unconsolidated structured entities (March 2013) EYG no. AU1407.

IFRS Developments Issue 35: Transition guidance amendments for IFRS 10, IFRS 11 and IFRS 12 (July 2012) EYG no. AU1235.

IFRS Practical Matters: What do the new consolidation, joint arrangements and disclosures accounting standards mean to you? (June 2011) EYG no. AU0853.

IFRS Developments Issue 1: IASB issues three new standards: Consolidated Financial Statements, Joint Arrangements, and Disclosure of Interests in Other Entities (May 2011) EYG no. AU0839.
IFRS 13 *Fair Value Measurement*
Effective for annual periods beginning on or after 1 January 2013.

**Key requirements**
IFRS 13 does not change when fair value is used, but rather describes how to measure fair value when fair value is required or permitted by IFRS.

Fair value under IFRS 13 is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date” (i.e., an exit price). Fair value as used in IFRS 2 *Share-based Payment* and IAS 17 is excluded from the scope of IFRS 13.

The standard provides clarification on a number of areas, including the following:

- Concepts of ‘highest and best use’ and ‘valuation premise’ are relevant only for non-financial assets
- Adjustments for blockage factors (block discounts) are prohibited in all fair value measurements
- A description of how to measure fair value when a market becomes less active

New disclosures related to fair value measurements are also required to help users understand the valuation techniques and inputs used to develop fair value measurements and the effect of fair value measurements on profit or loss.

**Transition**
IFRS 13 is applied prospectively. Early application is permitted and must be disclosed.

**Impact**
Fair value measurements recognised in the financial statements may change upon implementation of IFRS 13. The extent of this change will vary depending on the type of asset or liability being measured and the previous fair value measurement requirements to which they were subject. Similarly, the effect of IFRS 13 may vary by industry. At a minimum, the adoption of IFRS 13 will require entities to reconsider their processes and procedures for measuring fair value and providing the required disclosures.

**Other EY publications**

*IFRS Developments Issue 2: Fair value measurement guidance converges* (May 2011) EYG no. AU0840.

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IFRS 14 *Regulatory Deferral Accounts*
Effective for annual periods beginning on or after 1 January 2016.

**Key requirements**
IFRS 14 allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Existing IFRS preparers are prohibited from applying the standard. Also, an entity whose current GAAP does not allow the recognition of rate-regulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognise them on first-time application of IFRS.

Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income.

The standard requires disclosures on the nature of, and risks associated with, the entity’s rate regulation and the effects of that rate regulation on its financial statements.

**Transition**
IFRS 14 is applied retrospectively. Early application is permitted and must be disclosed.

**Impact**
IFRS 14 provides first-time adopters of IFRS with relief from derecognising rate-regulated assets and liabilities until a comprehensive project on accounting for such assets and liabilities is completed by the IASB. The comprehensive rate-regulated activities project is on the IASB’s active agenda.

**Other EY publications**
*IFRS Developments Issue 72: The IASB issues IFRS 14 - interim standard on regulatory deferral accounts* (February 2014) EYG no. AU2146.
IFRS 15 Revenue from Contracts with Customers

Effective for annual periods beginning on or after 1 January 2017.

Key requirements

IFRS 15 replaces all existing revenue requirements (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) in IFRS and applies to all revenue arising from contracts with customers. It also provides a model for the recognition and measurement of sales of some non-financial assets including disposals of property, equipment and intangible assets.

The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 will be applied using a five-step model:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation

For each step of the model, the standard requires entities to exercise judgement and to consider all relevant facts and circumstances when applying the model to contracts with their customers.

In addition to the five-step model, the standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Application guidance is provided in the standard to assist entities in applying its requirements to common arrangements, including licences, warranties, rights of return, principal-versus-agent considerations, options for additional goods or services, and breakage.

Transition

Entities are allowed to choose either a full retrospective approach for all periods presented in the period of adoption with some limited relief provided, or a modified retrospective approach. Early application is permitted and must be disclosed.

Impact

IFRS 15 is more prescriptive than current IFRS and provides more application guidance. The disclosure requirements are also more extensive. The standard will likely affect entities across all industries and the adoption of the new requirements will be a significant undertaking for most entities with potential changes to an entity’s current accounting, systems and processes. Therefore it is important for entities to start assessing the impact early.

Other EY publications

Applying IFRS: A closer look at the new revenue recognition standard (June 2014) EYG no. AU2516.

IFRS Developments Issue 85: Joint Transition Resource Group for Revenue Recognition debates implementation issues (July 2014) EYG no. AU2535.

IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38

Effective for annual periods beginning on or after 1 January 2016.

Key requirements
The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

Transition
The amendments are effective prospectively. Early application is permitted and must be disclosed.

Impact
Entities currently using revenue-based amortisation methods for property, plant and equipment will need to change their current amortisation approach to an acceptable method that results in a different amortisation pattern.

Other EY publications
IFRS Developments Issue 78: IASB prohibits revenue-based depreciation (May 2014) EYG no. AU2353.

IAS 16 and IAS 41 Agriculture: Bearer Plants – Amendments to IAS 16 and IAS 41

Effective for annual periods beginning on or after 1 January 2016.

Key requirements
The amendments to IAS 16 and IAS 41 Agriculture change the scope of IAS 16 to include biological assets that meet the definition of bearer plants (e.g., fruit trees). Agricultural produce growing on bearer plants (e.g., fruit growing on a tree) will remain within the scope of IAS 41. As a result of the amendments, bearer plants will be subject to all the recognition and measurement requirements in IAS 16 including the choice between the cost model and revaluation model.

In addition, government grants relating to bearer plants will be accounted for in accordance with IAS 20, instead of IAS 41.

Transition
Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may choose to measure a bearer plant at its fair value at the beginning of the earliest period presented. Any difference between the fair value used as deemed cost at that date and the previous carrying amount will be recognised in retained earnings. Earlier application is permitted and must be disclosed.

Impact
The amendments effectively provide entities with a choice of using either the cost model or continuing to measure their bearer plants at fair value under the revaluation model. However, the requirements will not entirely alleviate the need to measure fair value or eliminate the volatility in profit or loss as agricultural produce will still be measured at fair value.

In addition, entities using the revaluation model for bearer plants will recognise fair value changes in other comprehensive income, rather than profit or loss.

Moreover, unlike biological assets, property, plant and equipment is not scoped out of IAS 36 Impairment of Assets. Entities will, therefore, need to assess whether there are indicators that a bearer plant is impaired at the end of each reporting period. If such indicators exist, an impairment loss will be recognised if the carrying value is lower than the bearer asset’s recoverable amount.

Other EY publications
IFRS Developments Issue 84: Bearer plants - the new requirements (July 2014) EYG no. AU2518.
IAS 19 Employee Benefits (Revised)
Effective for annual periods beginning on or after 1 January 2013.

Key requirements
The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The more significant changes include the following:

- For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. As revised, amounts recorded in profit or loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability), including actuarial gains and losses, are recognised in OCI with no subsequent recycling to profit or loss.

- Expected returns on plan assets will no longer be recognised in profit or loss. Expected returns are replaced by recording interest income in profit or loss, which is calculated using the discount rate used to measure the pension obligation.

- Objectives for disclosures of defined benefit plans are explicitly stated in the revised standard, along with new and revised disclosure requirements. These new disclosures include quantitative information about the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption.

- Termination benefits are recognised at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognised under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

- The distinction between short-term and other long-term employee benefits is based on the expected timing of settlement rather than the employee’s entitlement to the benefits.

Transition
The revised standard must be applied retrospectively. There are limited exceptions for restating assets outside the scope of IAS 19 and for presenting sensitivity disclosures for comparative periods in the period the amendments are first effective. Early application is permitted and must be disclosed.

Impact
These changes represent a significant further step in reporting gains and losses outside of profit or loss, with no subsequent recycling. Actuarial gains and losses will be excluded permanently from profit or loss. In addition, the removal of the corridor approach will be a significant change for some entities.

Other EY publications
Applying IFRS: Implementing the 2011 revisions to employee benefits (November 2011) EYG no. AU1007.

IFRS Developments Issue 6: Significant changes to accounting for pensions (June 2011) EYG no. AU088.

IAS 19 Defined Benefit Plans: Employee Contributions – Amendments to IAS 19
Effective for annual periods beginning on or after 1 July 2014.

Key requirements
IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. IAS 19 requires such contributions that are linked to service to be attributed to periods of service as a negative benefit.

The amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. Examples of such contributions include those that are a fixed percentage of the employee’s salary, a fixed amount of contributions throughout the service period, or contributions that depend on the employee’s age.

Transition
The amendments must be applied retrospectively. Early application is permitted and must be disclosed.

Impact
These changes provide a practical expedient for simplifying the accounting for contributions from employees or third parties in certain situations.
IAS 27 Equity Method in Separate Financial Statements – Amendments to IAS 27

Effective for annual periods beginning on or after 1 January 2016.

Key requirements
When IAS 27 and IAS 28 were revised in 2003, the equity method was removed as an option to account for investments in subsidiaries and associates in an entity's separate financial statements. In some jurisdictions, local regulations require an entity to use the equity method for this purpose, therefore creating a difference between separate financial statements prepared in accordance with local GAAP and those prepared in accordance with IFRS. The objective of these amendments is to restore the option to use the equity method. Therefore, an entity must account for these investments either:

- At cost
- In accordance with IFRS 9 (or IAS 39)
- Using the equity method

The entity must apply the same accounting for each category of investments.

A consequential amendment was also made to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 allows a first-time adopter accounting for investments in the separate financial statements using the equity method, to apply the IFRS 1 exemption for past business combinations to the acquisition of the investment.

Transition
The amendments must be applied retrospectively. Early application is permitted and must be disclosed.

Impact
The amendments eliminate a GAAP difference for countries where regulations require entities to use the equity method to account for investments in subsidiaries, associates and joint ventures in an entity's separate financial statements.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

Effective for annual periods beginning on or after 1 January 2014.

Key requirements
The amendments to IAS 32 clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems), which apply gross settlement mechanisms that are not simultaneous.

The amendments clarify that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The amendments also clarify that rights of set-off must not be contingent on a future event.

The IAS 32 offsetting criteria require the reporting entity to intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The amendments clarify that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion.

Transition
The amendments must be applied retrospectively. Early application is permitted. If an entity chooses to early adopt, it must disclose that fact and also make the disclosure required by IFRS 7 Disclosures – Offsetting Financial Assets and Financial liabilities – Amendments to IFRS 7.

Impact
Entities will need to review legal documentation and settlement procedures, including those applied by the central clearing houses they deal with to ensure that offsetting of financial instruments is still possible under the new criteria. Changes in offsetting may have a significant impact on financial statement presentation. The effect on leverage ratios, regulatory capital requirements, etc., will need to be considered.

Other EY publications
Applying IFRS: Offsetting financial instruments: clarifying the amendments (May 2012) EYG no. AU1182.

IFRS Developments Issue 22: Offsetting of financial instruments (December 2011) EYG no. AU1053.
IAS 36 Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36  
Effective for annual periods beginning on or after 1 January 2014.

Key requirements
The amendments clarify the disclosure requirements in respect of fair value less costs of disposal. When IAS 36 was originally changed as a consequence of IFRS 13, the IASB intended to require disclosure of information about the recoverable amount of impaired assets if that amount was based on fair value less costs to sell. However, as written, an entity was required to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit was significant in comparison with the entity’s total carrying amount of goodwill or intangible assets with indefinite useful lives. This requirement has been deleted by the amendments.

In addition, the IASB added two disclosure requirements:

- Additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal
- Information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique. The amendments harmonise disclosure requirements between value in use and fair value less costs of disposal

Transition
The amendments must be applied retrospectively. Early application is permitted when the entity also applies IFRS 13 and must be disclosed.

Impact
As a result of the amendments, entities are no longer required to disclose information that was regarded as commercially sensitive by preparers. This might be a valid reason for entities to early adopt the amendments. Nevertheless, additional information needs to be provided. In general, it is likely that the information required to be disclosed will be readily available.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39
Effective for annual periods beginning on or after 1 January 2014.

Key requirements
The amendments provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument. The amendments cover novations:

- That arise as a consequence of laws or regulations, or the introduction of laws or regulations
- In which the parties to the hedging instrument agree that one or more clearing counterparties replace the original counterparty to become the new counterparty to each of the parties
- That did not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing

All of the above criteria must be met to continue hedge accounting under this exception.

The amendments cover novations to central counterparties, as well as to intermediaries such as clearing members, or clients of the latter that are themselves intermediaries.

For novations that do not meet the criteria for the exception, entities have to assess the changes to the hedging instrument against the derecognition criteria for financial instruments and the general conditions for continuation of hedge accounting.

Transition
The amendments must be applied retrospectively. However, entities that discontinued hedge accounting in the past, because of a novation that would be in the scope of the amendments, may not reinstate that previous hedging relationship. Early application is permitted and must be disclosed.

Impact
The amendments are, in effect, a relief from the hedge accounting requirements, and will allow entities to better reflect hedge relationships in the circumstances in which the novation exception applies.

Other EY publications
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

Effective for annual periods beginning on or after 1 January 2013.

Key requirements
IFRIC 20 applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine.

If the benefit from the stripping activity will be realised in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity recognises these costs as a non-current asset, only if certain criteria are met. This is referred to as the ‘stripping activity asset’. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset.

If the costs of the stripping activity asset and the inventory produced are not separately identifiable, the entity allocates the cost between the two assets using an allocation method based on a relevant production measure.

After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortisation and less impairment losses, in the same way as the existing asset of which it is a part.

Transition
The interpretation is applied to production stripping costs incurred on or after the beginning of the earliest period presented. The interpretation does not require full retrospective application. Instead it provides a practical expedient for any stripping costs incurred and capitalised up to the start of the earliest period presented.

Early application is permitted and must be disclosed.

Impact
IFRIC 20 represents a change from the current life of mine average strip ratio approach used by many mining and metals entities. Depending on the specific facts and circumstances of an entity’s mines, these changes may impact both financial position and profit or loss. In addition, changes may also be required to processes, procedures and systems of the reporting entity.

Other EY publications
IFRS Developments for Mining & Metals: Accounting for waste removal costs (October 2011) EYG no. AU979.

IFRIC 21 Levies

Effective for annual periods beginning on or after 1 January 2014.

Key requirements
IFRIC 21 is applicable to all levies other than outflows that are within the scope of other standards (e.g., IAS 12 Income Taxes) and fines or other penalties for breaches of legislation. Levies are defined in the interpretation as outflows of resources embodying economic benefits imposed by governments on entities in accordance with legislation.

The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability is recognised before the specified minimum threshold is reached.

The interpretation does not address the accounting for the debit side of the transaction that arises from recognising a liability to pay a levy. Entities look to other standards to decide whether the recognition of a liability to pay a levy would give rise to an asset or an expense under the relevant standards.

Transition
The interpretation must be applied retrospectively. Early application is permitted and must be disclosed.

Impact
The interpretation is intended to eliminate the current diversity in practice on the treatment for the obligation to pay levies. The scope of this interpretation is very broad and captures various obligations that are imposed by governments in accordance with legislation and sometimes not always described as ‘levies.’ Therefore, entities need to consider the nature of payments to governments carefully when determining if the payment is in the scope of IFRIC 21.

Other EY publications
Applying IFRS: Accounting for Levies (June 2014) EYG no. AU2514.

IFRS Developments Issue 59: IASB issues IFRIC Interpretation 21 Levies (May 2013) EYG no. AU1581.
### Improvements to International Financial Reporting Standards

#### Key requirements
The IASB’s annual improvements process deals with non-urgent, but necessary, clarifications and amendments to IFRS.

#### 2009-2011 cycle (issued in May 2012)
In the 2009-2011 annual improvements cycle, the IASB issued six amendments to five standards, summaries of which are provided below. The amendments are applicable to annual periods beginning on or after 1 January 2013. Earlier application is permitted and must be disclosed. The amendments must be applied retrospectively, in accordance with the requirements of IAS 8 for changes in accounting policy.

<table>
<thead>
<tr>
<th>IFRS 1 First-time Adoption of International Financial Reporting Standards</th>
<th>Repeated application of IFRS 1</th>
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<tbody>
<tr>
<td>• The amendment clarifies that an entity that has stopped applying IFRS may choose to either:</td>
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<tr>
<td>(i) Re-apply IFRS 1, even if the entity applied IFRS 1 in a previous reporting period</td>
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<td>Or</td>
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<tr>
<td>(ii) Apply IFRS retrospectively in accordance with IAS 8 (i.e., as if it had never stopped applying IFRS)</td>
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<td>in order to resume reporting under IFRS.</td>
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<tr>
<td>• Regardless of whether the entity re-applies IFRS 1 or applies IAS 8, it must disclose the reasons why it previously stopped applying IFRS and subsequently resumed reporting in accordance with IFRS.</td>
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<tr>
<td><strong>Borrowing costs</strong></td>
<td></td>
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<tr>
<td>• The amendment clarifies that, upon adoption of IFRS, an entity that capitalised borrowing costs in accordance with its previous GAAP, may carry forward, without adjustment, the amount previously capitalised in its opening statement of financial position at the date of transition.</td>
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</tr>
<tr>
<td>• Once an entity adopts IFRS, borrowing costs are recognised in accordance with IAS 23 Borrowing Costs, including those incurred on qualifying assets under construction.</td>
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<table>
<thead>
<tr>
<th>IAS 1 Presentation of Financial Statements</th>
<th>Clarification of the requirements for comparative information</th>
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<tbody>
<tr>
<td>• The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period.</td>
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<tr>
<td>• An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements.</td>
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<tr>
<td>• The opening statement of financial position (known as ‘the third balance sheet’) must be presented when an entity changes its accounting policies (making retrospective restatements or reclassifications) and those changes have a material effect on the statement of financial position. The opening statement must be at the beginning of the preceding period. For example, the beginning of the preceding period for a 31 December 2014 year-end would be 1 January 2013. However, unlike the voluntary comparative information, the related notes are not required to include comparatives as of the date of the third balance sheet.</td>
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<tr>
<th>IAS 16 Property, Plant and Equipment</th>
<th>Classification of servicing equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.</td>
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</tbody>
</table>
IAS 32 Financial Instruments: Presentation

Tax effects of distributions to holders of equity instruments
- The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

IAS 34 Interim Financial Reporting

Interim financial reporting and segment information for total assets and liabilities
- The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments.
- Total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity’s previous annual financial statements for that reportable segment.

2010-2012 cycle (issued in December 2013)

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, summaries of which are provided below. Other than amendments that only affect the standards’ Basis for Conclusions, the changes are effective from 1 July 2014. Earlier application is permitted and must be disclosed.

IFRS 2 Share-based Payment

Definitions of vesting conditions
- The amendment defines ‘performance condition’ and ‘service condition’ in order to clarify various issues, including the following:
  - A performance condition must contain a service condition
  - A performance target must be met while the counterparty is rendering service
  - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
  - A performance condition may be a market or non-market condition
  - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied
- The amendment must be applied prospectively.

IFRS 3 Business Combinations

Accounting for contingent consideration in a business combination
- The amendment clarifies that all contingent consideration arrangements classified as liabilities or assets arising from a business combination must be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).
- The amendment must be applied prospectively.

IFRS 8 Operating Segments

Aggregation of operating segments
- The amendment clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are similar.
- The amendment must be applied retrospectively.

Reconciliation of the total of the reportable segments’ assets to the entity’s assets
- The amendment clarifies that the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.
- The amendment must be applied retrospectively.
The amendment clarifies that the asset may be revalued by reference to observable data on either the gross or the net carrying amount.
- The amendment also clarifies that accumulated depreciation/amortisation is the difference between the gross and carrying amounts of the asset.
- The amendment must be applied retrospectively.

IAS 24 Related Party Disclosures
Key management personnel
- The amendment clarifies that a management entity – an entity that provides key management personnel services – is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.
- The amendment must be applied retrospectively.

2011-2013 cycle (issued in December 2013)
In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, summaries of which are provided below. Other than amendments that only affect the standards’ Basis for Conclusions, the changes are effective 1 July 2014. Earlier application is permitted and must be disclosed.

**IFRS 1 First-time Adoption of International Financial Reporting Standards**
Meaning of ‘effective IFRSs’
- The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity’s first IFRS financial statements.
- The amendment is effective immediately.

**IFRS 3 Business Combinations**
Scope exceptions for joint ventures
- The amendment clarifies that:
  - Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
  - The scope exception applies only to the accounting in the financial statements of the joint arrangement itself
- The amendment must be applied prospectively.

**IFRS 13 Fair Value Measurement**
Scope of paragraph 52 (portfolio exception)
- The amendment clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).
- The amendment must be applied prospectively.

**IAS 40 Investment Property**
Interrelationship between IFRS 3 and IAS 40 (ancillary services)
- The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment clarifies that IFRS 3, not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination.
- The amendment must be applied prospectively.

**Other EY publications**
- *IFRS Developments Issue 71: The IASB issues two cycles of annual improvements to IFRS (December 2013)* EYG no. AU2068.
Section 2: Items not taken onto the Interpretations Committee’s agenda

Certain items deliberated by the Interpretations Committee are published within the “Interpretations Committee agenda decisions” section of the IASB’s IFRIC Update. Agenda decisions (also referred to as rejection notices) are issues that the Interpretations Committee decides not to add to its agenda and include the reasons for not doing so. For some of these items, the Interpretations Committee includes further information about how the standards should be applied. This guidance does not constitute an interpretation, but rather, provides additional information on the issues raised and the Interpretations Committee’s views on how the standards and current interpretations are to be applied.

The table below summarises selected topics that the Interpretations Committee decided not to take onto its agenda for the period from 1 September 2013 to 31 August 2014 and contains highlights from the agenda decisions. All items considered by the Interpretations Committee during its meetings, as well as the full text of its conclusions, can be found in the IFRIC Update on the IASB’s website.5

<table>
<thead>
<tr>
<th>Final date considered</th>
<th>Issue</th>
<th>Summary of reasons given for not adding issue to the Interpretations Committee’s agenda</th>
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</thead>
<tbody>
<tr>
<td>September 2013</td>
<td>IFRS 10 Consolidated Financial Statements – Effect of protective rights on assessment of control</td>
<td>The Interpretations Committee received a request to clarify whether a previously concluded control assessment should be revisited when facts and circumstances change in such a way that rights, previously determined to be protective, change (e.g., upon the breach of a covenant in a borrowing arrangement that causes the borrower to be in default), or whether, instead, such rights are never included in the reassessment of control upon a change in facts and circumstances. The Interpretations Committee noted that a previously concluded control assessment would need to be revisited after the change occurred.</td>
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<tr>
<td>November 2013</td>
<td>IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements – Transition provisions in respect of impairment, foreign exchange and borrowing costs</td>
<td>The Interpretations Committee received a request to clarify whether the transition provisions of IFRS 10 and IFRS 11 apply in respect of the retrospective application of the consequential amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 23 or IAS 36. The Interpretations Committee noted that consequential amendment requirements in other standards, arising when IFRS 10 is applied retrospectively, must be applied retrospectively in accordance with the transition provisions of IFRS 10. However, if retrospective application of the requirements of IFRS 10 is impracticable because it is impracticable to apply retrospectively the consequential amendments of other standards, then IFRS 10 provides exemption from retrospective application. The Interpretations Committee also observed that, in most cases, the initial application of IFRS 11 should not raise issues in respect of the retrospective application of consequential amendments in other standards.</td>
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<tr>
<td>November 2013</td>
<td>IFRS 10 Consolidated Financial Statements – Classification of puttable instruments that are non-controlling interests</td>
<td>The Interpretations Committee received a request to clarify the classification of puttable instruments that are issued by a subsidiary, but are not held (directly or indirectly) by the parent, in the consolidated financial statements of a group. The Interpretations Committee noted that puttable instruments are classified as equity in the financial statements of the subsidiary as an exception to the definition of a financial liability provided that all relevant requirements are met. Consequently, these financial instruments are classified as financial liabilities in the parent’s consolidated financial statements.</td>
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5 The IFRIC Update is available at http://www.ifrs.org/Updates/IFRIC+Updates/IFRIC+Updates.htm.
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<tbody>
<tr>
<td>November 2013</td>
<td>IAS 19 Employee Benefits – Actuarial assumptions: discount rate</td>
<td>The Interpretations Committee received a request to clarify whether, in the circumstances of the financial crises that led to a significant decrease of the number of corporate bonds rated ‘AAA’ and ‘AA’, corporate bonds with a rating lower than ‘AA’ can be considered to be ‘high quality corporate bonds’ (HQCB) when determining the rate used to discount post-employment benefit obligations. The Interpretations Committee noted that ‘high quality’ as used in paragraph 83 of IAS 19 reflects an absolute concept of credit quality and not a concept of credit quality that is relative to a given population of corporate bonds. Consequently, the Interpretations Committee observed that the concept of high quality should not change over time. Accordingly, a reduction in the number of HQCB does not alone result in a change to the concept of high quality. The Interpretations Committee does not expect that an entity’s methods and techniques used for determining the discount rate, so as to reflect the yields on HQCB, will change significantly from period to period.</td>
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<tr>
<td>January 2014</td>
<td>IAS 29 Financial Reporting in Hyperinflationary Economies – Applicability of the concept of financial capital maintenance defined in terms of constant purchasing power units</td>
<td>The Interpretations Committee received a request to consider whether an entity is permitted to use the financial capital maintenance concept defined in terms of constant purchasing power units that is described in the Conceptual Framework for Financial Reporting (Conceptual Framework) when the entity’s functional currency is not the currency of a hyperinflationary economy as described in IAS 29. The Interpretations Committee observed that the guidance in the Conceptual Framework relating to the use of a particular capital maintenance concept cannot be used to override the requirements of any standard, and an entity is not permitted to apply a concept of capital maintenance that conflicts with the existing requirements in a particular standard, when applying that standard.</td>
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<td>January 2014</td>
<td>IAS 32 Financial Instruments: Presentation – A financial instrument that is mandatorily convertible into a variable number of shares (subject to a cap and a floor) but gives the issuer the option to settle by delivering the maximum (fixed) number of shares</td>
<td>The Interpretations Committee received a request to clarify how an issuer would assess the substance of a particular early settlement option included in a financial instrument in accordance with IAS 32. The Interpretations Committee noted that if a contractual term of a financial instrument lacks substance, that contractual term would be excluded from the classification assessment of the instrument. To determine whether the early settlement option is substantive, the issuer will need to understand whether there are actual economic or other business reasons that the issuer would exercise the option. Factors relevant for consideration would include:  - Whether the instrument would have been priced differently if the issuer’s early settlement option had not been included in the contractual terms  - The term of the instrument  - The width of the range between the cap and the floor  - The issuer’s share price  - The volatility of the share price</td>
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<td>Final date considered</td>
<td>Issue</td>
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| March 2014            | **IFRS 10 Consolidated Financial Statements: Investment Entities Amendments** – The definition of investment-related services or activities | The Interpretations Committee received a request to clarify the definition of ‘investment-related services or activities’ relating to subsidiaries that act as intermediate holding companies (‘intermediate subsidiaries’) established for ‘tax optimisation’ purposes.  
The Interpretations Committee noted that, according to paragraph BC272 of IFRS 10, the IASB believes that fair value measurement of all of an investment entity’s subsidiaries would provide the most useful information, except for subsidiaries providing investment-related services or activities. As one of the characteristics of ‘tax optimisation’ subsidiaries described in the submission is “that there is no activity within the subsidiary”, the Interpretations Committee considers that the parent should not consolidate such subsidiaries, because they do not provide investment-related services or activities, and do not meet the requirements to be consolidated in accordance with paragraph 32 of IFRS 10. The parent, therefore, accounts for such an intermediate subsidiary at fair value. |
| March 2014            | **IAS 17 Leases – Meaning of ‘incremental costs’**                    | The Interpretations Committee received a request to clarify the meaning of ‘incremental costs’ in IAS 17. Specifically, whether the salary costs of permanent staff involved in negotiating and arranging new leases qualify as ‘incremental costs’ and, therefore, should be included as initial direct costs in the initial measurement of the finance lease receivable.  
The Interpretations Committee noted that internal fixed costs do not qualify as ‘incremental costs’. Only those costs that would not have been incurred if the entity had not negotiated and arranged a lease are included in the initial measurement of the finance lease receivable. |
| March 2014            | **IFRIC 21 Levies – Identification of a present obligation to pay a levy that is subject to a pro rata activity threshold as well as an annual activity threshold** | The Interpretations Committee received a request to clarify how thresholds stated in legislation should be considered when identifying an obligating event for a levy. The Interpretations Committee discussed regimes in which an obligation to pay a levy arises as a result of activity during a period but is not payable until a minimum activity threshold is reached. The threshold is set as an annual threshold, but is reduced, pro-rata to the number of days in the year that the entity started or stopped participating in the relevant activity during the course of the year.  
The Interpretations Committee noted that, in the circumstance described, payment of the levy is triggered by reaching the annual threshold as identified by the legislation. The Interpretations Committee also noted that the entity would be subject to a threshold that is lower than the threshold that applies at the end of the annual assessment period if, and only if, the entity stops the relevant activity before the end of the annual assessment period.  
Accordingly, the Interpretations Committee observed that the obligating event for the levy is reaching the threshold that applies at the end of the annual assessment period. |
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<tr>
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<tbody>
<tr>
<td>May 2014</td>
<td>IFRS 11 Joint Arrangements – Classification of joint arrangements</td>
<td>The interpretations Committee received a request to clarify how the assessment of ‘other facts and circumstances’ described in IFRS 11 affects the classification of a joint arrangement as a joint operation or a joint venture. The Interpretations Committee noted that the classification of a joint arrangement as a joint operation or joint venture depends on the enforceable rights to the assets and obligations for the liabilities of the parties. Furthermore, when ‘other facts and circumstances’ give the parties rights to the assets, and obligations for the liabilities, that would lead to the classification of joint operation for the arrangement. Consequently, the Interpretations Committee noted that the assessment focuses on whether those facts and circumstances create rights to the assets and obligations for the liabilities.</td>
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<tr>
<td>May 2014</td>
<td>IAS 12 Income Taxes – Recognition and measurement of deferred tax assets when an entity is loss-making</td>
<td>The Interpretations Committee received a request to clarify the following: a) Whether IAS 12 requires that a deferred tax asset is recognised for the carryforward of unused tax losses when there are suitable reversing taxable temporary differences, regardless of an entity’s expectations of future tax losses b) How the requirements in IAS 12 is applied when tax laws limit the extent to which tax losses brought forward can be recovered against future taxable profits (i.e., limited to a specific percentage of taxable profits in each tax year) With respect to a), the Interpretations Committee noted that the reversal of suitable taxable temporary differences enables the utilisation of the unused tax losses and justifies the recognition of deferred tax assets. In response to b), the Interpretations Committee noted that when tax laws limit the extent to which unused tax losses can be recovered against future taxable profits in each year, the amount of deferred tax assets recognised from unused tax losses as a result of suitable existing taxable temporary differences is restricted as specified by the tax law.</td>
</tr>
<tr>
<td>May 2014</td>
<td>IAS 32 Financial Instruments: Presentation – Accounting for a financial instrument that is mandatorily convertible into a variable number of shares subject to a cap and a floor</td>
<td>The Interpretations Committee received a request to clarify the accounting for a financial instrument that has a fixed maturity and, at maturity, the issuer must deliver a variable number of its own equity instruments. The number of equity instruments is equal to a fixed amount of cash, but subject to a cap and a floor. The cap and floor limit the number of equity instruments to be delivered to a fixed maximum and minimum number of shares, respectively. The Interpretations Committee noted that the contractual substance of the instrument is a single obligation to deliver a variable number of equity instruments at maturity, with the variation based on the value of those equity instruments. Furthermore, the Interpretations Committee noted that the cap and the floor are embedded derivative features whose values change in response to the price of the issuer’s equity instrument. Consequently, those options must be separated from the host liability contract and accounted for at fair value through profit or loss in accordance with IAS 39 or IFRS 9, assuming that the issuer has not elected to designate the entire instrument under the fair value option.</td>
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<tr>
<td>July 2014</td>
<td>IFRS 2 Share-based Payment — Price difference between the institutional offer price and the retail offer price for shares issued in an initial public offering</td>
<td>The Interpretations Committee received a request to clarify how an entity should account for a price difference between the institutional offer price and the retail offer price for shares issued in an initial public offering (IPO). In the circumstances underlying the submission, the Interpretations Committee observed that the entity issues shares at different prices to two different groups of investors (retail and institutional) and that the difference, if any, between the retail price and the institutional price of the shares appears to relate to the existence of different markets (one that is accessible to retail investors only and another one accessible to institutional investors only) instead of the receipt of additional goods or services. Consequently, the Interpretations Committee observed that the requirements in IFRS 2 are not applicable because there is no share-based payment transaction.</td>
</tr>
<tr>
<td>July 2014</td>
<td>IAS 1 Presentation of Financial Statements — Disclosure requirements relating to assessment of going concern</td>
<td>The Interpretations Committee received a request to clarify the disclosures required for material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern. The Interpretations Committee discussed situations in which having considered the feasibility and effectiveness of any planned mitigation, management may conclude that there are no material uncertainties that require disclosure, but reaching that conclusion would involve significant judgement. The Interpretations Committee observed that in the circumstance discussed, the disclosure requirements of paragraph 122 of IAS 1 would apply to the judgements made in concluding that there remain no material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern.</td>
</tr>
<tr>
<td>July 2014</td>
<td>IAS 12 Income Taxes — Recognition of current income tax on uncertain tax position</td>
<td>The Interpretations Committee received a request to clarify the recognition of a tax asset in the situation in which tax laws require an entity to make an immediate payment when a tax examination results in an additional charge, even if the entity intends to appeal against the additional charge. The entity expects, but is not certain, to recover some or all of the amount paid. The Interpretations Committee was asked to clarify whether IAS 12 or IAS 37 is applied to determine whether to recognise an asset for the payment. The Interpretations Committee understood that the reference to IAS 37 in paragraph 88 of IAS 12 in respect of tax-related contingent liabilities and contingent assets may have been understood by some to mean that IAS 37 applied to the recognition of such items. However, the Interpretations Committee noted that paragraph 88 of IAS 12 provides guidance only on disclosures required for such items, and that IAS 12, not IAS 37, provides the relevant guidance on recognition.</td>
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<tr>
<td>July 2014</td>
<td>IAS 12 Income Taxes – Recognition of deferred tax for a single asset in a corporate wrapper</td>
<td>The Interpretations Committee received a request to clarify the accounting for deferred tax in the consolidated financial statements of the parent, when a subsidiary has only one asset within it (the asset inside) and the parent expects to recover the carrying amount of the asset inside by selling the shares in the subsidiary. The Interpretations Committee noted that IAS 12 requires the entity to determine temporary differences in the consolidated financial statements by comparing the carrying amounts of assets and liabilities in the consolidated financial statements with the appropriate tax base. In the case of an asset or a liability of a subsidiary that files separate tax returns, this is the amount that will be taxable or deductible on the recovery (settlement) of the asset (liability) in the tax returns of the subsidiary. Furthermore, IAS 12 requires a parent to determine the temporary difference related to the shares held by it in the subsidiary by comparing the parent’s share of the net assets of the subsidiary in the consolidated financial statements, including the carrying amount of goodwill, with the tax base of the shares for purposes of the parent’s tax returns. The Interpretations Committee also noted that IAS 12 requires a parent to recognise both the deferred tax related to the asset inside and the deferred tax related to the shares, if: a) Tax law attributes separate tax bases to the asset inside and to the shares b) In the case of deferred tax assets, the related deductible temporary differences can be utilised as specified in paragraphs 24–31 of IAS 12 c) No specific exceptions in IAS 12 apply</td>
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<tr>
<td>July 2014</td>
<td>IAS 34 Interim Financial Reporting – Condensed statement of cash flows</td>
<td>The Interpretations Committee received a request to clarify the application of the requirements regarding the presentation and content of the condensed statement of cash flows in the interim financial statements according to IAS 34. The Interpretations Committee noted that a condensed statement of cash flows is one of the primary statements that is included as part of an interim financial report. IAS 34 specifies that each of the condensed statements must include, at a minimum, each of the headings and subtotals that were included in the most recent annual financial statements, and also requires additional line items to be included if their omission would make the interim financial statements misleading. The Interpretations Committee noted that a condensed statement of cash flows includes all information that is relevant in understanding an entity’s ability to generate cash flows and the entity’s needs to utilise those cash flows. Therefore, it did not expect that a condensed cash flow statement only presenting one line for net cash flows from operating activities, one line for net cash flows from investing activities, and one line for net cash flows from financing activities alone would meet the requirements in IAS 34.</td>
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</table>
The IASB is working on a number of projects and interpretations, some of which are expected to be issued by the end of 2014. All standards or interpretations that are issued, but not yet effective, need to be considered in the disclosure requirements, as set out in IAS 8. This includes disclosure of the known or reasonably estimable impact that initial application of the pronouncement is expected to have on the entity’s financial statements. If the impact is not known or reasonably estimable, disclosure of this fact must also be made. Therefore, users of this publication should be alert for any changes in IFRS requirements between 31 August 2014 and the date on which their financial statements are authorised for issue.

The table below sets out an estimated timeline for the projects on the IASB’s active agenda (excluding research projects) as at 30 July 2014.

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<tr>
<th>IASB projects*</th>
<th>Q3-4 2014</th>
<th>Q1 2015</th>
<th>Q2 2015</th>
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<tr>
<td>Insurance Contracts</td>
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<tr>
<td>Leases</td>
<td>Redeliberations</td>
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<tr>
<td>Financial Instruments - Accounting for Dynamic Risk Management: A Portfolio</td>
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<tr>
<td>Revaluation Approach to Macro Hedging</td>
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<td>Rate-regulated Activities (comprehensive project)</td>
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<td>Disclosure Initiative</td>
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<td>Principles of Disclosure</td>
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<tr>
<td>Amendments to IAS 1</td>
<td>Redeliberations</td>
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<tr>
<td>Reconciliation of Liabilities from Financing Activities</td>
<td>Exposure draft</td>
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<tr>
<td>Annual Improvements 2012 – 2014</td>
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<td>IFRS</td>
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<tr>
<td>Annual Improvements 2014 – 2016</td>
<td>Exposure draft</td>
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<tr>
<td>Clarifications of Classification and Measurement of Share-based Payment</td>
<td>Exposure draft</td>
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<tr>
<td>Transactions (proposed amendments to IFRS 2)</td>
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<tr>
<td>Classification of Liabilities (proposed amendments to IAS 1)</td>
<td>Exposure draft</td>
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<tr>
<td>Elimination of Gains or Losses Arising from Transactions between an Entity and</td>
<td>Exposure draft</td>
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<tr>
<td>its Associate or Joint Venture (proposed amendments to IAS 28)</td>
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<tr>
<td>Fair Value Measurement: Unit of Account</td>
<td>Exposure draft</td>
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<tr>
<td>Investment Entities: Applying the Consolidation Exception (proposed amendments</td>
<td>Redeliberations</td>
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<td>to IFRS 10 and IAS 28)</td>
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<tr>
<td>Recognition of Deferred Tax Assets for Unrealised Losses (proposed amendments</td>
<td>Exposure draft</td>
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<td>to IAS 12)</td>
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<tr>
<td>Sale or Contribution of Assets between an Investor and its Associate or Joint</td>
<td>IFRS</td>
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<tr>
<td>Venture (proposed amendments to IFRS 10 and IAS 28)</td>
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<tr>
<td>Post-implementation Review · IFRS 3 Business Combinations</td>
<td>Deliberations</td>
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<tr>
<td>Conceptual Framework (chapters addressing elements of financial statements,</td>
<td>Exposure draft</td>
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<td>measurement, reporting entity, and presentation and disclosure)</td>
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<tr>
<td>Comprehensive review of the IFRS for SMEs</td>
<td>Redeliberations</td>
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**EY publications**

Further information about these proposed pronouncements can be found at [www.ey.com/ifrs](http://www.ey.com/ifrs).

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6 The timeline and most up-to-date information for these projects can be found on the IASB’s website [http://www.ifrs.org/Current+Projects/IASB+Projects/IASB+Work+Plan.htm](http://www.ifrs.org/Current+Projects/IASB+Projects/IASB+Work+Plan.htm). This is updated on a regular basis by the IASB.

7 Project developed jointly with the US Financial Accounting Standards Board.
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EYG No. AU2606

ED None

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