

IASB

Date of first-time application of IFRS 15 Revenue from Contracts with Customers is postponed

About a year ago (May 2014), the IASB and FASB completed their joint project on revising the rules for revenue recognition with the publication of IFRS 15 (IASB) and Topic 606 (FASB). Both standards were to take effect on 1 January 2017.

On 19 May 2015, the IASB published the expected draft ED/2015/2 Effective Date of IFRS 15. The proposed amendment means that the date of first-time application of IFRS 15 Revenue from Contracts with Customers is to be postponed by one year to 1 January 2018. This draft by the IASB follows on from the FASB, which already published a corresponding exposure draft at the beginning of April. Voluntary early adoption will still be permitted, giving companies the option to early adopt IFRS 15. Even before this exposure draft was pronounced, EFRAG advised the EU Commission to endorse IFRS 15 for use in the EU. The EFRAG recommendation is not negatively affected by the IASB decision, as EFRAG recommended that IFRS 15 be adopted "with the effective date set by the IASB". It can therefore be expected that the date of first-time application of IFRS 15 in the European Union will be postponed accordingly. EU endorsement of IFRS 15 is expected in the third quarter of 2015.

After publishing their revenue recognition standards, the IASB and FASB set up a joint advisory group (Transition Resource Group for Revenue Recognition, TRG) that aims to inform the boards of potential interpretation issues and difficulties in implementing the new standard. Four

meetings have already taken place since the standards were pronounced. The meeting documents and results are published on the IASB webpage. The FASB has already published an exposure draft as a result of the discussions with the TRG. The subject of the planned amendments relates to the date of first-time application, identifying performance obligations as well as the rules in connection with licenses.

The IASB also intends to issue a draft with clarifications on IFRS 15 in the first quarter of 2016. However, there are indications that the IASB will propose much smaller amendments on the whole than the FASB. The revision of the revenue standards is not expected to take place at the same time, as a result of which it will not be possible to achieve in full the goal of corresponding rules on revenue recognition under IFRS and US GAAP.

Note: Although the date of first-time application for EU users is postponed to 1 January 2018, it is nevertheless advisable to start analysing the effects in a timely manner while taking the announced exposure draft into consideration. A company adopting IFRS 15 for the first time must adopt the standard in full for the current reporting period. This also involves retroactive application to all contracts that had not yet been fulfilled at the beginning of the reporting period. As far as earlier reporting periods are concerned, an option is provided. The option provides that IFRS 15 can either be applied in full to earlier reporting periods (with certain limited practical simplifications) or that the amounts reported based on the previously applicable standard are retained and the cumulative effects from the adoption of IFRS 15 are recognised as an adjustment of the opening balance of equity on the date of first-time application (beginning of the current reporting period). However, both methods require a timely analysis of the effects, as their complexity and the time involved should not be underestimated.



IASB publishes amendments to IFRS for small and medium - sized companies

On 21 May 2015, the IASB published limited amendments to its International Financial Reporting Standard for Small and Medium-Sized Entities (IFRS for SMEs). The proposals result from the first comprehensive review of the standard, which started in 2012. The main changes relate to use of the revaluation model for property, plant and equipment and alignment of the recognition and measurement of deferred taxes with the current accounting requirements in IAS 12 Income Taxes.

Most of the proposals made as part of the review of IFRS for SMEs merely concerned clarifications and smaller general changes to existing requirements. It is therefore hoped that these changes will bring about a better understanding by the entities as well as the users of financial statements with regard to IFRS for SMEs without any other effects on the reporting or disclosures in the notes.

140 countries were examined for the introduction of IFRS for SMEs. Of those 140 countries, 72 confirmed that they currently implemented this standard on a voluntary or mandatory basis. A further 14 countries are currently examining whether they wish to accept the standard. The standard has not played any significant role in Germany to date.

Note: The adjustments to IFRS for SMEs take effect for reporting periods commencing on or after 1 January 2017. Earlier application is permitted. The exposure draft is available for download on the IASB website in return for a fee.

ED/2015/1, Classification of Liabilities - Amendments to IAS 1

On 10 February 2015, the IASB published a draft to amend IAS 1 Presentation of Financial Statements in the form of ED/2015/1 Classification of Liabilities.

On the whole, the exposure draft aims to improve presentation by using clarifying criteria for the classification of a liability as either current or non-current. In particular, the IASB proposals are related to the following points:

- the exact classification of a liability as either current or non-current must be based on rights that are in existence



at the end of the reporting period. If there is a right to defer settlement of the liability for at least 12 months, a liability is to be classified as non-current

- additionally, the draft clarifies the link between settlement of a liability and the actual outflow of resources from the entity. The IASB explains that settlement is performed if cash, equity-settled instruments, other assets or services are transferred to the counterparty. The IASB thus clarifies that the rollover of a borrowing does not constitute settlement of a liability and the corresponding liability is thus not classified as current.

Note: The draft does not contain any proposed date of first-time application. However, it proposes that the amendments be applied retrospectively. The period for comments ended on 10 June 2015. This draft is available for download on the IASB website.

Revision of the Conceptual Framework

On 28 May 2015, the IASB published an Exposure Draft of its revised Conceptual Framework for Financial Reporting (ED/2015/3) and an *Exposure Draft for Updating References to the Conceptual Framework in other IASB pronouncements* (ED/2015/4). We will report in detail on those exposure drafts in our next newsletter.

Adoption of IFRS by the EU

EU Endorsement

EFRAG: Postponement of the EU endorsement process on the amendments to IFRS 10 and IAS 28

In a letter dated 17 February 2015, the European Financial Reporting Advisory Group (EFRAG) recommended postponing the EU endorsement process on the amendments to IFRS 10 and IAS 28 published in September 2014. The amendments relate to the sale or contribution of assets between an investor and its associate or joint venture.

The EFRAG recommendation is in response to an inconsistency in relation to IAS 28.32 already identified by the IASB. This problem is to be solved first by issuing an exposure draft. As a result, the date of first-time application of the aforementioned amendments to IFRS 10 and IAS 28 is postponed indefinitely. EFRAG therefore recommends postponing the EU endorsement process until the further amendments have been published and discussed in detail.

Adoption of the new standard for financial instruments (IFRS 9) in the EU

The decision whether to adopt IFRS 9 Financial Instruments was postponed at EU level in 2012 until the IASB had issued a final version of IFRS 9 in order to be able to assess the standard as a whole. After the IASB issued a final version of IFRS 9 in July 2014, the EU Commission requested that EFRAG assess the new standard. EFRAG comes to the conclusion that IFRS 9 meets the prerequisites for endorsement in the EU and is in favor of endorsement. However, EFRAG also comes to the preliminary conclusion that an option should be considered to postpone the effective date of IFRS 9 for insurance companies and bring it in line with the effective date of the new insurance standard.

Note: EU endorsement of IFRS 9 is expected in the second half of 2015.

EU Endorsement Status Report

The following table contains standards and interpretations that have not yet been adopted by the EU and those that have been adopted since our last edition (endorsement). This information is based on the EU Endorsement Status Report dated 29 June 2015 as issued by EFRAG (European Financial Reporting Advisory Group).

| Standards | IASB entry into force | EU endorsement |
|---|-----------------------|----------------|
| IFRS 9 Financial Instruments (24 July 2014) | 1 January 2018 | H2/2015 |
| IFRS 14 Regulatory Deferral Accounts (30 January 2014) | 1 January 2016 | to be decided |
| IFRS 15 Revenue from Contracts with Customers (28 May 2014) | 1 January 2017* | Q1/2016 |

Amendments to standards

| Standards | IASB entry into force | EU endorsement |
|---|-----------------------|--------------------------------------|
| IFRS 10, IFRS 12 and IAS 28: Investment Entities - Applying the Consolidation Exception (18 December 2014) | 1 January 2016 | Q1/2016 |
| IAS 1 - Disclosure Initiative (18 December) | 1 January 2016 | Q4/2015 |
| Annual Improvements to IFRSs (2012-2014 Cycle) (25 September 2014) (standards affected: IFRS 5, IFRS 7, IAS 19 and IAS 34) | 1 January 2016 | Q4/2015 |
| IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (11 September 2014) | 1 January 2016 | postponed until new ED from the IASB |
| IAS 27 - Equity Method in Separate Financial Statements (12 August 2014) | 1 January 2016 | Q4/2015 |
| IAS 16 and 41- Accounting for Bearer Plants (30 June 2014) | 1 January 2016 | Q4/2015 |
| IAS 16 and 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (12 May 2014) | 1 January 2016 | Q4/2015 |

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| IFRS 11 - Amendments concerning Acquisitions of Interests in Joint Operations (6 May 2014) | 1 January 2016 | Q4/2015 |
| IAS 19 Defined Benefit Plans: Employee Contributions (21 November 2013) | 1 July 2014 | 17 December 2014 |
| Annual Improvements to IFRSs (2010-2012 Cycle) (12 December 2013) (standards affected: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38, IFRS 1, IFRS 3, IFRS 13) | 1 July 2014 | 17 December 2014 |
| Annual Improvements to IFRSs (2011-2013 Cycle) (12 December 2013) (standards affected: IFRS 1, IFRS 3, IFRS 13, IAS 40) | 1 July 2014 | 18 December 2014 |

* according to ED/2015/2 the date for mandatory first-time application is to be postponed to 1 January 2018.

Contact Us

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