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Mazars' newsletter on accounting standards

Contents

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EDITORIAL

Under the IASB work plan, 2014 should see the conclusion of two major projects which were launched several years ago: revenue recognition and the impairment of financial assets. However, no publication timescale has been announced for the other two major topics, accounting for leases and insurance contracts. The work plan merely mentions 'redeliberations' on these subjects in the first quarter of 2014. The duration of the redeliberations on revenue recognition does, however, suggest that we should treat this timetable with great caution.

In 2014, the IASB should also analyse the responses received regarding the Discussion Paper on the conceptual framework, for which the comments period will end shortly. With this document the IASB aims to lay the foundation of future IFRSs!

Best wishes for 2014 from the whole editorial team at Beyond the GAAP.

Enjoy your reading!

Michel Barbet-Massin   Edouard Fossat

IFRS Highlights

Classification of financial assets (Phase I of IFRS 9) – the IASB clarifies the use of the "fair value through profit or loss" option for debt instruments in the FV-OCI category

In December, the IASB confirmed that assets meeting the criteria for classification in fair value through other comprehensive income (FV-OCI) would be eligible for optional measurement at fair value through profit or loss if doing so would eliminate or significantly reduce a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch'). This fair value option will be permitted only at initial recognition for each instrument. This measurement choice will be irrevocable.

The IASB will continue to consider its proposals in early 2014. The final text of the amendment to IFRS 9 on the classification and measurement of financial assets is expected during the first half of 2014.

Impairment of financial assets (Phase II of IFRS 9/ Impairment) – ongoing deliberations on loan commitments and financial guarantee contracts

During its plenary session in December 20013, the IASB focused its discussions on the impairment of loan commitments (other than revolving credit facilities) and financial guarantees.

It will be remembered that in November 2013, the Board tentatively decided that impairment of revolving credit facilities (credit cards or authorised overdrafts) should be based on the period over which the lender) is exposed to the credit risk and ii) further drawdowns cannot be avoided. The Board had justified these particular measures by the existence of situations in which the lender can find itself at risk beyond the maturity of its contractual commitment. In practice, the lender can have difficulties in exercising its contractual rights for this type of credit. As the calculation of impairment reflects an expected losses approach, the Board decided it was relevant to apply the period of the economic risk, where this exceeds the risk arising in the contractual period alone.

This measure was not extended to other types of loan commitments or financial guarantees, for which the board confirmed the proposals set out in the March 2013 exposure draft. For these commitments, the maximum period[1] for consideration in calculating impairment is the contractual period over which the entity is committed to provide credit.

Finally, the IASB also decided that it will be possible to present the provision for the expected credit losses on the undrawn balance together with the loss allowance for expected credit losses on the drawn amount, if the entity is unable to separately identify the two.

[1] This is a "maximum" period because the scenarios of early prepayment or failure to draw down can be taken into account.

Impairment of financial assets (Phase II of IFRS 9 / Impairment) – the Board clarifies the transition requirements

The IASB took a number of decisions on the method of transition to the new impairment model.

- It confirmed that the new text should be applied retrospectively at the transition date. At this date, the entity should therefore refer to the credit risk of the instruments at initial recognition in order to analyse changes to this risk and allocate the instruments to categories 1 and 2.
- The IASB also tentatively clarified that an entity could approximate the credit risk on initial recognition by considering the best available information that is available without undue cost.
- If, despite the possibility to resort to this approximation, an entity is not able to estimate the credit risk on initial recognition, the Board confirmed the proposal in the March 2013 exposure draft allowing to determine the instrument's category based on the credit quality at the reporting date. Instruments with low credit risk would in such case be allocated to category 1, the others to category 2.
  This simplified methodology would continue to apply to these instruments at each reporting date until they are derecognised.
- Finally, the Board announced its intention of accompanying the standard with a series of examples or application guidance to help entities to implement the transition requirements.

EUROPEAN Highlights

Endorsement of IAS 39 amendments on the novation of derivatives

On 19 December 2013, the European Commission endorsed the amendments to IAS 39, *Novation of Derivatives and Continuation of Hedge Accounting*, published by the IASB on 27 June 2013.

It will be remembered that these fairly pragmatic amendments relax the existing hedge accounting rules, avoiding the need to discontinue hedge relationships in cases where the derivative is novated (a change of the counterparty to the derivative) to a central counterparty due to a regulatory change, such as the European Union's EMIR directive.

In Europe, an entity shall apply those amendments retrospectively for annual periods beginning on or after 1 January 2014, which is also the date set by the IASB. Early application is permitted.

Regulation EU 1375/2013 (OJ EU of 20 December 2013) is accessible at the following address: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:346:0042:0046:EN:PDF

Endorsement of IAS 36 amendments on disclosures on recoverable amounts.

On 19 December 2013, the European Commission endorsed the amendments to IAS 36 *Impairment of Assets*, published by the IASB on 29 May 2013.

These amendments clarify that when the recoverable value of impairment-tested assets is based on fair value less costs of disposal, the requirement to make disclosures on the recoverable amount, and on the way fair value is determined, only applies to impaired assets.

In Europe, an entity shall apply those amendments retrospectively for annual periods beginning on or after 1 January 2014, which is also the date set by the IASB. Early application is permitted.

Regulation EU 1374/2013 (OJ EU of 20 December 2013) is accessible at the following address: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:346:0038:0041:EN:PDF

A Closer Look

IASB concludes 2010–2012 & 2011–2013 Annual Improvements Cycles

In December 2013, the IASB published its final versions of:

- the annual improvements to IFRSs, 2010–2012 cycle following an exposure draft published on 3 May 2012. The four amendments put forward for comments were ultimately accepted;
- the annual improvements to IFRSs, 2011-2013 cycle, following an exposure draft published on 20 November 2012. Eight of the twelve amendments put forward for comments were ultimately accepted.

1. Process for improving IFRSs

The IASB's annual improvements project, set out in the Due Process Handbook, is a streamlined process for enhancing the quality of standards by amending existing IFRSs:

- to clarify guidance and wording; or
- to correct for relatively minor unintended consequences, conflicts or oversights.

Every year, the IASB discusses and decides upon proposed improvements to IFRSs as they have arisen throughout the year.

The subjects addressed in this process include issues raised by the IFRS Interpretations Committee and suggestions from IASB staff or users.

In order to be included in the annual improvements process, proposed amendments must meet all the following criteria:

- the proposed amendment either clarifies existing standards, or corrects conflicts or oversights, but does not propose new principles or change existing ones;
- the proposed amendment must be well-defined, and sufficiently narrow in scope such that the consequences of the proposed change have been considered;
- it is probable that the IASB will be able to reach a conclusion on a timely basis;
- if a proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a need to make the amendment sooner than the project would.

Once this assessment is made, the proposed amendments will follow the same due process as other IASB projects: that is to say, they will be published in an exposure draft for comments.

2. What amendments have been published?

Standard	Cycle	Amendment
IFRS 1, *First-time Adoption of IFRSs* (amendment of Basis of Conclusions only)	Annual Improvements to IFRSs (2011-2013)	**Meaning of "effective IFRS" (a problem in circumstances where a new or a revised IFRS is not yet mandatory, but can be adopted early)** The standard is amended to indicate that a first-time adopter may choose between: ▪ applying an existing and currently effective IFRS; or ▪ applying early a new or revised IFRS that is not yet mandatorily effective (provided that the new or revised IFRS permits early application). The amendment also states that a first-time adopter must apply the same version of the IFRSs throughout the periods covered by those first IFRS financial statements.
IFRS 2 *Share-based Payment*	Annual Improvements to IFRSs (2010-2012)	**Definition of the concept of "vesting condition"** The concept of a vesting condition is clarified via the separate presentation of the terms "performance condition" and "service condition" (which were previously included in the definition of "vesting condition").

2. What amendments have been published? (cont.)

Standard	Cycle	Amendment
IFRS 3 *Business Combinations*	Annual Improvements to IFRSs (2010-2012)	**Accounting for contingent consideration in a business combination** The amendment clarifies that contingent consideration that is a financial asset or financial liability must be measured at fair value at each reporting date. Some aspects of accounting for contingent consideration are set out in IFRS 3 and in consequence in the following standards: IFRS 9 – *Financial instruments,* IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets* and IAS 39 - *Financial instruments: Recognition and measurement.*
	Annual Improvements to IFRSs (2011-2013)	**Exclusion of joint ventures from the scope of IFRS 3** The standard is amended to: ▪ exclude the formation of all types of joint arrangements (joint ventures and joint operations) as defined in IFRS 11 *Joint Arrangements* from the scope of IFRS 3; ▪ state that the scope exception only applies to the financial statements of the joint venture or the joint operation itself.
IFRS 8 *Operating Segments*	Annual Improvements to IFRSs (2010-2012)	**Disclosures to be provided on aggregated operating segments** The standard is amended to clarify that entities must disclose the judgments made by management in applying the aggregation criteria to operating segments. **Reconciliation of the total of the reportable segments' assets to the entity's assets** The standard is amended to clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed, if that amount is regularly provided to the chief operating decision maker.
IFRS 13 *Fair Value Measurement*	Annual Improvements to IFRSs (2010-2012)	**Short-term receivables and payables** A paragraph is added to the basis for conclusions to clarify the IASB's rationale for removing paragraph B5.4.12 from IFRS 9 and paragraph AG79 from IAS 39 related to the measurement of short-term receivables and payables with no stated interest rate at invoice amounts.
	Annual Improvements to IFRSs (2011-2013)	**Scope of paragraph 52 (portfolio exception)** The published amendment clarifies that paragraph 52 of IFRS 13, which includes a scope exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (i.e. a portfolio), applies to all contracts within the scope of IAS 39 or IFRS 9, whether or not they meet the definition of a financial asset or financial liability.

2. What amendments have been published? (cont.)

Standard	Cycle	Amendment
IAS 16 *Property, Plant and Equipment* **IAS 38 *Intangible Assets***	Annual Improvements to IFRSs (2010-2012)	**Revaluation method—proportionate restatement of accumulated depreciation and amortisation** Paragraph 35(a) of IAS 16 and paragraph 80(a) of IAS 38 require revaluation of the accumulated depreciation in the same proportions as the corresponding gross carrying amount. The amendment clarifies that: ▪ the determination of the accumulated depreciation does not depend on the selection of the valuation technique; ▪ the accumulated depreciation is calculated as the difference between the gross and the net carrying amounts.
IAS 24 *Related Party Transactions*	Annual Improvements to IFRSs (2010-2012)	**Key management personnel services** The standard is amended to specify that: ▪ an entity providing key management personnel to the reporting entity or to the parent company of this entity is a related party of the reporting entity; ▪ the reporting entity receiving the services must disclose the amount of the payments made to the provider of the services.
IAS 40 *Investment Property*	Annual Improvements to IFRSs (2011-2013)	**Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property** The amendment states that: ▪ judgment is needed to determine whether the acquisition of an investment property corresponds to the acquisition of an asset, to the acquisition of a group of assets or to a business combination within the scope of IFRS 3; ▪ This judgment is not based on paragraphs 7–14 of IAS 40 but instead is based on the guidance in IFRS 3

3. Transitional arrangements and effective date

The IASB has determined that these amendments should be of mandatory application to current financial periods at 1 July 2014. Early application is permitted.

These texts have not yet been endorsed by the European Union; according to the EFRAG timetable published on 23 December 2013, their adoption is expected in Q3 2014.

Although they have not yet been endorsed by the EU, these amendments may be applied early, provided that they do not conflict with the standards which are currently effective.

Events year FAQ

Frequently asked questions

IFRSs

- Allocating a goodwill to a joint venture previously consolidated proportionally and which was part of a larger CGU, during the transition to IFRS 11 (the joint venture now being accounted for using the equity method);
- Impairment test of shares accounted for using the equity method which include goodwill;
- Determining the value in use of shares accounted for using the equity method;
- Loss of control due to expiry of a shareholders' agreement;
- Setting up an agreement for part-time work at the end of a career.

Upcoming meetings of the IASB, IFRS Interpretations Committee and EFRAG

IASB	Committee	EFRAG
20 – 24 January 2014	29 and 30 January 2014	27 - 29 January 2014
13 - 21 February 2014	25 and 26 March 2014	26 - 28 February 2014
13 - 21 March 2014	13 and 14 May 2014	2 - 4 April 2014

The drafting of the present edition was completed on 15 January 2014.