IFRS Update

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Agenda

- 3 new standards under IFRS
  - IFRS 9 Financial Instruments
  - IFRS 15 Revenue from Contracts with Customers
  - IFRS 16 Leases
- Some narrow scope amendments to other standards
- What the Heck series

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Overview – IFRS 9

- Effective for years commencing on or after January 1, 2018
- Uses a business model test for assets (classifications based on how they are managed)
- Affects long term loans, equity investments, non-vanilla financial assets and hedging

IFRS 9 – Asset classification

- Now 2.5 classifications for financial assets (previously 4)

1. Amortized cost (effective interest method) – assets held to collect contractual cash flows only
2. Amortized costs and for sale – assets held to collect contractual cash flows and for sale
3. Fair value

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IFRS 9 – Asset classification

- Determine the type of asset. Is it:
  - receivable – vanilla or not
  - equity
- For **Vanilla receivable** - Use the business model test
  - Business model is hold, classify as amortized cost
  - Business model is sell , classify FVOCI
- For **other receivable** ("FVTPL")

IFRS 9 – Asset classification

- If the financial asset is **equity** (shares in a public or private company)
  - Elect at initial recognition for each asset purchased to recognized changes in value as **FVTPL or FVOCI**

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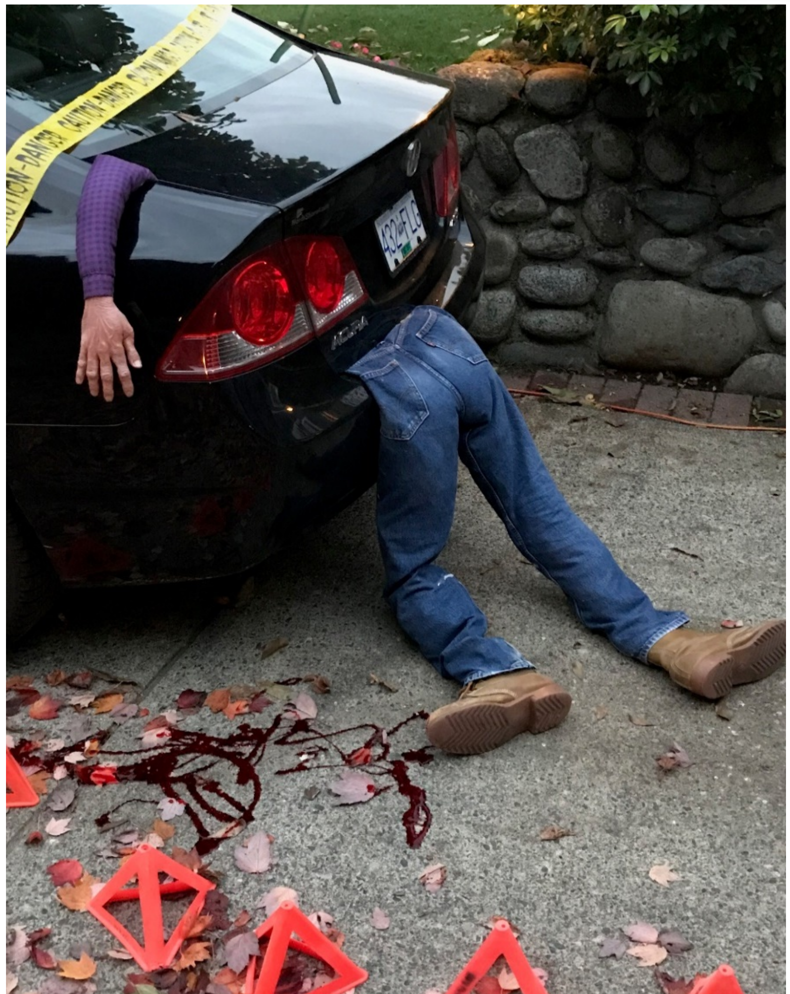

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IFRS 9 – Measurement considerations

- Equity investments
  - –are measured at fair value
    - No longer appropriate to measure at cost

IFRS 9 – Measurement considerations

Non-equity financial assets (cont'd)

- are measured using one impairment test – the Expected Credit Loss ("ECL") approach
- "12 month ECL's", "lifetime ECL", "lifetime credit impaired ECL"

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IFRS 9 – Measurement considerations

- For trade receivables can use a simplified approach
  - Record lifetime ECL's at initial recognition of trade receivable

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IFRS 9 – Financial liabilities

- Not a lot of change from IAS 39
- Still have either of FVTPL and Other liabilities
- Hedging - Revised standard is simpler to apply

IFRS 9 – Disclosure

- More!
  - –Analysis
  - –Information on credit risk
  - –Reconciliations

IFRS 9 – Transition

- Should be applied retrospectively, no requirement to restate comparatives but must reconcile opening retained earnings and OCI

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IFRS 15 – Overview

- *Revenue from contracts with customers*
- Effective for years commencing on or after January 1, 2018
- Creates one comprehensive model to account for revenue from contracts with customers

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IFRS 15 – Overview

- Replaces the following standards
  - IAS 18 Revenue
  - IAS 11 Construction contracts
  - IFRIC 13 Customer loyalty programmes
  - IFRIC 15 Agreements for the construction of real estate
  - IFRIC 18 Transfers of assets from customers
  - SIC 31 Revenue – barter transactions
- IAS 18 was 9 pages long, IFRS 15 is over 50 pages

IFRS 15 – A new way of thinking

- Recognize revenue upon a transfer of control of a good or service, previously risk and reward model
- Principles based, but there is a lot of prescriptive guidance (over 100 examples)

IFRS 15 – A new way of thinking

- Document how the requirements in the standard are met
- Biggest impact will be on telecommunication, real estate and licensing companies
- Big increase in disclosure

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IFRS 15 – Application

- 5 step model to achieve the core principle
  - Identify the contract with the customer
  - Identify the performance obligations
  - Determine the transaction price
  - Allocate the transaction price to the performance obligations
  - Recognize revenue when the performance obligation is satisfied

IFRS 15 – Identify the contract with the customer

- An agreement that creates *enforceable* rights and obligations
- May be written, verbal or based on regular customer business practices
- Can identify payment terms
- Probability of collection

IFRS 15 – Identify the performance obligations

- Promises to transfer goods or services to a customer
- If *distinct*, then account for separately
- If not distinct, then combine

IFRS 15 – Determine the transaction price

- Amount of consideration a company expects to be entitled to
- Could be:
  - –fixed amount
  - –variable amount (‘expected amount’ or ‘most likely amount’)

IFRS 15 – Allocate transaction price to the performance obligations

- Generally done in proportion to their stand-alone prices of the good or service promised in the contract
- Methods for estimating stand-alone prices:
  - adjusted market assessment approach
  - expected cost plus a margin approach
  - residual approach

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IFRS 15 – Recognize revenue when the performance obligation is satisfied

- The asset is transferred when or as the customer obtains control of that asset
- Indicators of transfer of control
- Measure progress over time using one method, either of output or input method

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IFRS 15 – Disclosure requirements

- Disaggregation of revenue (many)
- Significant judgements

IFRS 15 – Transition approaches

- Full retrospective adoption; or
- Modified retrospective adoption

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IFRS 16 – Overview

- Effective for years commencing on or after January 1, 2019
- Effect is on the Lessee, little change for Lessor
- Capitalizes all but immaterial and short term leases – one lease model for Lessees

IFRS 16 – Overview

- Right of use assets with offsetting lease liabilities
- New estimates and judgements will be required
- New disclosure requirements

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IFRS 16 – Exemptions

- Leases of non-regenerative assets (mineral property, O&G interests, other)
- Leases of biological assets
- Service concession arrangements
- Licenses of intellectual property granted by lessor
- Rights held by a lessee under certain licensing arrangements

IFRS 16 – Impact – most companies

- If your company leases office/retail/ warehouse space, vehicles, equipment or other arrangements, you are affected
- You will need to substantiate the assessments in the context of the standard

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IFRS 16 – Accounting overview

- Record a "Right of Use" asset, with an offsetting lease liability
- NPV of lease payments over term

IFRS 16 – Transition

- Choose full or modified retrospective transition approach
- If modified approach, just look forward

Narrow scope amendments

- **IFRS 17 – Insurance Contracts**
- **IAS 12 – Income Taxes**
- **IAS 7 – Statement of Cash Flows**
- **IFRS 2 - Share-based Payments**
- **IAS 40 – Investment Property**
- **Disclosure initiative underway – Materiality**
  - Affects volume and presentation of financial statement disclosure
  - Looking for material information that would have an effect on the reader

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Recap

- **IFRS 9 recap**
- Affects all companies, at least for disclosure
  - Two categories for financial assets (amortized cost or fair value)
- Classification based on business model
- New Impairment model
- Disclosure

Recap

- **IFRS 15 recap**
  - Big effect on software, telecoms, real estate
  - New criteria to recognize revenue when customer has control of the goods or services
  - Lots of new disclosure
- **IFRS 16 recap**
  - Affects almost all companies
  - Only one type of lease (finance) with exceptions (short term leases and low dollar impact)

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Final take-aways

- Disclosure of effect should be in your year-end financial statements
- Do not wait
  - What The Heck
  - Get Going!

THANK YOU!

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