Davidson & Company
CHARTERED PROFESSIONAL ACCOUNTANTS

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The notes to IFRS consolidated financial statements prepared in the EU must contain disclosures on newly adopted standards and interpretations (IAS 8.28) as well as on standards and interpretations that have been issued but not yet adopted (IAS 8.30). The following provides an overview of the current status (end of November 2018) of the standards and interpretations issued by the IASB that have to be reported on pursuant to IAS 8.28 and IAS 8.30 in IFRS consolidated financial statements prepared in the EU as of 31 December 2018.

EU Endorsement

The following table contains standards and interpretations that have not yet been adopted by the EU and those that have been adopted since 1 January 2018. These are based on the EU Endorsement Status Report issued by EFRAG on 2 November 2018.

ESMA

The national European enforcers audit the financial statements of companies with securities traded on a regulated market in Europe or in the process of admission to the market. The financial statements are prepared in accordance with the IFRSs and reviewed to determine the extent to which they comply with the IFRSs and other applicable reporting requirements, including the authoritative national legal requirements.

Notes on the consolidated financial statements

Required disclosures in the notes on the legal status of IFRS

The notes to IFRS consolidated financial statements prepared in the EU must contain disclosures on newly adopted standards and interpretations (IAS 8.28) as well as on standards and interpretations that have been issued but not yet adopted (IAS 8.30). The following provides an overview of the current status (end of November 2018) of the standards and interpretations issued by the IASB that have to be reported on pursuant to IAS 8.28 and IAS 8.30 in IFRS consolidated financial statements prepared in the EU as of 31 December 2018.

Effects of new or amended standards and interpretations (IAS 8.28)

IAS 8.28 requires the disclosure of new and amended standards and interpretations when their initial application has an effect on the reporting period or any prior period. The scope of application of IAS 8.28 therefore extends to all changes in accounting policies that result from the initial application of a new or amended standard or interpretation. For example, the disclosures in the notes must then include the following in relation to the new standard or interpretation:

- Title of the standard or interpretation
- When applicable, a description of the transitional provisions
- Nature and change in accounting policy
- Amount of the adjustment for each financial statement line item affected (including earnings per share) for the beginning of the prior year, for the prior year and for the year, where practicable.

It must also be noted that the disclosures pursuant to IAS 8.28 are also required in the case of early voluntary adoption of new standards or interpretations.

Note: The following table provides an overview of rules under IAS 8.28 that potentially require disclosure in IFRS consolidated financial statements prepared in the EU as of 31 December 2018 as well as a general assessment in terms of their effect on accounting practice. It is not necessary to list all of the rules. If necessary, a general wording can be included after the explanation of the new standards and interpretations as well as of their effects which states for example that the other standards and interpretations subject to mandatory adoption in the EU for the first time as of 1 January 2018 do not have any material effect on the consolidated financial statements.

Standard or interpretation	Title	IASB effective date*	Date of first-time application in the EU*	Effect**
IFRS 9	Financial Instruments	1 January 2018	1 January 2018	Fundamental significance
IFRS 15	Revenue from Contracts with Customers	1 January 2018	1 January 2018	Fundamental significance
Amend. IFRS 15	Clarifications to Revenue from Contracts with Customers	1 January 2018	1 January 2018	Fundamental significance
Amend. IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018	1 January 2018	Industry-specific or company-specific significance
Amend. IFRS 4	Application of IFRS 9 Financial Instruments together with IFRS 4 Insurance Contracts	1 January 2018	1 January 2018	Industry-specific or company-specific significance
Amend. IAS 40	Transfers of Investment Property	1 January 2018	1 January 2018	Industry-specific or company-specific significance
Annual Improvements to IFRSs (2014-2016 Cycle)	Amendments to IFRS 1, IFRS 12***, IAS 28	1 January 2018	1 January 2018/ 1 January 2017	Industry-specific or company-specific significance
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	1 January 2018	Industry-specific or company-specific significance

* For financial statements for annual periods beginning on or after this date.
** The general assessment in terms of effects on accounting practice serves as a guide – the individual effects on the individual company must be explained separately.
*** The amendments to IFRS 12 were already applicable to annual financial statements for periods commencing on or after 1 January 2017. The amendments to IFRS 1 and IAS 28 are applicable from 1 January 2018.

IFRS 9 "Financial Instruments"

In July 2014, the IASB completed its project to replace IAS 39 "Financial Instruments: Recognition and Measurement" by publishing the final version of IFRS 9 "Financial Instruments". IFRS 9 includes rules on the following areas:

- classification and measurement
- impairment and
- hedge accounting.

Classification and measurement

The classification and measurement of financial assets are based on the entity's business model (business model conditions) for managing its financial assets and the contractual cash flow characteristics (cash flow conditions) of the respective financial asset.

Instead of the four categories used in the past, the subsequent measurement of financial assets is now based on three categories with different measurement bases and a different recognition of changes in value:

- Measurement at amortized cost using the effective interest method (AC = Amortized Cost)
- Measurement at fair value, with changes in value recognized as other comprehensive income (FVTOCI = Fair Value Through Other Comprehensive Income)
- Measurement at fair value, with changes in value recognized in profit or loss for the period (FVTPL = Fair Value Through Profit or Loss).

The distinction between equity instruments and debt instruments is made in accordance with the criteria in IAS 32. Equity instruments cannot satisfy the cash flow conditions due to a lack of contractual payment entitlements and must therefore be measured at fair value through profit or loss.

Note: The cost exemption often used pursuant to IAS 39 in the past (measurement at cost) for unlisted equity instruments with no quoted prices on an active market and whose fair value cannot be reliably measured (e.g. unlisted shares in a German limited liability company) no longer applies.

For financial liabilities, the existing categorization requirements in IAS 39 were largely carried over into IFRS 9.

Impairment

The rules on impairment were adjusted considerably, resulting in a change from the incurred credit losses method used to date to the expected credit losses (ECL) method.

The ECL model included in IFRS 9 (2014) is set to allow expected losses to be recognized much earlier. In order to determine the specific risk provision needed, the instruments are broken down into three stages. In general, the instruments are allocated to Level 1 upon addition. If the default risk increases significantly over time, the instrument must be reclassified to Level 2. If there is objective evidence of impairment as of the reporting date, the instrument has to be classified as Level 3. Among other things, the classification determines the period of risk assessment (12-month ECL or lifetime ECL). For trade receivables, receivables from leases and contractual assets pursuant to IFRS 15, there are expedients to allow these to be allocated directly to Level 2 on addition.

Hedge accounting

IFRS 9 also contains new regulations on the application of hedge accounting in order to better present the risk management activities of an entity, in particular with regard to the management of non-financial risks. However, the rules on hedge accounting have not been entirely redefined by IFRS 9.

The disclosure requirements in the notes have been extended considerably in order to obtain better information about the entity's risk management strategy and its application to risk management, on the influence of the entity's hedging activities on the amount, timing and uncertainty of future cash flows as well as on the effects of hedge accounting on the entity's statement of financial position, statement of comprehensive income and statement of changes in equity.

Note: Information on the amendments to IFRS 9 in relation to certain prepayment features that do not take effect until 1 January 2019 can be found below on "New or amended standards and interpretations not applied (IAS 8.30)".

IFRS 15 "Revenue from Contracts with Customers" and Clarifications to IFRS 15

The new IFRS 15 replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts" as well as the associated interpretations. The new standard IFRS 15 establishes uniform rules and principles for revenue recognition at a point in time or over time for all customer contracts in all industries. IFRS 15 sets out a comprehensive framework to determine whether, at what amount and at what time revenue is recognized and contains detailed application guidance on a large number of individual topics (e.g. contract amendments, sales with a right of return, treatment of contract costs, extension options, licensing, etc.).

The core principle of IFRS 15 is that an entity should recognize revenue if the goods have been delivered or service has been provided. In the standard, this principle is implemented using a five-step model.

Step 1: Identifying contracts with customers

The prerequisite for revenue recognition is the identification of a contract with a customer that creates enforceable rights and obligations to supply goods or services. One important criterion is that it is probable that the consideration will be collected. Contracts must be combined in accordance with IFRS 15 if they are entered into at or near the same time with the same customer and the contracts are negotiated as a package, the amount of consideration to be paid in one contract depends on the price or performance of the other contract or the goods or services promised in the contracts are a single performance obligation.

Step 2: Identifying all separate performance obligations

The contractual conditions must be examined for the existence of distinct, individual performance obligations. Revenue is then recognized for each distinct performance obligation. Goods and services that are not distinct must be combined until a distinct package of goods or services exists that is treated as a separate performance obligation. According to IFRS 15, a good or service is distinct if both of the following criteria are met:

- the customer can benefit from the good or service either on its own, e.g. through use or sale, or together with other resources that are readily available to the customer and
- the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

Step 3: Determining the transaction price

The transaction price is the amount to which an entity expects to be entitled from the customer in exchange for the transfer of goods and services. Difficulties in determining the transaction price may arise if, for example, part of the transaction price has a variable component. Variable consideration must be estimated by the entity based on the expected value or the most likely amount. Revenue from variable consideration can only be recognized if it is highly probable, so that no major revenue adjustments are made subsequently.

Step 4: Allocating the transaction price

The transaction price is generally allocated to the individual performance obligations in proportion to the relative stand-alone selling prices of the corresponding performance obligations. To do this, the stand-alone selling prices for each performance obligation must first be determined or if necessary estimated using comparable transactions. Discounts granted must also be allocated on the basis of the relative stand-alone selling prices.

Step 5: Recognizing revenue when the entity satisfies the performance obligations

According to IFRS 15, revenue must be recognized when the performance obligation is satisfied, i.e. control of the agreed-upon good or service is transferred to the customer. Transfer of control is deemed to have taken place under IFRS 15 if a customer

- has a present payment obligation
- obtains physical possession
- has legal title to the asset
- has the significant risks and rewards of ownership or
- has accepted the asset.

For each performance obligation identified, an entity must first assess upon concluding the contract whether the performance obligation will be satisfied over time or at a point in time. An entity recognizes revenue over time if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (e.g. service contract).
- The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced (e.g. creation of an asset at the customer's premises).
- The entity's performance does not create an asset with an alternative use to the entity. Furthermore, the entity has an enforceable right to payment for performance completed to date and can also expect the contract to be completed (e.g. creation of an asset pursuant to a customer order).

If none of these criteria are met, the performance obligation is satisfied at a point in time.

In the case of a performance obligation satisfied over time, revenue is recognized in accordance with the progress towards complete satisfaction of that performance obligation. Appropriate methods of measuring progress include output (e.g. units produced) and input (e.g. incurred costs) methods.

Note: Changes may result in particular in the case of contracts for work if the customer already obtains control of the asset during production. In this case, the performance obligation is satisfied over time, and revenue is recognized over the term of the contract. Before now, this was only possible in the case of a customer-specific construction contract in accordance with IAS 11. By contrast, in the case of a contract for work or services where the customer does not obtain control, it must be determined whether the asset produced has an alternative use for the entity (e.g. asset can easily be sold to another customer). If this is not the case and the entity is entitled to remuneration of the service provided to date, the performance obligation is likewise satisfied over time.

Extended disclosure requirements in the notes to the consolidated financial statements

The aim of the extensive disclosure requirements in IFRS 15 is to provide information about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. An entity must make qualitative and quantitative disclosures on the following:

- description of major features of customer contracts as well as the performance obligations
- disclosures on significant judgements and estimates including changes
- disclosures on the costs capitalized to fulfil or obtain a contract.

Note: The changes from IFRS 15 will particularly affect entities that combine different services in one customer contract. The new rules will therefore be especially relevant for entities in the telecommunications, software development, construction and plant engineering sectors. At the same time there are numerous new developments that are relevant for all entities, e.g. the treatment of contract modifications, the inclusion of variable consideration and the extensive new notes disclosures.

Clarifications to IFRS 15 "Revenue from Contracts with Customers"

On 12 April 2016, amendments to IFRS 15 were issued by the IASB that, like the standard itself, are applicable to annual periods commencing on or after 1 January 2018. The amendments serve to clarify the key principles of the standard and relate among other things to the identification of distinct performance obligations of a contract, determining whether income from granting licenses is recognized over time or at a point in time, as well as expedients for the transition rules.

Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"

In response to the scope for interpretation arising on account of a lack of specific rules in IFRS 2, the IASB published amendments to IFRS 2 "Share-based Payment" on 20 June 2016. These relate to the following three specific areas:

- More detail on how vesting conditions affect the fair value of cash-settled share-based payments (i.e. included in the same way as for equity-settled share-based payments)
- Classification of share-based payment transactions with net settlement features (withholding tax) and
- Explanation of the accounting procedure for modifying share-based payment transactions from cash-settled to equity-settled (i.e. derecognition of the original liability payable in cash and recognition of the new liability to be settled in equity at the modification date fair value).

Amendments to IFRS 4: Application of IFRS 9 Financial Instruments together with IFRS 4 Insurance Contracts

The IASB amendments to IFRS 4 from 12 September 2016 aim to remove any uncertainty surrounding the different timings of the date of first-time application for IFRS 4 "Insurance Contracts" and IFRS 9 "Financial Instruments".

Companies that issue insurance contracts that fall within the scope of IFRS 4 have been granted two options.

In accordance with the overlay approach, the first option for companies adopting IFRS 9 for the first time is to reclassify part of the income and expenses resulting from qualifying assets from the income statement to other comprehensive income. This allows the companies not to show in the income statement any temporary volatilities resulting from the application of IFRS 9 before applying IFRS 17.

The second option applies to companies predominantly engaged in issuing insurance contracts that fall within the scope of IFRS 4. These companies can postpone the adoption of IFRS 9 until no later than 1 January 2021 and can continue to apply IAS 39 until that date (temporary exemption approach).

Amendments to IAS 40: Transfers of Investment Property

On 8 December 2016, the IASB issued an amendment to IAS 40 "Investment Property".

The reason for the amendment was the definitive list included in IAS 40 to date of circumstances where a reclassification to or from investment properties is permissible. Based on the wording of the standard, reclassification was only permissible in the cases explicitly listed, meaning that it was not clear for example whether a property under construction or under development could be reclassified from inventories (IAS 2 "Inventories") to investment properties if there was evidence of a change of use. The clarifications provided mean that the list which was exhaustive in the past is now a non-exhaustive list of examples. This means that reclassification must take place if there is corresponding evidence (e.g. conclusion of a rental agreement).

Note: A change of use exists only if the property no longer meets the definition of an investment property. Therefore, a mere change in the intentions of management in relation to the use of the property is not sufficient.

Annual Improvements to IFRSs (2014-2016 Cycle) – Amendments to IFRS 1, IFRS 12 and IAS 28

On 8 December 2016, the IASB issued the Annual Improvements to IFRS (2014-2016 Cycle), which relate to three IFRS standards. The amendments to IFRS 12 were already effective for reporting periods beginning on or after 1 January 2017. By contrast, the amendments to

IFRS 1 and IAS 28 are not subject to mandatory adoption until reporting periods beginning on or after 1 January 2018.

IFRS 1 "First-time Adoption of International Financial Reporting Standards"

Essentially, the short-term exemptions for first-time adopters were deleted, because these have become obsolete over time.

IAS 28: "Investments in Associates and Joint Ventures"

IAS 28 provides an option regarding the measurement of certain investments. According to that option, investments can be measured using the equity method or at fair value through profit or loss (FVTPL). In the past it was unclear whether the fair value option should be based on the respective investment (investment-by-investment choice) or on a consistent policy choice. The amendment clarifies that the option to measure an investment in an associate or joint venture held by a venture capital organization or other qualifying entity can be elected on an investment-by-investment basis.

IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

On 8 December 2016, the IASB issued IFRIC 22 "Foreign Currency Transactions and Advance Consideration". The interpretation contains guidance on determining the exchange rate in foreign currency transactions pursuant to IAS 21 "The Effects of Changes in Foreign Exchange Rates" and for foreign currency transactions where advance consideration is paid (non-monetary items).

The interpretation states that the relevant date for determining the exchange rate for payments in advance received or made is the earlier of the following two dates:

- Date of initial recognition of the non-monetary prepayment asset or non-monetary deferred income liability
- Date that the asset, expense or income (or part of it) is recognized in the statement of financial position or income statement.

Currency translation differences between the date of payment and the date on which the performance obligation is fulfilled must be recognized as an exchange gain/loss.

Note: IFRIC 22 is relevant for the construction industry in particular, as regular advance payments are made in that industry for long-term construction contracts.

New or amended standards and interpretations not applied (IAS 8.30)

According to IAS 8.30, standards or interpretations already issued by the IASB must be disclosed if they are not yet subject to mandatory application in the reporting period and were not early adopted.

For example, the following disclosures are required in the notes:

- Title of the new standard or new interpretation
- Nature of the impending change in accounting policy
- Date by which application of the standard or interpretation is required
- Date as at which the company plans to apply the standard or interpretation
- Expected impact on the financial statements or, if that impact is not known or reasonably estimable, a statement to that effect.

Note: The following table provides an overview of rules under IAS 8.30 that potentially require disclosure in IFRS consolidated financial statements prepared in the EU as of 31 December 2018. A distinction is made between standards that have been endorsed in the EU (if applicable by means of early voluntary adoption) and those that have not yet been endorsed in the EU. In addition, a general assessment in terms of their effect on accounting practice is provided. Standards and interpretations of fundamental significance as well as those that are expected to have an impact on the financial statements should be discussed in the notes. It is not necessary to provide a full presentation of the new or amended standards and interpretations not applied.

If several new standards or new interpretations will not have a material effect on a company, a wording can be used that neither describes nor lists the corresponding standards and interpretations without a material effect. For example, this could take the form of a general statement that, apart from the standards and interpretations described in detail, the other standards and interpretations issued by the IASB are not expected to have a material effect on the consolidated financial statements. In addition, the company can make a general statement when applying the standard or interpretation that early adoption of the new standard or interpretation is not planned.

Standard	Title	IASB effective date*	Expected date of first-time application in the EU*	Effect**
EU endorsement completed by 30 November 2018				
Amend. IFRS 9	Prepayment Features with Negative Compensation	1 January 2019	1 January 2019	Industry-specific or company-specific significance
IFRS 16	Leases	1 January 2019	1 January 2019	Fundamental significance
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019	1 January 2019	Industry-specific or company-specific significance
EU endorsement still outstanding (as of 30 November 2018)				
IFRS 17	Insurance Contracts	1 January 2021	Pending	Industry-specific or company-specific significance
Annual Improvements to IFRSs (2015-2017 Cycle)	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	1 January 2019	1 January 2019	Industry-specific or company-specific significance
Amend. IAS 28	Foreign Currency Transactions and Advance Consideration	1 January 2019	1 January 2019	Industry-specific or company-specific significance
Amend. IAS 19	Employee Benefits: Plan Amendment, Curtailment or Settlement	1 January 2019	1 January 2019	Industry-specific or company-specific significance
Amend. to References to the Conceptual	Updating of the references to the IFRS Conceptual Framework	1 January 2020	1 January 2020	Fundamental significance
Framework in IFRS Standards??				
Amend. IFRS 3	Definition of a Business	1 January 2020	1 January 2020	Industry-specific or company-specific significance
Amend. IAS 1 and IAS 8	Definition of Material	1 January 2020	1 January 2020	Fundamental significance

* For financial statements for annual periods beginning on or after this date.
** The general assessment in terms of effects on accounting practice serves as a guide – the individual effects on the individual company must be explained separately.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

On 12 October 2017, the IASB published amendments to IFRS 9 "Prepayment Features with Negative Compensation" concerning limited adjustments to the assessment of the classification of financial assets with certain prepayment features.

The amendments clarify that financial assets that feature contractual cash flows – without the negative prepayment feature – that are solely payments of principal and interest satisfy the cash flow condition. This means that they can be recognized at amortized cost or fair value through other comprehensive income. The prerequisite is that the prepayment amount constitutes reasonable compensation.

The amendments also concern symmetric termination rights that can lead to settlement either of an early repayment penalty or an early repayment gain, depending on the interest rate prevailing at the time of early repayment. In principle, the cash flow condition is not met if the lender has to pay a compensation payment when the borrower terminates the contract. The amendment clarifies that the cash flow condition is still met even in the case of negative compensation payments, so that measurement at amortized cost is possible.

In terms of the modification of financial liabilities, the amendment clarifies that, in the case of a restructuring of financial liabilities that does not result in their derecognition, the carrying amounts must be adjusted directly in profit or loss. In cases where only the effective interest rate was adjusted instead of amortized cost, the accounting may in future have to be adjusted with retrospective effect.

IFRS 16 "Leases"

With IFRS 16 "Leases", the IASB published a new standard on accounting for leases on 13 January 2016. IFRS 16 replaces IAS 17 "Leases" as well as the related interpretations. Based on the new single-model approach, the lessee will have to recognize assets and liabilities for most leases in the statement of financial position. While the lessee no longer has to distinguish between operating leases and finance leases, this distinction will remain in place for lessors.

The new standard defines a lease as a contract that conveys the right to use (in the sense of control) an identified asset ("right of use") for an agreed period of time in exchange for consideration. The leased asset must be identifiable and the lessee must be able to control it.

Initial measurement at the lessee:
For all leases, the lessee recognizes a right-of-use asset and a lease liability on the date on which the lessor provides the right to use to the asset to the lessee.

The lessee must recognize the lease liability at the present value of the future lease payments at the inception of the lease. The lease payments are made up of the following components:

- fixed lease payments,
- variable lease payments that depend on an index or a rate,
- amounts expected to be payable under residual value guarantees,
- exercise price of a purchase option if it is reasonably certain to be exercised,
- penalties for premature contract termination if the lease term reflects the lessee exercising an option to terminate the lease.

The interest rate implicit in the lease or the lessee's incremental borrowing rate must be used for measurement.

At the commencement date, the lessee must measure the right of use at cost, which comprises the following components:

- the amount of the initial measurement of the lease liability,
- any lease payments made at or before the commencement date, less any lease incentives received by the lessee,
- any initial direct costs incurred by the lessee.

Subsequent measurement
Subsequent measurement of the lease liability is carried out using the effective interest method in accordance with the rules for financial instruments in IFRS 9, i.e. the carrying amount of the lease liability is increased using the interest rate used for discounting and reduced to reflect the lease payments made. This results in a declining balance of interest.

The right of use is amortized over the shorter of the useful life or the contractual term in line with the rules for intangible assets.

Write-downs on the asset and interest on the liability are presented separately in the income statement. Accounting conveniences are provided for short-term leases (contractual term of less than 12 months) and leases for which the underlying asset is of low value (generally a new value of USD 5,000).

Disclosures in the notes
Extensive qualitative and quantitative disclosures must be made in the notes to the financial statements that provide a basis for users to assess the amount, timing as well as uncertainties in relation to leases.

Transitional rules
Upon initial application, there is an option not to have to reassess whether an existing lease contract is or contains a lease as defined by IFRS 16. If this option is used, only contracts that fell under the scope of IAS 17 and IFRIC 4 in the past are accounted for in accordance with IFRS 16. Use of this option must be disclosed in the notes.

In addition, the lessee can choose between full retrospective application and modified retrospective application of the standard.

Note: The picture on the lessee's statement of financial position will change materially on account of the on-balance-sheet reporting. The debt/equity ratio will increase and the equity ratio will decrease, which can also impact on existing covenants in loan agreements. At the same time, the changed disclosure in the income statement can affect earnings figures. In the past, the lease expenses for operating leases were included in EBIT, but in the future these will be divided between interest expenses and EBIT. Furthermore, the effect of the earlier recognition of expenses on account of the new accounting model should not be underestimated.

Lessor accounting
Under IFRS 16, there are only minor changes in lessor accounting and measurement. The leases continue to be classified either as operating leases or finance leases. It should, however, be noted that the changed definition of a lease also applies to the lessor. This can lead to a differing assessment from that under IAS 17.

Note: The conceptual separation between lessee accounting and lessor accounting can lead to both the lessee and the lessor recognizing an asset and a lease liability.

IFRIC 23 "Uncertainty over Income Tax Treatments"

On 7 June 2017, the IASB published IFRIC 23 "Uncertainty over Income Tax Treatments" developed by the IFRS Interpretations Committee.

The background to the development of the interpretation was that the Committee found deviations in practice in relation to the recognition and measurement of current income taxes, deferred tax assets and liabilities, as defined in IAS 12.5.

The interpretation provides guidance on taxable profits and losses, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 "Income Taxes".

For example, the interpretation provides the following guidance:

- A reporting entity can use its discretion to determine whether to consider uncertain tax treatments (e.g. regarding tax-allowed depreciation and/or tax-free income) separately or jointly. This decision should be based on its expected acceptance by the tax authorities.
- When determining the relevant income tax parameters, the entity must assess whether it is probable that the corresponding tax authorities will accept the respective tax treatment the entity has used or plans to use in the income tax returns.
- If it is probable that the tax treatment will not be accepted, the most likely amount or the expected value must be recognized, depending on which method better predicts the resolution of the uncertainty. It must be assumed that the tax authorities are fully informed of the matters and the uncertainty.

Note: The scope of IFRIC 23 is limited to the area of income taxes in this regard. Taking into account uncertainties for other tax types is still covered by the rules in IAS 37.

IFRS 17 "Insurance Contracts"

On 18 May 2017, the IASB published IFRS 17 "Insurance Contracts", which is to replace IFRS 4 "Insurance Contracts". The objective of the new standard is, by means of consistent and principles-based financial reporting, to provide relevant information for users of financial statements and to ensure uniform presentation and measurement of insurance contracts. The new recognition, measurement and presentation rules must be applied by companies with:

- insurance contracts and reinsurance contracts it issues,
- reinsurance contracts it holds, and
- investment contracts with discretionary participation features that a company issues, provided the company also issues insurance contracts.

If the primary purpose of a contract that meets the definition of an insurance contract under IFRS 17 is the provision of services for a fixed fee, IFRS 15 "Revenue from Contracts with Customers" can be used for the financial reporting instead of IFRS 17.

Annual Improvements to IFRSs (2015-2017 Cycle) – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

On 12 December 2017, the IASB issued the Annual Improvements to IFRS (2015-2017). The amendments relate to the following IFRS standards:

- **IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangements"**
  The amendments relate to the measurement of interests held in a business. According to IFRS 3, when an entity obtains control of a business that so far was a joint operation, it must remeasure previously held assets and liabilities in that business. However, when an entity obtains joint control of a business that is a joint

control of a business that is a joint operation, pursuant to IFRS 11 the entity does not remeasure previously held interests in that business.

- **IAS 12 "Income Taxes"**
  The amendments clarify that the requirements in IAS 12.52B to recognize the income tax consequences of dividends apply to all income tax consequences of dividends. Recognition in profit or loss must take place at the time when the obligation to distribute a dividend is recognized.
- **IAS 23 "Borrowing Costs"**
  The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally. The prerequisite is that the debt capital must have originally been borrowed specifically for the procurement of the qualifying asset.

Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" regarding the scope of IFRS 9

On 12 October 2017, the IASB published amendments to IAS 28 that contain clarifications regarding which investments fall within the scope of IFRS 9 "Financial Instruments". These more recently separate and narrow-scope amendments were still included in the draft "Annual Improvements to IFRSs (2015-2017 Cycle)" until May 2017.

The amendments now clarify for long-term interests that IFRS 9 only applies to net investments in associates or joint ventures if they are not measured using the equity method. The application of IFRS 9 to such investments relates not only to classification and measurement but also to impairment rules.

The amendments apply to reporting periods beginning on or after 1 January 2019; voluntary early adoption is permitted. This allows entities to implement the amendments to IAS 28 together with IFRS 9 as of 1 January 2018.

Amendments to IAS 19 "Employee Benefits" regarding plan amendments, curtailments or settlements

On 7 February 2018, the IASB issued amendments to IAS 19 regarding plan amendments, curtailments or settlements to be applied prospectively to annual periods beginning on or after 1 January 2019.

The amendments aim to ensure uniform accounting practice regarding the effects of plan amendments on current service cost and net interest. They clarify that if a defined benefit pension plan amendment, curtailment or settlement occurs during the year, the current service cost and the net interest must be remeasured using the current actuarial assumptions for the current period. These form the basis for remeasurement of the net liability (asset).

In addition, the effects of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling are set out in more detail.

Updating of the references to the Conceptual Framework

On 29 March 2018, the IASB issued the revised Framework. The amendments include revised definitions of an asset and a liability as well as new guidance on measurement and derecognition, presentation and disclosure. The new Conceptual Framework focuses on topics that were not yet covered or that showed obvious shortcomings; therefore, no substantial revision took place.

We have summarized the main changes in Chapters 1 to 7 for you below. There were no changes to Chapter 8.

Chapter 1 – The objective of general purpose financial reporting
The objective of general purpose financial reporting is to provide key financial information that is useful to existing and potential investors, lenders and other creditors in making decisions. The IASB emphasizes that the information can also help users to assess management's stewardship of the entity's economic resources.

Chapter 2 – Qualitative characteristics of useful financial information
Useful financial information is mainly characterized by the criteria of relevance and faithful representation. In line with the principle of cost constraint, the benefit from the respective information should be greater than the cost of providing or using that information. The IASB also included new comments in this regard.

Chapter 3 – Financial statements and the reporting entity
The term "reporting entity" is redefined as the smallest entity that is required, or chooses, to prepare financial statements. It is furthermore emphasized that consolidated financial statements are more likely to provide useful information to users of financial statements than unconsolidated financial statements.

Chapter 4 – The elements of financial statements
The definitions of assets, liabilities, equity, income and expenses as well as of the term "economic resources" were revised and set out in more detail.

Chapter 5 – Recognition and derecognition
The term "income statement" is introduced as the presentation of items that meet the definitions of income or expenses. The disclosure criteria were also revised, and the criterion of a probable inflow or outflow or economic benefits was replaced with the aspect of measurement

uncertainty as a component of the relevance criterion.

Chapter 6 – Measurement
The assessment of the advantages and disadvantages of the measurement bases now also includes the measurement of current cost. The newly introduced term "current cost" describes the replacement costs for an equivalent asset or an equivalent liability comprising the value of the consideration as well as transaction costs as of the measurement date.

Chapter 7 – Presentation and disclosure
The changes clarify that the statement of profit or loss (income statement) is the primary source of information about an entity's financial performance and that only in exceptional circumstances may income or expenses be included in other comprehensive income.

Note: The IASB is using the revised Conceptual Framework with immediate effect. For companies, it is effective for annual periods beginning on or after 1 January 2020.

Amendments to IFRS 3: Definition of a Business

On 22 October 2018, the IASB published narrow-scope amendments to IFRS 3 that contain clarification of whether an entity has acquired a business or a group of assets.

The amendments concern the definitions in Appendix A, the application guidance for IFRS 3 and illustrative examples:

- Acquired activities and assets only constitute a business if they include at least one input and a significant process that together can contribute significantly to creating an output.
- The definition of a business is refined, with a focus on the provision of goods and services for customers.
- Examples and guidance were supplemented in order to determine if a significant process was acquired.
- Notes have been added to simplify the assessment of whether acquired activities and assets do not constitute a business.

The amendments are applicable to business combinations with an acquisition date on or after 1 January 2020 (where the reporting period is the calendar year); voluntary early adoption is permitted.

Amendments to IAS 1 and IAS 8: Definition of Material

On 31 October 2018, the IASB issued "Definition of Material (Amendments to IAS 1 and IAS 8)", which changed the definition of "material" as follows:

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

The reasons for the changed definition are as follows:

- "could reasonably be expected to influence":
  This addition should serve to limit the disclosures and not require too much information.
- "obscuring":
  The addition "obscuring material information" stemmed from the opinion that this could have similar effects as omitting or misstating material information.
- "primary users":
  Because the existing definition only referred to "users" and this term was open to interpretation, the Board listed examples of primary users.

Note: The amendments apply to reporting periods beginning on or after 1 January 2020; voluntary early adoption is permitted. During first-time application, the amendments must be applied prospectively. To provide support in determining materiality, the IASB issued a practice statement "Making Materiality Judgements" back in September 2017.

EU Endorsement

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 1 January 2018. These are based on the EU Endorsement Status Report issued by EFRAG on **2 November 2018.**

Standard	IASB entry into force	EU endorsement expected
IFRS 17: Insurance Contracts (18 May 2017)	1 January 2021	Pending
IFRIC 22: Foreign Currency Transactions and Advance Consideration (8 December 2016)	1 January 2018	28 March 2018
IFRIC 23: Uncertainty over Income Tax Treatments (7 June 2017)	1 January 2019	23 October 2018
Amendments to standards		
IFRS 2: Classification and Measurement of Share-based Payment Transactions (20 June 2016)	1 January 2018	26 February 2018
Annual Improvements to IFRSs (2014-2016 Cycle) (8 December 2016)	1 January 2018 1 January 2017	7 February 2018
IAS 40: Classification of Property Under Construction (8 December 2016)	1 January 2018	14 March 2018
IFRS 9: Prepayment Features with Negative Compensation (12 October 2017)	1 January 2019	22 March 2018
IAS 28: Investments in Associates and Joint Ventures (12 October 2017)	1 January 2019	2018
Annual Improvements to IFRSs (2015-2017 Cycle) (12 December 2017)	1 January 2019	2018
IAS 19: Employee Benefits: Plan Amendment, Curtailment or Settlement (7 February 2018)	1 January 2019	2018
Updating of the references to the Conceptual Framework (29 March 2018)	1 January 2020	2019
IFRS 3: Definition of a Business (22 October 2018)	1 January 2020	2019
IAS 1 and IAS 8: Definition of Material (31 October 2018)	1 January 2020	2019

ESMA

ESMA: Enforcement decisions published

The national European enforcers audit the financial statements of companies with securities traded on a regulated market in Europe or in the process of admission to the market. The financial statements are prepared in accordance with the IFRSs and reviewed to determine the extent to which they comply with the IFRSs and other applicable reporting requirements, including the authoritative national legal requirements.

ESMA has developed a confidential database of enforcement decisions made by the individual European enforcers as a source of information in order to promote the appropriate application of IFRSs and thus provide companies using IFRS and their auditors with insights into the decision-making process of the European enforcers.

The following overview shows the most recent publications (the twenty-first to the end of November 2018). The publications are available on the ESMA website.

Standard affected	Overview of matter	EU endorsement expected
IFRS 5	Classification of asset that is not expected to be sold within one year	Decision ref EECS/0118-01
IAS 7	Presentation and disclosure of restricted cash balances	Decision ref EECS/0118-02
IAS 32	Perpetual notes classified as liabilities	Decision ref EECS/0118-03
IAS 1, IAS 36	Disclosure of quantitative commodity price assumptions that have significant risk of resulting in material adjustments to carrying amounts	Decision ref EECS/0118-04
IFRS 3, IFRS 13, IAS 38	Purchase price allocation of a group of acquired assets	Decision ref EECS/0118-05
IFRIC 17	Demerger and distribution of a segment to the issuer's shareholders	Decision ref EECS/0118-06
IAS1	Presentation of revaluation losses of assets used in operating activities	Decision ref EECS/0118-07
IFRS 10	Obtaining power over an investee following a tender offer	Decision ref EECS/0118-08
IAS 8, IAS 21, IAS 29	Lack of foreign currency exchangeability and hyperinflation	Decision ref EECS/0118-09
IAS 38	Amortisation of content rights for films and television programmes	Decision ref EECS/0118-10

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