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Recent IFRS Considerations – Where Do We Go Next?

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D&Co IFRS update



Agenda

IFRS

- **Where have we been?**
- **Where are we now?**
- **Where are we going?**

Guy's beverage analysis series

Guy's Beverage benchmarks

Workout – *Beer / Wine*



Mental gymnastics – *Scotch*



Workout / mental gymnastics - *Tequila*



Where have we been - IFRS 15

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

IFRS 15 – a new way of thinking

- Recognize revenue upon a transfer of control of a good or service
- Principles based, but there is a lot of prescriptive guidance

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 Impact

- Lots of analysis for companies with revenues
- Significant impact on telecommunications industry
- Overall 2% effect

Guy's Beverage ranking

- 2 beers or 2 glasses of wine
- Both?



Where have we been - IFRS 9

Financial Instruments

- Effective for years commencing on or after January 1, 2018
- Uses a business model test for assets (classifications based on how managed)
- Affects long term loans, equity investments, non-vanilla financial assets and hedging
- Side effects – disclosure requirements, earlier receivable impairments, more effect on P&L

IFRS 9 – Asset classification

- Now 2.5 classifications for financial assets
 1. Amortized cost - SPPI
 2. Amortized costs and for sale – SPPI and for sale
 3. Fair value

IFRS 9 – Overall effect

- Additional disclosure and new thought process for receivables (Expected Credit Loss model or “ECL”)
- Still levels of complexity for compound receivables

IFRS 9 Impact

- Based on our client base - effect has been minimal
- Lots of effort for understanding
- Changeover in disclosure

Guy's Beverage ranking

- 2 beers or 2 glasses of wine



- 2 scotches



Where are we – IFRS 16 Leases

- 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 – practical expedient
- one lease model for Lessees

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

- Practical expedient for short term immaterial leases (which should be disclosed in FS)

IFRS 16 – Contracts

IFRS 16.9

At inception of a contract, an entity shall assess whether the contract is, or contains, a lease...

...if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 – Identification considerations

- There is an identified asset (lessor cannot substitute for their own benefit)
- Right to obtain substantially all of the economic benefits from using the asset
- Right to direct how to use the asset
- Decisions determined during and before the period of use
- Protective rights

IFRS 16 – Lease Measurement

- 1) Lease term
- 2) Lease payments
- 3) Determine Discount rates
- 4) Calculate PV of future lease payments

IFRS 16 – Lease Measurement - Term

- Non-cancellable period together with both:
 - Option to extend if reasonably certain to exercise that option
 - Option to terminate if reasonably certain not to exercise that option

IFRS 16 – Lease Measurement - Payments

- Fixed payments and in-substance (unavoidable) payments
- Variable payments with linked index or rate
- Lease incentives (deduct)
- Purchase option (if exercise expected)
- Termination penalty (if exercise expected)
- Residual guarantees

IFRS 16 – Lease Measurement – Discount Rate

- Use either
 - Interest rate implicit in the lease, if readily determinable, otherwise
 - Incremental borrowing rate for lessee

IFRS 16 – Lease measurement - PV

- NPV based on term, payment amounts and discount rate

IFRS 16 – Right Of Use Asset

Includes:

- Lease liability
- Lease payments before commencement date (less any incentives)
- Initial direct costs
- Decommissioning estimates

IFRS 16 – Reassessment of Liability

Re-measure if there is a change in:

- lease term
- assessment of option to purchase
- amounts payable for residual guarantees
- index or rate related to lease payments

Change is reflected in Lease Liability and the related Right Of Use asset, and likely a P&L effect as well.

IFRS 16 – Lease modifications

- Re-measure
- Account as separate lease if:
 - Lease scope is increased by adding right of use asset(s) and
 - Consideration increases by a commensurate stand-alone price for the increased scope
- If not a separate lease
 - Adjust lease liability and related right of use asset, likely P&L effect

IFRS 16 – Presentation

- **Statement of Financial Position**
 - Right of use assets with offsetting lease liabilities
- **Statement of Operations**
 - Interest expense (using effective interest rate method)
 - Accretion and Depreciation
- **Statement of Cash Flows**
 - Addbacks on non-cash items
 - Principal repayments in financing activities
- New estimates and judgements will be required
- New disclosure requirements including operating leases information

IFRS 16 – Ongoing

Watch for:

- changes in lease terms or estimates
- embedded leases within service contracts
- separate impairment considerations of Right Of Use assets
- Subleases – intermediate lessor
 - Is sublease financing or operating
 - If financing, de-recognition of part of asset but liability has different counterparties

IFRS 16 – Internal Documentation

- You will need to substantiate the assessment of all contracts in the context of the standard
- Create a list of all leases with a summary of terms
- Judgements and estimations are considerable (later topic today)

Guy's Beverage ranking

- 2 beers or 2 glasses of wine
- 2 scotches
- 3 tequila
- Beer chaser (optional)



Where are we now - Narrow scope

Effective January 1, 2019

- **IFRS 9 – Financial Instruments**
 - Prepayment features with negative compensation
- **IFRS 11 – Joint Arrangements**
 - Party obtaining joint control of a business that is a joint operation has no re-measurement of FV

Where are we now - Narrow scope

- **IAS 12 – Income Taxes**
- **IAS 23 – Borrowing Costs**
 - debt outstanding after related asset is ready for use is general borrowing
- **IAS 28 – Long Term Interests in Associates and JV's**

Where are we now - Narrow scope

- **IFRIC 23 – Uncertainty over income tax**
 - If an entity chooses tax treatment that is not probable to be accepted by tax authorities, should recognize the uncertainty in its income tax accounting
 - Detection risk is not considered

Guy's Beverage ranking

- 1 beer or 1 glass of wine



Where are we going - NEW STANDARDS

- None, nil, nada
- 1 beer or 1 glass of wine



Where are we going – Revision to Standards

- IFRS 3 – definition of a business
- IAS 1 / 8 – presentation of financial statements / accounting policies, changes in accounting estimates and errors

Where are we going – Revision to Standards – IFRS 3

IFRS 3 – business combinations

- On or after January 1, 2020 (can early adopt)
- New approach on definition of a business – expect more companies to be accounted for as asset acquisitions
- Reduces measurement complexities – intangibles, contingent consideration, other

Where are we going – Revision to Standards – IFRS 3

- Change evaluation process to include:
 - Inputs (employees [organized workforce] and materials) **and**
 - Processes are substantive
(together these contribute significantly to ability to create outputs)

Where are we going – Revision to Standards – IFRS 3

- No longer consider either:
 - Whether market participants can produce outputs from the inputs and processes
 - Ability to reduce costs
- Optional concentration test
 - Allows scope out to IAS 8 to IAS 16

Where are we going – Revision to Standards – IAS 1 / 8

- Definition of Material – effective January 1, 2020
- “information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users...make...”
- Remove obscuring or confusing disclosure

Guy's Beverage ranking

- 1 beer or 1 glass of wine



Where are we going – Exposure Drafts

Proposed amendments

- IAS 8 Accounting policies and estimates
- IFRS 17 Insurance contracts
- IAS 19 Availability of a refund
- IAS 1 Disclosure of accounting policies
- IAS 12 DIT related to a single transaction
- IFRS 9 Interest rate benchmark reform

Where are we going – Exposure Drafts

- IAS 37 Onerous contracts
- IAS 16 PP&E – proceeds before intended use
- Others

Where are we going – Research Projects

- Extractive industries
- Goodwill and impairment
- Provisions
- Business combinations under common control
- Dynamic risk management (hedges)
- Financial instruments with characteristics of equity
- IBOR reform (replacement for LIBOR)
- Other

Guy's Beverage ranking

Bottle of your choice



Honorable mention - Cannabis

Cannabis Industry

- **Biological assets under IAS 41 requires FV measurement**
- **Revenue recognition under IFRS 15**
- **Differing application of FV changes of biological asset within IS**
- **Differing application of components of cost of sales**
 - No specific guidance
 - FV changes in COGs can result in GP being higher than sales
- **October 17, 2019 Canada legalized edibles**
- **Cross boarder considerations – not legal at federal level in USA**

Honorable mention - Cannabis

A decorative yellow ribbon graphic that starts wide on the left and tapers to the right, with a slight fold or overlap in the middle.

**CPA Canada Cannabis Workgroup
IFRS Discussion Group (“IDG”)**

Honorable mention - Cryptocurrency

Cryptocurrency Industry

- **Not an investment under IFRS 9**
- **Is it an intangible asset (IAS 38) or inventory (IAS 2)**
- **If inventory, lower or cost or NRV OR if meeting broker-trader status then FV less costs to sell**
- **Revenue recognition issues under IFRS 15 for miners – see IDG guidance**

Requires lots of consideration and position papers

Honorable mention - Cryptocurrency

CPA Canada Cryptocurrency Workgroup IFRS Discussion Group (“IDG”)

- IFRIC has put out a tentative agenda decision not to provide further guidance. Canada’s AcSB has provided comments requesting further guidance.

Guy's Beverage ranking

Cannabis industry

- Do beverages need apply?

Cryptocurrency industry

- Hangover warning

Good sources of information

- International Accounting Standards Board (**IASB**) – provides authoritative guidance
- International Financial Reporting Interpretations Committee (**IFRIC**)
- IFRS Discussion Group (**IDG**)
- Communications from regulators such as Canadian Securities Administrators (**CSA**)
- Viewpoints

Recap

- Keep the recent changes in mind (IFRS 9 and 15)
- Know the impact of the current year IFRS 16 implementation
- No new IFRS's today, but lots in consideration
- With respect to Guy's beverage analysis
-Do not drink and drive