IFRS – What's New?

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Amendments and revisions effective Jan 1, 2021

COVID-19 Related Rent Concession

- Practical expedient in determination of lease modifications on rent concessions in that if elected, no assessment of modification is required
- Still need to evaluate the accounting effect of any concession received.

Amendments and revisions effective Jan 1, 2021

IFRS 4, 7, 9, 16 IAS 39 Interest rate benchmark reform: Phase 2

- Replacing one benchmark for another
- In phase 1 LIBOR (London Interbank offered rate) was replaced with IBOR (interbank offered rate)
- In phase 2 there is temporary relief to address change from IBOR to an alternative nearly risk-free interest rate (RFR)

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IFRS 4, 7, 9, 16 IAS 39 Interest rate benchmark reform: Phase 2 (cont'd)

- Requires the transition to take place on an economically equivalent basis with no value occurrence of value transfer
- If changes on transition are significant (like maturity date or credit spread), the instrument is derecognized.
- If changes are not significant, it is considered modified using an updated effective interest rate with any gain or loss recognized in P&L

Amendments and revisions effective Jan 1, 2021

IAS1 Presentation of financial statements

- Clarifies how to classify debt and other liabilities as current or non-current.
- Clarification of a right to defer settlement

Amendments and revisions effective Jan 1, 2021

IAS1 Presentation of financial statements (cont'd)

- The amendments help to determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.
- The amendments also include clarifying the classification requirements for debt an entity might settle by converting it into equity.

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Narrow Scope

IAS 16 Property plant and equipment – Proceeds before intended use

- During the development stage, companies are no longer allowed to deduct revenues from pre-production but rather recognize in profit or loss together with related costs

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IFRS 3 Business Combinations

- Provides an exception to the recognition principal to avoid potential day 2 gains or losses for liabilities and provisional liabilities under IAS 37 (provisions).
- Further, contingent assets are not recognized at the acquisition date

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IAS 37 Provisions, contingent liabilities and contingent assets

- Specifies which costs to include when assessing whether a contract will be onerous or loss-making
- Applies a "directly related cost approach"
- To include incremental costs such as labor and materials, as well as allocation of costs related to the contract activities such as depreciation and supervision.
- G&A costs not directly related to a contract are excluded

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IAS 1 – Presentation of Financial statements

- Significant accounting policies will now be Material accounting policies
- How to apply the concept of materiality (both size and nature)

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IFRS 17 and 4 Insurance contracts deferral of IFRS 9

- Extended to Jan 1, 2023
- Intent is to provide an accounting model that is more useful and consistent for insurers
- Effect will be significant, and expect increased volatility compared to today's reporting

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IFRS 17 and 4 Insurance contracts deferral of IFRS 9

Main points:

- Measurement of present value of future cash flows using an explicit risk adjustment, re-measured every reporting period
- Use of a contractual service margin to be recognized over the coverage period
- Effect of discount rate changes reported through P&L
- Amounts paid to policyholders will not go through P&L but rather on balance sheet
- Extensive disclosure requirements

Amendments and revisions: IAS 16 considerations

Big items:

- Proceeds before intended use of PPE is included in P&L with related COGS
- Change to criteria for timing of meeting intended use – looks to reaching technical and physical performance
- More disclosure requirements
- This will increase both estimates and judgements

Amendments and revisions: IAS 16 considerations (cont'd)

- During development stage, revenue is easy, COGS is not.
- Need to break out development expenditures (costs of making the PPE ready for intended use) from costs associated with production and sales.
- Big estimates and big judgements here, and management will need to implement processes and controls to capture more granular information at an earlier stage than previously required. Document.

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Amendments and revisions: IAS 16 considerations (cont'd)

- For cost of sales, guidance indicates application of IAS 2, Inventory, paragraphs 9 to 33.
- Please note that IAS 2.16, inventory excludes abnormal amounts of wasted materials, labour or production costs.
- Further, under IAS 16 depreciation is not usually charged until the related asset use has commenced.

Amendments and revisions: IAS 16 considerations (cont'd)

- To Test whether asset is functioning properly, an entity needs to assess the technical and physical performance of the asset (no longer applicable to use financial benchmarks) Determine in advance.
- Existing standards require Companies to disclose sale of items that are not part of ordinary activities so can choose to either record as separate line items or disclose in a note
- Does apply retrospectively but only to PPE in development on or after the beginning of the earliest year presented.

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Amendments and revisions: IAS 16 considerations (cont'd)

- Note that when revenues equal expenses, the same result would be determined under the old capitalization rules.
- Judgments need to be clearly documented and will form part of FS disclosure, and estimates will need to be documented and supported.

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Other Audit Considerations

CAS 540 on estimates

- As auditors we need to understand managements processes and controls in developing estimates, including:
  - retrospective review,
  - if specialized skills are needed,
  - risks of error or misstatement,
  - oversight.
- As auditors we assess the design of controls and perform walkthroughs on the implementation of those controls and processes and we audit the calculations and underlying assumptions.
- Do not underestimate the time it will take to assess and detail procedures used in determining estimated amounts.

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Other Audit Considerations

- If there are any Big judgements and Big estimates – get them to us early and ensure these are well documented and supported.
- Do the research, provide the backup.
- Be on time, there are limited resources in the audit stream and any delays may result in delayed filing timelines.
- Key audit matters will be included in all audit reports for years beginning on or after January 1, 2022.

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