

Beyond the GAAP

Mazars' newsletter on accounting standards

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Editorial

Following a November issue that was packed with 'A Closer Look' features, this month's Beyond the GAAP is unusual in not containing any at all. However, our monthly crossword will provide a useful reminder of key issues in IFRS over the 2016 reporting period.

The Beyond the GAAP editorial team would like to wish you all the best for 2017 – a year which, as we have frequently observed over the past twelve months, will involve a lot of hard work on implementing the new accounting standards. We wish you the best of luck for a successful and timely outcome!

Happy reading!

Edouard Fossat

Isabelle Grauer-Gaynor

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Newsletter

IFRS Highlights

IFRIC 22 interpretation published

On 8 December 2016, the IASB published IFRIC 22 – *Foreign Currency Transactions and Advance Consideration*. This interpretation clarifies the accounting treatment of foreign currency transactions, including the payment or receipt of advance consideration. It includes illustrative examples.

The interpretation applies to all foreign currency transactions that meet the following criteria:

- The transaction involves consideration that is denominated or priced in a foreign currency;
- A prepayment asset or deferred income liability is recognised prior to the transaction;
- The prepayment asset or deferred income liability is non-monetary.

According to the new interpretation:

- The transaction date, for the purpose of determining the exchange rate used, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability;
- If there are multiple payments or receipts, the transaction date shall be determined separately for each payment or receipt.

The new interpretation is mandatory for financial periods commencing on or after 1 January 2018. Early application is permitted.

Various transition options are available:

- Retrospective application in accordance with IAS 8;
- Prospective application to all foreign currency assets, liabilities, income and expenses within the scope of the interpretation that are initially recognised on or after the beginning of the reporting period in which the entity first applies the interpretation;
- Prospective application to all foreign currency assets, liabilities, income and expenses within the scope of the interpretation that are initially recognised on or after the beginning of the comparative period presented.

Annual Improvements cycle 2014-2016 published

On 8 December 2016, the IASB published the *Annual Improvements to IFRS Standards 2014-2016 Cycle*. This makes minor changes to the following standards:

- IFRS 1 – *First-time Adoption of International Financial Reporting Standards*: deletion of short-term exemptions that have lapsed.
- IFRS 12 – *Disclosure of Interests in Other Entities*: the disclosure requirements set out in IFRS 12 apply to interests in entities classified as held for sale under IFRS 5, with the exception of paragraphs B10 to B16.
- IAS 28 – *Investments in Associates and Joint Ventures*: the amendment clarifies that a venture capital entity may elect to measure investments in associates or joint ventures at fair value through profit or loss on an investment-by-investment basis, upon initial recognition of the investment.

The amendments to IFRS 1 and IAS 28 become effective for financial periods commencing on or after 1 January 2018 – retrospectively in the case of the amendment to IAS 28. The amendments to IFRS 12 shall be applied retrospectively for financial periods commencing on or after 1 January 2017.

Transfers of Investment Property: IASB issues amendments to IAS 40

On 8 December 2016, the IASB published amendments to IAS 40 – *Investment Property*.

The changes clarify when an entity must transfer a property asset to (or from) the ‘investment property’ category.

Such a transfer shall take place if, and only if, the property meets or ceases to meet the definition of investment property as set out in the standard, and there is evidence of a change in use.

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It should be noted that:

- a change in management's intentions does not in itself constitute a change in use;
- the list of indicators set out in paragraph 57a) to d) has been retained, but is now clearly labelled as non-exhaustive.

The amendments become effective for financial periods commencing on or after 1 January 2018, and early application is permitted.

As regards transition requirements, entities shall apply these amendments to changes in use of property that occur after the beginning of the reporting period in which the entity first applies the amendments.

Retrospective application will be permitted provided that it does not require the use of hindsight.

IOSCO publishes recommendations on implementation of new IFRSs

On 16 December 2016, the International Organization of Securities Commissions (IOSCO) published recommendations on the implementation of the following new accounting standards:

- IFRS 9 – *Financial Instruments*;
- IFRS 15 – *Revenue from Contracts with Customers*; and
- IFRS 16 – *Leases*.

The recommendations make similar points to ESMA's Public Statements on IFRS 9 and IFRS 15 (see *Beyond the GAAP* no. 105 – November 2016 and no. 102 – July-August 2016). The document is available on IOSCO's website via the following link:

<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD548.pdf>

FASB publishes corrections and improvements to revenue standard

On 22 December 2016, the FASB published 13 technical corrections and improvements to Topic 606 – *Revenue from Contracts with Customers*. These amendments primarily arose from the work of the Transition Resource Group (TRG) and relate to the following issues:

- Loan guarantee fees;
- Contract costs – impairment testing;
- Contract costs – interaction of impairment testing with guidance in other topics;
- Provisions for losses on construction-type and production-type contracts;
- Scope of Topic 606;
- Disclosure of remaining performance obligations;
- Disclosure of prior-period performance obligations;
- Contract modifications example;
- Contract asset versus receivable;

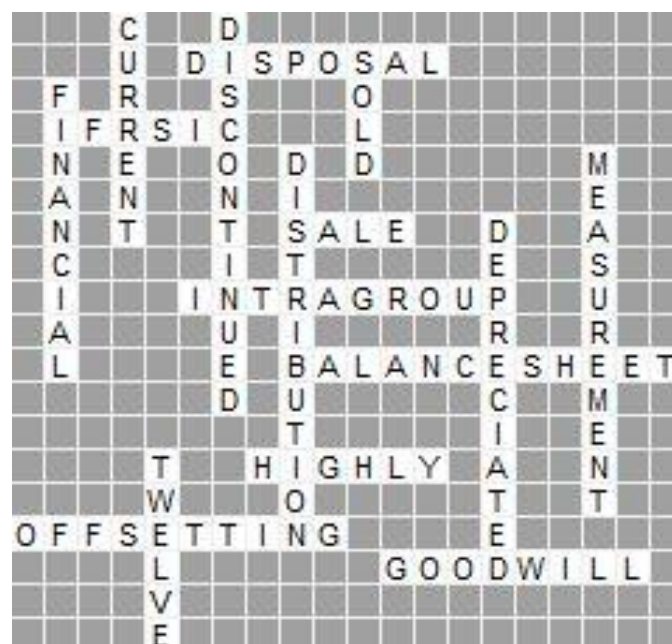
- Refund liability;
- Advertising costs;
- Fixed-odds wagering contracts in the casino industry;
- Cost capitalisation for advisors to private funds and public funds.

The clarifications made by the FASB to the US equivalent of IFRS 15 may also be useful in an IFRS context. However, ESMA reminded issuers, in its Public Statement on the implementation of IFRS 15 (cf. *Beyond the GAAP* no. 102 – July-August 2016), that they should be cautious when using the US clarifications, and should ensure that they are not based on US GAAP principles that are incompatible with IFRSs.

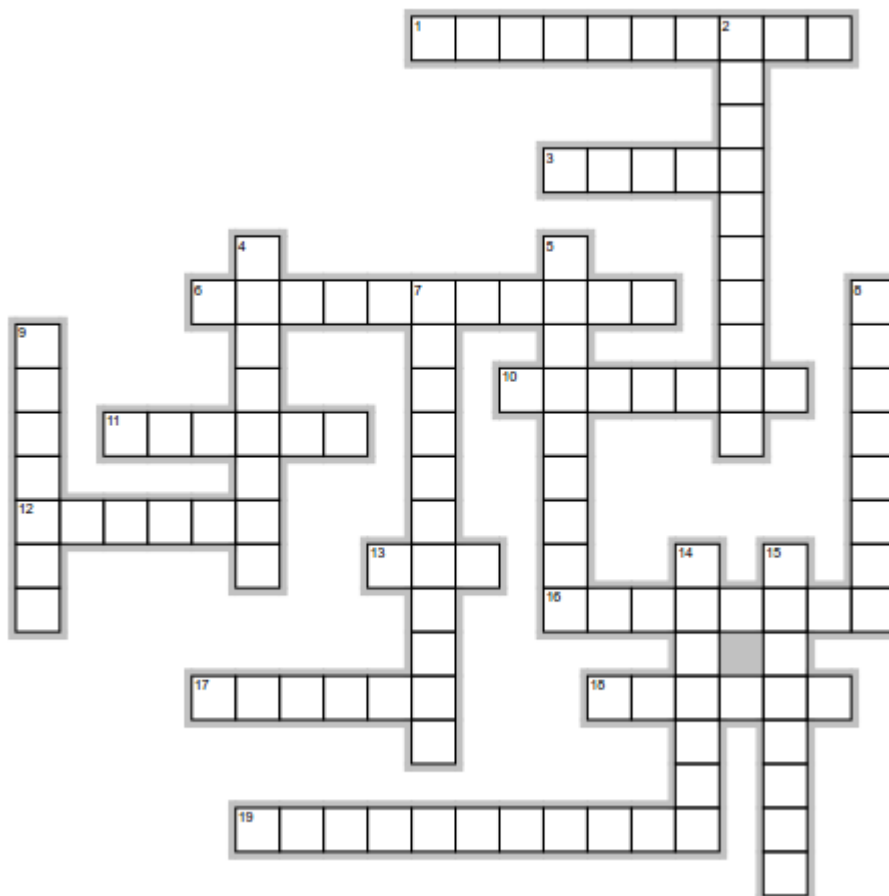
The amendments discussed above are available on the FASB's website via the link below:

http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176168723765&acceptedDisclaimer=true

Crossword: last month's solution



Crossword: Key IFRS issues of 2016



Down:

2. IFRS 5 does not specify how these transactions should be eliminated, and the IFRS IC decided not to provide guidance in January 2016
4. Losses relating to goodwill may not be _____
5. This type of component must be separately identified, according to IFRS 15 and the IFRS IC's decision in May 2016 not to add this issue to its agenda (IAS 2)
7. These costs are not taken into account in the "10 per cent" test used to assess changes in the value of a liability
8. The term for a hypothetical amount used to calculate payments in a swap
9. The Annual Improvements cycle 2010-2012, which became effective for 2016, included an amendment to IFRS 2 relating to these specific conditions
14. The type of consideration covered by the interpretation of IAS 21 published in December 2016
15. One of the issues covered in the amendments to IFRS 15 published in April 2016

Across:

1. Consideration paid to an agent as defined in IFRS 15
3. This is rarely separated from a debt contract, following the IFRS IC's decision in January 2016
6. The low-interest rate environment means it is vital to carry out this type of analysis when measuring entities' assets and liabilities
10. A component of acquisition consideration; any fluctuations in it are reflected only in profit or loss under the revised IFRS 3
11. ESMA has called for improved disclosures on this type of debt instrument
12. Interest received on a debt with a negative coupon (in a low-interest rate environment) is recorded here
13. The acronym for financial measures that are not defined in the reporting framework
16. Residual component of the purchase price in a business combination, the value of which is easier to maintain in the current low-interest rate environment
17. Abbreviation for the UK's exit from the European Union
18. The type of contracts covered by a new standard that becomes mandatory for financial periods commencing on or after 1 January 2019
19. ESMA published guidelines on this type of performance measure for the 2016 year-end

Events and FAQ

Frequently asked questions

IFRS

- Exercise of a lease option and reclassification to inventory.
- Sale of a research tax credit.
- Free shares plan that was approved by the Board of Directors after the information was given to eligible employees.
- Prepayments in foreign currency.
- Partial allocation of goodwill to a discontinued operation.

Upcoming meetings of the IASB, the IFRS Interpretations Committee and EFRAG

IFRS		EFRAG	
IASB	Committee	Board	TEG
18 January	14-15 March	7 February	25-27 January
20-24 February	3 May	16 March	22-24 February
20-24 March	13-14 June	11 April	29-31 March

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