

Beyond the GAAP

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Editorial

The IASB has published amendments to IFRS 15 – *Revenue from Contracts with Customers*, which will have the same effective date as the standard itself, i.e. 1 January 2018. They emerge from the discussions of the Transition Research Group (TRG), which was set up jointly by the IASB and FASB to work on issues relating to implementation of the standard.

As expected, these amendments provide clarification on the concept of distinct goods and services, agent versus principal considerations, accounting for licences of intellectual property, and implementing transition requirements. They do not change the fundamental principles of IFRS 15, and consequently few changes have been made to the body of the standard. The application guidance and illustrative examples have undergone more substantial changes and additions, and a further 40 pages have been added to the Basis for Conclusions.

As it will take some time to assess the full impact of these amendments, readers of Beyond the GAAP will have to wait until next month for an in-depth discussion of the issues. As a result, the IFRS highlights for this month primarily relate to decisions made by the IASB and IFRS IC, as reported in their respective *Updates*.

Enjoy your reading!

Michel Barbet-Massin Edouard Fossat

IFRS Highlights

Limiting the consequences of the different effective dates of IFRS 9 and future IFRS 4: IASB confirms main principles of exposure draft

At its March 2016 meeting, the IASB considered the comment letters received in response to the consultation launched in December 2015 (see Beyond the GAAP no. 95, December 2015, and no. 92, September 2015). It confirmed the main principles set out in the exposure draft, which are as follows:

- Affected entities may choose between two alternative approaches to limit the consequences of the different effective dates of IFRS 9 and the future IFRS 4 (the “overlay approach” and the “deferral approach”);
- An entity is only eligible to use the deferral approach if its main activity is to issue insurance contracts. The analysis of eligibility shall be carried out at the level of the reporting entity: thus, an entity such as a bancassurance group is not permitted to apply the deferral approach to only a part of its business;
- If the publication and mandatory effective date of IFRS 4 are postponed for any reason, entities shall not be permitted to apply the deferral approach for financial periods ending after 31 December 2020.

The IASB will discuss ways of assessing whether an entity's main activity is to issue insurance contracts, and other technical issues, at its April and May meetings. The Board is planning to publish the final version of the amendments in September 2016.

A summary of the IASB's March meeting is available via the following link:

<http://www.ifrs.org/Updates/IASB-Updates/Pages/IASB-Updates.aspx>

IFRS IC clarifies accounting treatment of prepaid cards

The IFRS Interpretations Committee (IFRS IC) received a query regarding how an entity should classify a liability arising from the sale of a “prepaid card” that represents a monetary amount to the cardholder and can be redeemed in exchange for goods or services from a list of specified third-party merchants. The prepaid card is non-refundable and non-exchangeable for cash. The IFRS IC was also asked how an entity should account for any unspent balance on such a card.

The question relates to businesses that sell vouchers for restaurants, holidays or other gifts, which the cardholder may redeem in exchange for goods or services. It does not cover gift cards that are sold by a particular business for use only within its own shops.

In the particular situation discussed by the IFRS IC, the prepaid card had no expiry date.

The IFRS IC concluded that:

- The prepaid card meets the definition of a financial liability for the issuer, as it represents an obligation to deliver cash to the merchants who accepted the card as a means of payment. The entity does not have an unconditional right to avoid this obligation;
- As the obligation arising from the prepaid card is a financial liability, it shall be accounted for in line with IFRS 9 / IAS 39.

This decision was published in IFRIC Update, but the IFRS IC did not discuss the consequences of including prepaid cards within the scope of the *Financial Instruments* standard. In practice, it is our understanding that the financial liability may not be recognised at less than the face value of the card, as the entity could be required to reimburse a merchant immediately. Thus, patterns of card use (and the proportion of cards that are never used) may not be taken into account when measuring the liability. In the situation discussed by the IFRS IC, the issuer would thus have to retain a liability on the balance sheet indefinitely for prepaid cards that had been forgotten, lost or destroyed by the cardholder and that would consequently never be used.

We believe that the IFRS IC's conclusions would apply in the same way to prepaid cards that have an expiry date (like restaurant or gift vouchers). At the date of issue, a financial liability would be recognised at the face value of the voucher. It would then be derecognised either when the cardholder used the card, or at the expiry date.

However, prepaid cards issued as part of customer loyalty programmes do not fall within the scope of the Interpretations Committee's decision.

The March 2016 IFRIC Update is available via the following link:

<https://s3.amazonaws.com/ifrswebcontent/2016/IFRIC/March/IFRIC-Update-March-2016.pdf>

No decision from IFRS IC on the accounting treatment of variable payments to be made for the purchase of assets

The IFRS Interpretations Committee (IFRS IC) received a query regarding the appropriate accounting treatment of variable payments to be made for the purchase of an item of property, plant and equipment or an intangible asset that is not part of a business combination, particularly in situations where the variable payments depend on the buyer's future activity.

The IFRS IC had previously postponed making a decision on this topic until the IASB had discussed the accounting for variable payments within the *Leases* project (IFRS 16).

At its most recent meeting, the IFRS IC noted that:

- During the *Leases* project, the Board did not reach a conclusion on whether or not a liability should be recognised at commencement of the lease, if payments depend on future use of the asset;
- There are other unresolved issues, particularly regarding the accounting treatment of variable payments following purchase of the asset.

The IFRS IC stated in its agenda decision that it was unable to reach a consensus on this issue, and recommended that it

should be addressed by the Board together with other accounting issues relating to variable payments.

The March 2016 IFRIC Update is available via the following link:

<https://s3.amazonaws.com/ifrswebcontent/2016/IFRIC/March/IFRIC-Update-March-2016.pdf>

Use of IFRS as % of GDP is limited by two large jurisdictions that do not permit use of IFRS

On 17 March 2016, the IFRS Foundation published its breakdown of the use of IFRS around the world, as a percentage of world Gross Domestic Product (GDP).

According to its analysis, jurisdictions that require IFRS for all Publicly Accountable Entities (PAEs) represent nearly 50% of world GDP. Jurisdictions that permit the use of IFRS for at least some PAEs account for a further 10%.

Jurisdictions that do not permit the use of IFRS for any domestic PAEs represent 39% of world GDP. China and the United States account for 94% of this.

The analysis is available online here:

<http://www.ifrs.org/Use-around-the-world/Pages/GDP-of-profiled-jurisdictions.aspx>

European Highlights

ESMA publishes report on European enforcers' activities in 2015

On 29 March 2016, ESMA published its report on the activities of financial reporting enforcers in the European Union in 2015.

In the report, ESMA focuses particularly on enforcement of financial information by national regulators. ESMA states that enforcers reviewed the (interim or annual) financial statements of around 1,200 issuers (around 20% of all IFRS issuers with securities listed on regulated markets in the EU). Actions were taken against 273 of these issuers (25% of those reviewed), primarily due to deficiencies in the presentation of financial statements, impairment of non-financial assets and accounting for financial instruments.

ESMA also notes that enforcers carried out a more focused assessment of the extent to which IFRS financial statements complied with the 2014 Enforcement Priorities. ESMA states

that enforcers examined the financial statements of 189 European issuers and took actions against 40 of them (21% of the sample) due to shortcomings in the disclosures of assumptions and judgements relating to:

- recognition, measurement and presentation of deferred tax assets arising from tax losses;
- assessment of control in the absence of a majority equity interest or a majority of voting rights; and
- classification of joint arrangements.

The report is available from ESMA's website via the following link:

<https://www.esma.europa.eu/document/esma-report-enforcement-and-regulatory-activities-accounting-enforcers-in-2015>

Events and FAQ

Frequently asked questions

IFRS

- Goodwill in foreign currencies: the interaction between IAS 21 and IAS 36
- “Software as a service” contracts and IFRS 16 in lessees’ accounts
- Acquisition of convertible debt with call and put options
- Deconsolidation of shell corporations.

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

IFRS		EFRAG	
IASB	Committee	Board	TEG
19-21 April	10 May	13 May i	27-29 April
16-20 May	12 July	16 june	25-27 May
20-24 June	6-7 September	19 July	29 June -1 July

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