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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). As a result, the following provides an overview of the current status 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 2015.

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 of the 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 (see *table 1*) provides an overview of regulations under IAS 8.28 that potentially require disclosure in IFRS consolidated financial statements prepared in the EU as of 31 December 2015 as well as a general assessment in terms of their effect on accounting practice. It is not necessary to list all of the regulations. If necessary, a general wording can be included after the explanation of the new standards and interpretations with 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 2015 do not have any material effect on

the consolidated financial statements.

IFRIC 21 Levies

IFRIC 21 affects companies obliged to pay public levies that are not within the scope of IAS 12. This interpretation clarifies when and at what amount these levies have to be recognized; occurrence of the obligating event is the decisive factor here.

Annual Improvements to IFRSs (2011-2013 Cycle):

IFRS 3 "Business Combinations": The scope of IFRS 3 will be adjusted and will in future exclude, analogously to IFRS 11, the accounting for the formation of all types of joint arrangements.

IFRS 13 "Fair Value Measurement": IFRS 13 provides for portfolios of financial assets and liabilities that are controlled accordingly to also be measured at fair value on a net basis (portfolio exception). The amendment clarifies that the portfolio exception also applies to contracts that do not meet the definitions of financial assets or liabilities in IAS 32 (e.g. commodities). The decisive factor is whether the contracts are classified as financial instruments and accounted for in accordance with IFRS 9 or IAS 39.

IAS 40 "Investment Property": The amendment by the IASB emphasizes that the rules in IFRS 3 and in IAS 40 are equally applicable and are not mutually exclusive. The question of whether the acquisition of one or several investment properties is recognized pursuant to IFRS 3 as the acquisition of an asset, a group of assets or a business must be answered using the criteria in IFRS 3. Separately from this, the criteria in IAS 40 must be used to decide whether the investment property acquired is an owner-occupied property or an investment property.

Standard or interpretation	Title	IASB Effective date*	Date of first-time application in the EU*	Effect**
IFRIC 21	Levies	1 January 2014	17 June 2014	Industry-specific or company-specific significance
Annual Improvements to IFRSs (2011-2013 Cycle)	Amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40	1 July 2014	1 January 2015	Industry-specific or company-specific significance

Table 1

* For financial statements 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.



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 (see *table 2*) provides an overview of regulations under IAS 8.30 that potentially require disclosure in IFRS consolidated financial statements prepared in the EU as of 31 December 2015. 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*	Date of first-time application in the EU*	Effect**
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EU endorsement completed by 31 December 2015

Annual Improvements to IFRSs (2010-2012 Cycle)	Amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16/38 and IFRS 13	1 July 2014	1 February 2015	Industry-specific or company-specific significance
Amend. IAS 19	Defined Benefit Plans: Employee Contributions	1 July 2014	1 February 2015	Industry-specific or company-specific significance
Amend. IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016	1 January 2016	Industry-specific or company-specific significance
Amend. IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	1 January 2016	Industry-specific or company-specific significance
Amend. IAS 16 and IAS 41	Accounting for Bearer Plants	1 January 2016	1 January 2016	Industry-specific or company-specific significance
Annual Improvements to IFRSs (2012-2014 Cycle)	Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34	1 January 2016	1 January 2016	Industry-specific or company-specific significance
Amend. IAS 1	Disclosure Initiative (Amendments to IAS 1)	1 January 2016	1 January 2016	Fundamental significance
Amend. IAS 27	Equity Method in Separate Financial Statements	1 January 2016	1 January 2016	Only for IFRS separate financial statements

Standard	Title	IASB Effective date*	Date of first-time application in the EU*	Effect**
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EU endorsement still outstanding (as of 31 December 2015)

Amend. IFRS 10, IFRS 12 and IAS 28	Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 28)	1 January 2016	1 January 2016	Industry-specific or company-specific significance
Amend. IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	postponed	postponed	Industry-specific or company-specific significance
IFRS 14	Regulatory Deferral Accounts	1 January 2016	No EU endorsement	
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
IFRS 16	Leases	1 January 2019	1 January 2019	Fundamental significance

Table 2

* For financial statements 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.

A director and major shareholder is entitled to demonstrate on the basis of facts and circumstances that he is, nevertheless, in an employment relationship, despite meeting one of the aforementioned four criteria. He will then have to demonstrate that he works in a subordinate position vis-à-vis the company.

Annual Improvements to IFRSs (2010-2012 Cycle):

IFRS 2 “Share-based Payment”: The amendment involves the clarification of the definitions “vesting conditions” and “market conditions” and also adds independent definitions for “performance conditions” and “service conditions”.

Performance conditions must be within the influence of the employee, for example revenue, EBIT or the share price of the company. Service conditions are characterized by the fact that they are linked solely to a certain service period within the company. The breakdown of individual vesting conditions into service conditions, market-related and other performance conditions has an impact on the measurement of a share-based payment.

IFRS 3 “Business Combinations”: Contingent considerations classified as an asset or a liability must be measured at fair value at each reporting date. This subsequent measurement is regardless of whether the contingent consideration is a financial instrument as defined by IFRS 9 or IAS 39 or a non-financial asset or a non-financial liability.

IFRS 8 “Operating Segments”: When aggregating operating segments into one reportable segment, an entity must disclose the judgments made by management when creating the segment. A brief description of the individual aggregated segments is also required in this context. In addition, the total of the reportable segments’ assets must be reconciled to the total assets of the entity only if the segment assets are also reported to management for internal purposes.

IFRS 13 “Fair Value Measurement”: Discounting can continue to be disregarded for short-term receivables and payables as long as the effect of not discounting is immaterial. Despite removing the simplification rule for short-term receivables and payables as part of the introduction of IFRS 13, IAS 8 applies with respect to assessing the general materiality criterion, and discounting can be dispensed with if interest effects are immaterial.

IAS 16/IAS 38 “Property, Plant and Equipment / Intangible Assets”: When an asset is revalued, the change in the gross carrying amount is determined using the same method as the change in the net carrying amount. The accumulated depreciation/amortization is the difference between the gross carrying amount and the net carrying amount.

IAS 24 “Related Party Disclosures”: The amendment extends the group of related parties to include those who provide key management personnel services to the reporting entity or the parent. These persons qualify as related parties even if no other legal or personal relationships exist with the reporting entity.

Amendments to IAS 19 “Defined Benefit Plans: Employee Contributions”

The amendments to IAS 19 clarify how employee contributions or third-party contributions to defined benefit plans are accounted for, with the accounting treatment depending on whether the contributions depend on the number of years of service or not. If the amount of the contributions does not depend on the number of years of service, for example if age is a decisive characteristic for the amount of the contribution, there is an option to either recognize the contributions as a reduction in service cost in the period in which the corresponding service is rendered or to attribute them over the employee’s period of service using the projected unit credit method. If the amount of the contributions does depend on the number of years of service, the contributions must be attributed to the periods of service using the projected unit credit method.

Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”

The amendments clarify that, when acquiring interests in joint operations in which the activity constitutes a business pursuant to IFRS 3, all of the principles on business combinations accounting in IFRS 3 and other IFRSs must be applied as long as they do not conflict with the guidance in IFRS 11.

Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortisation”

The amendment to IAS 16 clarifies that a depreciation method of property, plant and equipment that is based on revenue is not appropriate. The amendment to IAS 38 introduces the rebuttable presumption that revenue is not an appropriate basis for the amortization of intangible

assets. This presumption can be overcome only in the following two cases:

- If the intangible asset can be expressed as a measure of revenue. This would be the case, for example, if the contractual term of a concession to extract natural resources were linked not to a specific period but to the total revenue generated by extracting the natural resources.
- If revenue and the consumption of the economic benefit are highly correlated.

Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"

The amendments to IAS 16 and IAS 41 bring bearer plants used only to create agricultural produce under the scope of IAS 16. Consequently they must be reported in the same way as property, plant and equipment.

Annual Improvements to IFRSs (2012-2014 Cycle)

IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations": The amendment provides for the inclusion of special guidance in IFRS 5 for cases where an entity reclassifies an asset from the 'held for sale' category to the 'held for distribution' category or vice versa. Guidance will also be introduced for cases where 'held for distribution' accounting is ceased.

IFRS 7 "Financial Instruments": Clarification is provided regarding under which conditions the management of a transferred financial instrument is a continuing involvement and thus has to be reported.

Furthermore, the disclosures on offsetting financial assets and financial liabilities do not specifically have to be included in all interim reporting pursuant to IAS 34.

IAS 19 "Employee Benefits": The amendments to IAS 19 relate to determining the discount rate. The planned amendments propose that high-quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability.

IAS 34 "Interim Financial Reporting": Disclosures and information which contrary to IAS 34 are not presented in the interim financial statements themselves but elsewhere in the annual report should include a cross-reference in the interim financial statements.

Amendments to IAS 1 "Disclosure Initiative"

The amendments to IAS 1 "Presentation of Financial Statements" are part of the IASB's Disclosure Initiative, which comprises a range of sub-projects. They contain clarification in particular on the following:

- Assessment of the materiality of disclosures made in the financial statements
- Presentation of additional line items in the statement of financial position and the statement of comprehensive income
- Presentation of the share of the other comprehensive income of associates and joint ventures accounted for using the equity method
- Structure of disclosures made in the notes
- Presentation of significant accounting policies.

In particular the clarification that the materiality concept also applies to disclosures in the notes could streamline the notes considerably.

Amendments to IAS 27 "Equity Method in Separate Financial Statements"

The amendments permit the equity method again as an accounting option for shares in subsidiaries, joint ventures and associates in the separate financial statements of an investor.

Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities"

The amendments serve to clarify issues in relation to applying the exception from the duty to consolidate pursuant to IFRS 10.4 if the parent company meets the definition of an investment entity.

Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

The aim of these amendments was to clarify the recognition of earnings effects from transactions between an investor and its associate or joint venture. The recognition of earnings effects was to depend in future on whether or not a business is transferred. It was originally planned that the clarifications would apply for the first time to annual periods beginning after 31 December 2015. The IASB is now proposing (ED/2015/7) to defer that effective date (1 January 2016) indefinitely. Early application would, however, still be possible. The background to the proposed indefinite deferral of the effective date for mandatory first-time application is that the IASB wishes to examine those types of transactions again as part of the research project on the equity method. Endorsement by the EU was also postponed.

IFRS 14 “Regulatory Deferral Accounts”

The interim standard IFRS 14 offers accounting options for rate-regulated activities for first-time adopters of IFRS. Because of the extremely limited group of users, the European Commission will not propose EU endorsement.

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 introduces a uniform approach for classifying and measuring financial assets. The subsequent measurement of financial assets will in future be based on three categories with different value measures and a different recognition of changes in value. Assets are categorized depending on the contractual cash flows of the instrument as well as the business model in which the instrument is held. For financial liabilities, by contrast, the existing categorization requirements in IAS 39 were largely carried over into IFRS 9. IFRS 9 provides a new impairment model that is based on the expected credit defaults. 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. Furthermore, additional disclosures are required in the notes as a result of IFRS 9.

IFRS 15 “Revenue from Contracts with Customers”

The new standard replaces IAS 18 “Revenue” and IAS 11 “Construction Contracts” as well as the associated interpretations. IFRS 15 sets a comprehensive framework to determine whether, at what amount and at what time revenue is recognized. 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 core principle is implemented using a five-step model. Firstly, the relevant contracts with the customer and the performance obligations therein have to be identified. Revenue is then recognized at the amount of the expected counterperformance

for each separate performance obligation at a point in time or over time. In addition, IFRS 15 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, principal versus agent relationships, bill-and-hold arrangements, consignment arrangements). The scope of disclosures in the notes is also extended. The aim of the new disclosure requirements is to provide information about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

Note: In 2015, ESMA sets out the disclosures in the notes on the possible effects of applying the new IFRS 15 to the financial statements of the company in the period of first-time application as a key audit issue (IAS 8.30).

IFRS 16 “Leases”

Under IFRS 16, the distinction made up to now between operating leases and finance leases will no longer apply with respect to the lessee. For all leases, the lessee recognizes a right of use to an asset and a lease liability. The right of use is amortized over the contractual term in line with the rules for intangible assets. The lease liability is recognized in accordance with the rule for financial instruments pursuant to IAS 39 (or IFRS 9 in future). Write-downs on the asset and interest on the liability are presented separately in the income statement. There are exemptions when accounting for short-term leases and low-value leased assets.

The disclosures in the notes to the financial statements will be extended and should provide a basis for users to assess the amount, timing as well as uncertainties in relation to leases.

For lessors, however, the rules in the new standard are similar to the previous rules in IAS 17. They will continue to classify leases either as a finance lease or an operating lease.

Draft Interpretation DI/2015/1 on taking into account uncertainty over income tax treatments

On 21 October 2015, the IFRS Interpretations Committee (IFRS IC) of the IASB issued the Draft Interpretation DI/2015/1 "Uncertainty over Income Tax Treatments". Uncertainty over income tax treatment arises if the application of the respective tax laws to a certain matter is unclear and thus depends on the interpretation of the respective taxation authority responsible. The IFRS IC was asked when the recognition of a current tax asset is appropriate if tax laws require an entity to make an immediate payment in respect of a disputed amount despite the fact that the entity intends to contest the amount.

The payments made to a tax authority are "certain". It is the "uncertain" final obligations to the tax authority that are relevant here. The reporting entity must consider whether it is probable that the tax authorities will accept the tax treatment chosen by the entity. In doing so, the entity must assume that the tax authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when making those examinations. If an entity assumes that the tax authority responsible will confirm its chosen tax treatment (e.g. original tax returns) subsequently, the resulting amounts are recognized. This can lead to the disclosure of a repayment claim in addition to back taxes. If the entity concludes that the tax authority will not accept the income tax treatment concerned, the entity must take this uncertainty factor into account. The entity must use either the most likely amount or the expected value for measurement purposes. It must choose the value that can guarantee the best prediction accuracy.

The scope of the draft interpretation covers uncertainty over income tax treatment in respect of determining taxable profit, tax bases, unused tax losses and tax credits as well as applicable tax rates.

The draft also deals with the question of whether several uncertain tax matters have to be considered

independently or several matters should be considered collectively. This decision is taken at the discretion of the entity. The entity should choose the approach that provides the better predictions of the resolution of the uncertainty.

This guidance refers solely to the presentation of income tax uncertainties in connection with IAS 12. Uncertainties in relation to capital-based taxes for example are covered by IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Note: A critical consideration of the "uncertain" final obligations must be undertaken as of each reporting date. Assessments by the tax authorities as well as tax assessment notices must be considered particularly critically, based on the local "environment". Contesting a tax assessment notice does not mean that the risk of a different assessment can be considered to be any lower.

The principles presented above are explained in more detail in the examples contained in the draft interpretation. An ASCG survey showed that companies are not expecting any effects or at least any significant effects, as the content of the interpretation is in line with existing accounting practice.

The effective date has not been set yet. Comments on the Draft Interpretation DI/2015/1 had to be submitted to the IFRS IC by 19 January 2016. The draft interpretation can be downloaded from the IASB website.

Draft Interpretation DI/2015/2 on currency translation

On 22 October 2015, the IFRS IC of the IASB issued the Draft Interpretation DI/2015/2 "Foreign Currency Transactions and Advance Considerations". The draft interpretation aims to provide guidance on determining the exchange rate to use when making advance payments (non-monetary items) in transactions denominated in a foreign currency.

In 2014 the IFRS IC received a question about which exchange rate to use when reporting transactions

that are denominated in a foreign currency in accordance with IAS 21 “The Effects of Changes in Foreign Exchange Rates” in cases where a customer makes a payment in advance. The question was based on the following matter: A contract to supply goods/services is concluded in the fiscal year 0 (T0). The payments are to be made in foreign currency. A (part) payment in advance is made in T1. The supply of goods/services takes place in T2. What exchange rate is used for revenue recognition?

- Exchange rate on the date of concluding the contract
- Exchange rate on the date of recognizing the payment in advance
- Exchange rate on the date of revenue recognition.

The draft 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 financial statements.

This principle is explained in the draft interpretation using examples (see Examples 1 and 2).

If the transaction takes place in several stages, the transaction date must be established for each stage. The exchange rate is the spot rate valid on the respective transaction date (see Examples 2 and 3). This method is especially relevant in the following situations:

- Multiple payments or receipts in advance
- Multiple goods to be delivered at different times and/or services rendered over time
- Combination of goods and/or services with some advance payments or receipts and some payments or receipts in arrears .

Note: This draft interpretation is relevant for the construction industry in particular, as regular advance payments are made in that industry for long-term construction-type contracts. The effective date has not been set yet. Comments on the Draft Interpretation DI/2015/2 had to be submitted to the

IFRS IC by 19 January 2016. The draft interpretation can be downloaded from the IASB website.

Example 1:

Purchase of a machine in foreign currency (FC) and payment of the purchase price in advance

- 1 March 20X1: Contract concluded to purchase a machine
- 1 April 20X1: Payment of the full purchase price of FC 1,000
- 15 April 20X1: Delivery of the machine

Accounting treatment

- 1 April 20X1: A non-monetary prepayment asset of FC 1,000 is recognized for the payment of the purchase price using the exchange rate on this date.

15 April 20X1:

- Derecognition of the non-monetary prepayment asset for the amount of the prepayment
- Recognition of the machine at acquisition cost of FC 1,000 using the exchange rate on 1 April 20X1

Example 2:

Multiple payments for revenue recognized at a single point in time

- 1 June 20X2: Contract concluded to deliver goods for a price of FC 100
- 1 August 20X2: Prepayment of FC 40 received
- 1 September 20X2: Delivery of the goods
- 30 September 20X2: Residual payment of FC 60

Accounting treatment

- 1 August 20X2: Recognition of the contract liability for the amount of the prepayment of FC 40 received, currency translation is based on the exchange rate on this date
- 1 September 20X2:
 - Derecognition of the contract liability of FC 40
 - Revenue recognition of FC 100 – it should be noted that FC 40 must be translated using the exchange rate on 1 August 20X2 and FC 60 must be translated using the exchange rate on 1 September 20X2
- Recognition of a receivable of FC 60 using the exchange rate on 1 September 20X2

Example 3:

Service contract over several periods with multiple payments

- 1 May 20X3: Conclusion of a service contract over 6 months from 1 July 20X3.
- 15 June 20X3: Payment of FC 200 made for the months July/August 20X3.
- 31 December 20X3: Payment of FC 400 made for the months September to December 20X3.

Accounting treatment

15 June 20X3: Recognition of the non-monetary prepayment asset of FC 200 received, currency translation is based on the exchange rate on this date.

July/August 20X3:

- Derecognition of the prepayment asset of FC 100 in each month
- Recognition of an expense of FC 100 in each month using the exchange rate on 15 June 20X3.

September/October/November/December 20X3: Recognition of an expense using the spot exchange rate (if applicable the average rate for a month pursuant to IAS 21.22) and recognition of a financial liability in profit or loss until settlement pursuant to IAS 21.28.

Leases – current developments regarding the effective date

The last time the IASB addressed this topic on 20 October 2015 was to examine in detail and make decisions regarding the remaining aspects of lease accounting (“sweep issues”) and especially to determine the effective date for the upcoming lease standard IFRS 16. It was decided that the mandatory effective date of IFRS 16 would be for annual periods beginning on or after 1 January 2019. It was also decided that voluntary early application of IFRS 16 would be permissible if the respective entity also (or already) applied IFRS 15 “Revenue from Contracts with Customers”.

We will report on the new lease standard in detail in the next edition of IFRS Link.

IASB issues Exposure Draft on Annual Improvements to IFRSs 2014-2016 Cycle

On 19 November 2015, the IASB issued Exposure Draft ED/2015/10 on the “Annual Improvements to IFRSs 2014-2016 Cycle”. It contains proposed amendments to three IFRSs as a result of the IASB’s annual suggestions for improvement. The IASB’s suggestions for improvement relate specifically to:

- IFRS 1 First-time Adoption of International Financial Reporting Standards: Deletion of short-term exemptions for first-time adopters (exceptions in E3-E7 of IFRS 1), because they have served their purpose or have become obsolete over time.
- IFRS 12 Disclosure of Interests in Other Entities: Due to the interaction of the disclosure requirements of IFRS 5 and IFRS 12, there was uncertainty regarding whether the disclosure requirements of IFRS 12 (except for B10-B16) also apply to interests that are classified as held for sale, as held for distribution to owners or as discontinued operations. 5A has now been added to IFRS 12, which clarifies that the disclosure requirements of IFRS 12 also apply to interests covered by the scope of IFRS 5.
- IAS 28 Investments in Associates and Joint Ventures
IAS 28.18 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 (FVPL). The question then was whether the FVPL option should be based on the respective investment (investment-by-investment choice) or on a consistent policy choice. The proposed amendment now 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.

Note: The draft does not currently contain any proposed effective date for the amendments. The IASB will set this date as part of its new deliberations. Comments on ED/2015/2 could be submitted to the IASB up until 17 February 2016. The draft can be downloaded from the IASB website.

IASB issues draft on limited amendments to IAS 40

On 19 November 2015, the IASB issued Exposure Draft ED/2015/9 Transfer of Investment Property. The exposure draft contains amendments to IAS 40 Investment Property.

The aim of the planned amendments is to clarify the requirements in IAS 40.57 on transfers to or from investment properties. The background to this amendment is a question received by the IFRS IC regarding the application of IAS 40.57 in the case of investment properties. Specifically, the request asked whether a property under construction or development that was previously classified as inventory could be transferred to investment property when there is evidence of a change in use. The IFRS IC referred the matter to the IASB, which in its meeting in 2015 reached a preliminary decision to make narrowly defined amendments to IAS 40. The amendments were to emphasize that a transfer to or from investment property can only take place if there is a change in use.

The proposed amendments to IAS 40 are:

- IAS 40.57 will be amended to state that an entity can transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. The change in use must mean that the property meets, or ceases to meet, the definition of investment property.
- The list of examples of evidence in IAS 40.57(a) – (d) is presented as a non-exhaustive list.

Note: The draft does not currently contain any proposed effective date for the amendments. However, it proposes that the amendments should be applied retrospectively. Comments on ED/2015/9 can be submitted to the IASB up until 18 March 2016. The draft can be downloaded from the IASB website.

IASB proposes narrowly worded amendments to pension accounting

On 18 June 2015, the IASB issued Exposure Draft ED/2015/5 relating to IAS 19 and IFRIC 14. In the case of plan amendments, curtailments or settlement/availability of a refund from a defined benefit plan, the pension obligations pursuant to IAS 19 must be measured based on updated assumptions. The proposed amendment specifies in this context that

the updated assumptions must also be considered when determining the current service cost as well as the net interest for the following period.

The proposed amendment in IFRIC 14 addresses the question of how the power of disposal of third parties such as trustees can impact possible refunds of pension benefits to the entity. The proposed amendments to IFRIC 14 result from the finding by the IASB that an entity does not necessarily have an unconditional right to the surplus in a pension plan if the pension trustee can use this surplus to increase payments to the plan members or can wind up the plan. Accordingly the entity is not permitted to take the surplus into account when determining any existing net asset. It is assumed that the trustee acts independently of the entity and has obligations only to the plan members.

Note: It was possible to submit comments on the exposure draft to the IASB up until 29 October 2015. This draft is available for download on the IASB website.

IASB issues Exposure Draft on Conceptual Framework

The IASB's Conceptual Framework describes the underlying concepts for use in the preparation of financial statements. It serves as a conceptual basis for the IASB when developing financial reporting standards and clarifying accounting matters that are not dealt with directly in an IAS or IFRS or an interpretation. It provides guidance to IFRS preparers for developing accounting policies and closing existing IFRS/IAS gaps. Since the Conceptual Framework was first issued in 1989, it has remained more or less unchanged. The existing Conceptual Framework has often been criticized in the past for its lack of clarity. Efforts to revise it started as far back as 2004. On 28 May 2015, the IASB issued two exposure drafts:

- ED/2015/3 Conceptual Framework for Financial Reporting with proposed amendments to the Conceptual Framework, and
- ED/2015/4 Updating References to the Conceptual Framework, which provides for follow-up amendments to individual standards and is thus of more of an editorial nature.

The period for comments ended on 26 October 2015.

The proposed revised Conceptual Framework contains eight chapters and covers the following topics:

1. Objective of general purpose financial reporting
This chapter presents the objective of financial reporting as well as the significance of the information provided in order to assess the decisions taken by management concerning company resources. Guidelines on stewardship and their assessment by the users of financial statements information have been included accordingly.
2. Qualitative characteristics of useful financial information
This chapter explicitly introduces the concept of prudence for the first time, i.e. a cautious approach to decisions subject to uncertainty. In addition, the principle of substance over form is given express preference over presentation in accordance with legal form.
3. Financial statements and the reporting entity
This chapter describes the function of the financial statements and introduces suggestions for defining and delimiting the reporting entity.
4. The elements of financial statements
This chapter contains recommendations for revising definitions of assets, liabilities, equity, income and expenses. However, the definitions of liabilities and equity are being revised in a separate project.
5. Recognition and derecognition
This chapter contains a definition of general principles for the recognition and derecognition of assets and liabilities. Three criteria are listed as recognition requirements: relevance, faithful representation and cost constraint. The proposed amendments to the derecognition criteria should lead to a faithful representation of the retained assets and liabilities as well as to a change in the company's assets and liabilities.
6. Measurement
This chapter describes the different measurement bases and the factors to consider when selecting a measurement basis.

7. Presentation and disclosure

This chapter proposes fundamental concepts that determine what information is included in the financial statements and how that information should be presented and disclosed. It also provides guidance on reporting financial performance, including the use of other comprehensive income.

8. Concepts of capital and capital maintenance

No amendments are proposed in this area.

The Conceptual Framework itself does not have any set effective date and will therefore enter into force on the date of its final publication. For the follow-up amendments to the individual standards, the IASB is planning a transitional period of 18 months.

Note: While the revision of the Conceptual Framework is to be welcomed in principle, there is some criticism that major topics are not dealt with, for example the distinction between equity and debt capital. This matter is to be discussed in a separate IASB project. Furthermore, the exposure draft does not yet contain any conceptual basis for delimiting the income statement and other comprehensive income or for the question of which income and expenses are allocated and how this allocation takes place. Reintroduction of the prudence principle is also seen in a critical light. Some IASB members have also contested publication for this and other reasons. A Conceptual Framework that does not deal with all topics may contain shortcomings that undermine its objective.

First-time application of the amendments to IFRS 10 and IAS 28 to be postponed indefinitely

In August 2015, the IASB issued Exposure Draft ED/2015/7 on the amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture". The aim of these amendments was to clarify the recognition of earnings effects from transactions between an investor and its associate or joint venture. The recognition of earnings effects was to depend in future on whether or not a business is transferred.

It was originally planned that the clarifications would apply for the first time to annual periods beginning after 31 December 2015. The IASB is now proposing (ED/2015/7) to defer that effective date indefinitely. Early application would, however, still be possible. The background to the proposed indefinite

deferral of the effective date for mandatory first-time application is that the IASB wishes to examine those types of transactions again as part of the research project on the equity method. The ASCG IFRS Technical Committee has come out against the indefinite deferral of the mandatory effective date, mainly because the amendments have already been approved and published and their content has met with broad agreement.

Note: On 8 September 2015, the European Financial Reporting Advisory Group (EFRAG) had already proposed deferring the process for endorsing the amendments in the EU until the IASB had completed its process of deferring the mandatory effective date. It was possible to submit comments on the exposure draft to the IASB up until 9 October 2015. This draft is available for download on the IASB website.

Other Standard Setters

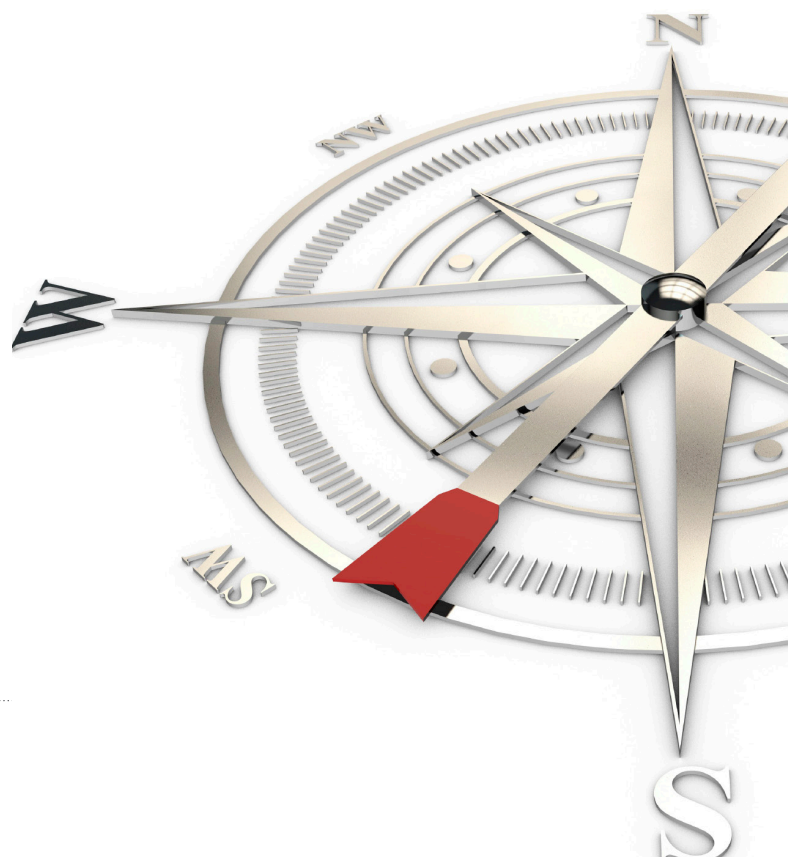
ESMA issues final Guidelines on Alternative Performance Measures

On 3 June 2015, ESMA (European Securities and Markets Authority) issued final Guidelines on Alternative Performance Measures (APM) for issuers listed on the stock exchange. The guidelines must be applied by issuers whose securities are admitted to trading on a regulated market and by persons responsible for the prospectus.

The guidelines are aimed at increasing the transparency and comparability of financial information. APMs are a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. Examples of the most commonly used APMs are EBIT, EBITDA or free cash flow. According to the guidelines, the definitions of all APMs should be issued in a clear and readable way. In addition, the basis of calculation should be explained and meaningful labels should be used for the APMs.

Furthermore, the guidelines call for a reconciliation of the APMs to the most directly reconcilable line item, subtotal or total presented in the financial statements of the corresponding period. Also, the material reconciling items should be identified and explained separately.

Note: The guidelines take effect on 3 July 2016. The Final Report is available for download from the ESMA website. ESMA pronouncements are also relevant for publicly traded companies in Europe.



EU Endorsement

IFRS 9 – EU endorsement recommended

On 15 September 2015, the European Financial Reporting Advisory Group (EFRAG) made a recommendation to the EU Commission to endorse IFRS 9 “Financial Instruments” in the EU. The final version of IFRS 9 was issued by the IASB in July 2014. EFRAG recommends mandatory first-time application of IFRS 9 “Financial Instruments” in the EU for all businesses other than those carrying out insurance activities in annual periods beginning on or after 1 January 2018. Insurance companies should be able to adopt IFRS 9 voluntarily as of that date. It also recommends that all companies be given the option of early first-time application on a voluntary basis.

Note: On 9 December 2015, the IASB issued Exposure Draft ED/2015/11 with proposed amendments to IFRS 4 “Insurance Contracts” designed to address the concerns about the different effective dates of IFRS 9 “Financial Instruments” and the expected new standard on accounting for insurance contracts. According to the exposure draft, insurers should be allowed to defer (initially until 2021) application of IFRS 9 to accounting for their financial instruments on the assets side. The background to this is that there are plans for a whole new standard for the accounting of insurance

provisions on the equity and liabilities side for 2020 or 2021 (revised IFRS 4). Insurers are to change the accounting on the assets and equity and liabilities sides simultaneously by 2021 at the latest.

IFRS 14 will not be endorsed in the EU

On 30 October 2014, EFRAG announced that the European Commission will not propose the interim standard IFRS 14 “Regulatory Deferral Accounts” for endorsement in the EU. The interim standard IFRS 14 offers accounting options for first-time adopters of IFRS. The European Commission has justified its decision with the extremely limited group of users of this standard.

The European Commission will assess the suitability of all future standards on accounting for rate-regulated transactions as part of its normal procedures.

EU Endorsement Status Report

The following table (see *table 3*) contains standards and interpretations that have not yet been adopted by the EU and those that have been adopted since the last edition of IFRS Link. These are based on the EU Endorsement Status Report issued by EFRAG on 29 December 2015.



Standards	IASB entry into force	EU endorsement expected
IFRS 9 Financial Instruments (24 July 2014)	1 January 2018	H1/2016
IFRS 14 Regulatory Deferral Accounts (30 January 2014)	1 January 2016	No endorsement
IFRS 15 Revenue from Contracts with Customers (28 May 2014)	1 January 2017	Q2/2016
Amendments to standards		
IFRS 10, IFRS 12 and IAS 28: Investment Entities - Applying the Consolidation Exception (18 December 2014)	1 January 2016	Q2/2016
IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (11 September 2014)	Deferred indefinitely (ED/2015/7)	Postponed
IAS 27 - Equity Method in Separate Financial Statements (12 August 2014)	1 January 2016	18 December 2015
IAS 1 - Disclosure Initiative (18 December 2014)	1 January 2016	18 December 2015
Annual Improvements to IFRSs 2012-2014 Cycle (25 September 2014) (standards affected: IFRS 5, IFRS 7, IAS 19 and IAS 34)	1 January 2016	18 December 2015
IAS 16 and 41 - Accounting for Bearer Plants (30 June 2014)	1 January 2016	23 November 2015
IAS 16 and 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (12 May 2014)	1 January 2016	2 December 2015
IFRS 11 - Amendments concerning Acquisitions of Interests in Joint Operations (6 May 2014)	1 January 2016	24 November 2015

Table 3

Contact us

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