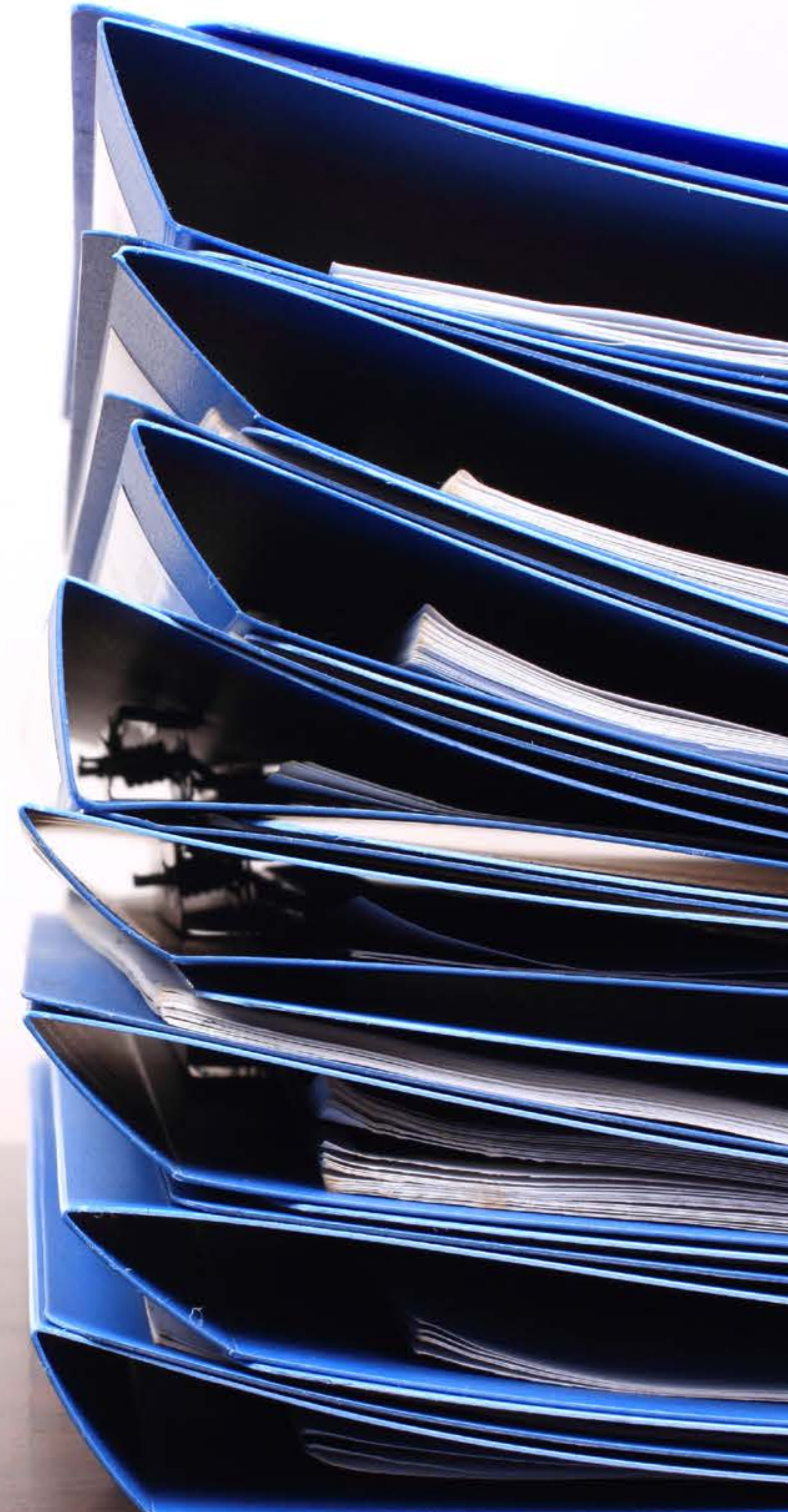
Current Developments: IFRS



September 2017

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Quarterly update

Each quarter, we provide a summary of newly effective and forthcoming standards as well as other accounting and financial reporting developments. This edition covers current developments released prior to September 30, 2017.

What happened this quarter?

In September 2017, the International Accounting Standards Board (IASB) issued two exposure drafts; the first proposes clarifications to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and the second proposes minor amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 on the definition of 'material'.

Additionally, the IASB issued a Materiality Practice Statement which provides non-mandatory guidance on applying materiality in the financial statements.

Year-to-date summary

In the first quarter of 2017, the IASB issued two exposure drafts, Annual Improvements to IFRS Standards 2015-2017 Cycle, which proposes narrow scope amendments to several standards, and Improvements to IFRS 8 *Operating Segments*, which proposes amendments to IFRS 8 and IAS 34 *Interim Financial Reporting*. Additionally, the IASB issued its discussion paper with respect to the *Disclosure Initiative: Principles of Disclosure*.

In the second quarter, the IASB issued IFRS 17 *Insurance Contracts*, effective January 1, 2021 and IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*, effective January 1, 2019. Additionally, the IASB issued two exposure drafts; the first proposes narrow-scope amendments to IFRS 9 for *Prepayment Features with Negative Compensation;* and the second proposes targeted amendments to IAS 16 *Property, Plant and Equipment* to clarify the accounting for sale proceeds before an asset becomes available for use.

As a reminder, the effective dates of three new standards are rapidly approaching: IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* are effective January 1, 2018 and IFRS 16 *Leases* is effective January 1, 2019.

As the effective dates for the standards approach, communication and disclosure of their expected impact on the financial statements are required as per IAS 8 and are expected by investors and regulators.

The level of disclosure is expected to be more reliable and progressively more detailed throughout 2017, with the expectation that the 2017 annual statements will include quantitative and qualitative information about the impact of the application and changes to the amounts reported under current GAAP, specifically for IFRS 9 and IFRS 15.

Current Quarter Financial Reporting Matters

Existing Guidance under Development – Exposure Draft

- Accounting Policies and Accounting Estimates (Proposed Amendments to IAS 8)
- Definition of Material (Proposed Amendments to IAS 1 and IAS 8)

Other Guidance

- Practice Statement 2: Making Materiality Judgements

IFRIC Update

- Interest and Penalties related to Income Taxes

Previous Quarters' Financial Reporting Matters

New Guidance – New IFRSs

- IFRS 17 – *Insurance Contracts*
- IFRS 16 – *Leases*

New Guidance – Amendments to IFRSs

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
- Annual Improvements to IFRSs 2014-2016 Cycle
- Transfer of Investment Property (Amendments to IAS 40)
- Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*

Existing Guidance under Development – Exposure Draft

- *Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)*

IFRIC Updates

- IFRS 9 – Modifications or Exchanges of Financial Liabilities that do not Result in Derecognition
- Foreign Currency Transactions – Advance Consideration (IFRIC Interpretation 22)
- Uncertainty over Income Tax Treatments (IFRIC Interpretation 23)

Other Matters

Looking Ahead

Update on Major Projects

- Update on the Revenue Standard
- Update on Financial Instruments Projects

Amended and new IFRSs effective date

Newly Effective Standards

Standards not yet Effective, but Available for Early Adoption

Standards Available for Optional Adoption

IASB Work Plan

Current Quarter Financial Reporting Matters

Existing Guidance under Development – Exposure Draft

Accounting Policies and Accounting Estimates (Proposed Amendments to IAS 8)

In September 2017, the IASB published an Exposure Draft to clarify how to distinguish accounting policies from accounting estimates as a result of diversity in practice. The distinction is important as IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* has different requirements on how to account for changes in accounting policies, generally retrospectively, and changes in accounting estimates, prospectively.

The proposed amendments would clarify:

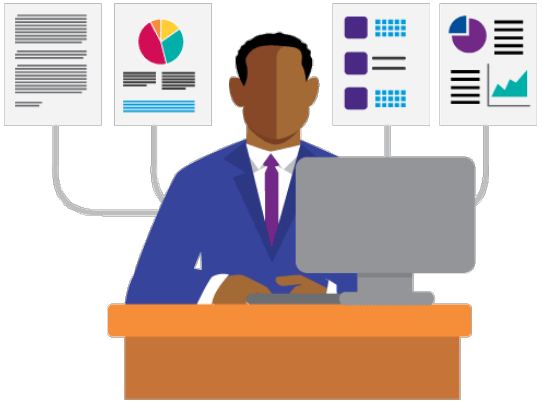
- how accounting policies and accounting estimates relate to each other, by:
  - explaining that accounting estimates are used in applying accounting policies;
  - making the definition of accounting policies clearer and more concise; and
  - providing a definition for accounting estimates: clarifying that they are judgements or assumptions used in applying an accounting policy when, because of estimation uncertainty, an item in the financial statements cannot be measured with precision.

Making an estimate might include either or both of:

- selecting an estimation or valuation technique – e.g. making a best estimate based on the single most likely outcome versus one based on probability weighted outcome;
- choosing the inputs/assumptions to be used when applying the chosen technique – e.g. the probability of each outcome.

Comments are due by January 15, 2018.

For more information refer to KPMG's *web article.*



Definition of Material (Proposed Amendments to IAS 1 and IAS 8)

In September 2017, the IASB published an Exposure Draft proposing minor amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to clarify the definition of 'material' and to improve understanding of the existing requirements.

The proposed amendments refine the definition of material and clarify its application to:

- align the wording of the definition in IFRS standards and the definition in the Conceptual Framework to make the wording identical and make some minor improvements to the wording;
- incorporate some of the existing supporting requirements in IAS 1 into the definition to give them additional prominence; and
- improve the clarity of the explanation accompanying the definition of material.

As the proposed amendments are based on existing guidance, the Board does not expect them to significantly affect how materiality judgements are made in practice or to significantly affect entities' financial statements.

Comments are due by January 15, 2018.

For more information refer to KPMG's *web article.*

Other Guidance

Practice Statement 2: Making Materiality Judgements

In September 2017, the IASB issued Practice Statement 2: *Making Materiality Judgements.* The practice statement is non-mandatory guidance on how to apply the concept of materiality, so that financial statements focus on information that is useful to investors rather than using the disclosure requirements within IFRS as a checklist.

The Practice Statement does not change requirements or introduce new requirements.

The Practice Statement:

- provides an overview of the general characteristics of materiality;
- presents a four-step process companies may follow in making materiality judgements when preparing financial statements; and
- provides guidance on how to make materiality judgements in specific circumstances, such as, how to make materiality judgements about prior-period information, errors and covenants, and in the context of interim reporting.

The guidance can be applied to financial statements prepared after September 14, 2017.

For more information refer to KPMG's *web article.*

IFRIC Update

Interest and Penalties related to Income Taxes

IFRS Standards do not specifically address how to account for interest and penalties related to income taxes (interest and penalties). Previously entities may have elected an accounting policy to account for interest and penalties in accordance with IAS 12 *Income Taxes* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

In September 2017, the Committee observed that entities do not have an accounting policy choice between applying IAS 12 and applying IAS 37 to interest and penalties. Rather, if an entity considers a particular amount payable or receivable for interest and penalties to be an income tax, then the entity applies IAS 12 to that amount. If the particular amount payable or receivable is not considered an income tax, then IAS 37 is applied to that amount.

The IFRIC agenda decision is effective immediately. As a result of this clarification, current accounting treatments will need to be re-examined to determine if a change is required. If required, a change in accounting policy is applied retrospectively in accordance with IAS 8.

For more information refer to the *IFRIC Update.*

Previous Quarters' Financial Reporting Matters

New Guidance – New IFRSs

IFRS 17 – *Insurance Contracts*

In May 2017, the IASB issued the new insurance contracts standard – IFRS 17 – which will bring fundamental changes to insurance accounting. The new standard will give users of financial statements a whole new perspective, and the ways in which analysts interpret and compare companies will change. The impact on insurers is significant, but will vary between insurers and jurisdictions.

The new standard will bring both benefits and challenges for insurers, who will need to gain an understanding of the accounting changes and the impacts on their businesses.

Benefits of the new standard include increased transparency about the profitability of new and in-force business which will provide more insight into an insurer's financial health. Other effects may include greater volatility in financial results and equity due to the use of current discount rates and assumptions around future cash flows. Other changes include:

- separate presentation of underwriting and finance results, providing information surrounding the sources of profit and quality of earnings;
- premium volumes will no longer drive the 'top line' as investment components and cash received are no longer considered to be revenue;
- accounting for options and guarantees will be more consistent and transparent.

IFRS 17 applies not only to entities that are generally considered insurance entities, but to all entities that:

- issue insurance or reinsurance contracts;
- hold reinsurance contracts; or
- issue investment contracts with a discretionary participation feature (provided that they also issue insurance contracts).

IFRS 17 introduces:

- a single measurement model based on a current fulfillment value that incorporates available information in a way that is consistent with observable market information; and
- a single revenue recognition principle to reflect services provided.

IFRS 17 becomes effective January 1, 2021, however, the timescale will be a challenge and implementation will require the coordination of several functions, including Finance, Actuarial, and IT as well as the introduction of new or upgraded systems, processes and controls.

For more information, refer to KPMGs' webcast series, *Navigating the new world*, KPMG insurance website *IFRS - Insurance*, KPMG's web article and *Insurance Contracts – First Impressions.*

IFRS 16 – *Leases*

In January 2016, the IASB issued IFRS 16 *Leases*. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance finance leases and off-balance sheet operating leases. Instead, IFRS 16 introduces a single, on-balance sheet accounting model that is similar to current finance lease accounting. And while lessor accounting remains substantially similar to current practice – i.e., lessors continue to classify leases as finance and operating leases, there are some minor differences, including the fact that lessors look to IFRS 15, *Revenue*, to split the lease component of a contract from non-lease components.

All entities that lease major assets for use in their business will see an increase in reported assets and liabilities. In addition, entities will also now recognize a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. This will affect a wide variety of organizations across all industries that lease real estate, equipment, and vehicles. The larger the lease portfolio, the greater the impact on key reporting measures.

The new standard makes the distinction between contracts that meet the definition of a lease rather than a service contract even more critical, as leases will now be recognized on the balance sheet. There may be a number of arrangements that are currently accounted for as leases that fall outside the new definition of a lease introduced in IFRS 16.

The new definition increases the focus on who controls the use of the underlying asset throughout the term of the arrangement. On transition to IFRS 16, companies can choose whether to apply a practical expedient to 'grandfather' their previous assessment of which existing contracts are, or contain, leases.

Lessee Accounting

For each major lease, a lessee will recognize a liability for the present value of future lease payments. The lease liability will be measured at amortized cost using the effective interest rate, which creates a front-loaded interest expense. The lessee will also recognize a 'right-of-use' asset, which will be measured at the amount of the lease liability plus initial direct costs, prepaid lease payments, and estimated costs to dismantle, less any incentives received. Lessees will generally depreciate the right-of-use asset on a straight-line basis.

Additionally, IFRS 16 introduces a requirement to reassess key judgements, such as lease term, at each reporting date, which is a significant change from current guidance. It is no longer possible to compute a lease amortization schedule on lease commencement and roll that schedule forward at each reporting date. Instead, companies will need to consider whether to re-measure the lease liability and right-of-use asset at each reporting date. Significant judgement will likely be needed in determining whether there is a change in relevant factors, or a change in the lessee's economic incentive to exercise or not exercise renewal or termination options.

What Discount Rate?

A key estimate in IFRS 16 relates to the discount rate used to measure the present value of the lease payments. While the definitions of the discount rate are consistent with IAS 17 *Leases*, the application of these definitions in the new standard may be complex, especially for lessees, as a discount rate will have to be determined for most leases previously classified as operating leases. The exceptions are leases for which the lessee applies the recognition exemptions. The determination of the appropriate discount rate will be particularly demanding at transition, especially if IFRS 16 is adopted retrospectively.

The discount rate affects the amount of the lessee's lease liabilities and a host of key financial ratios. The financial statement impacts of having a higher or lower discount rate may be pervasive. For example, the discount rate will impact the allocation of total expense between depreciation and interest throughout the lease term. A higher discount rate will reduce depreciation and increase interest expense in each reporting period. Estimating discount rates and documenting the basis of those estimates will be a major task. To help you prepare to adopt IFRS 16, KPMG has recently published, *Leases Discount Rates – What's the correct rate?,* which provides an overview of how to determine the appropriate discount rate and how this will affect your financial statements.

Effective Date and Transition

The new standard is effective for annual reporting periods beginning on or after January 1, 2019. Early adoption is permitted for companies that also adopt IFRS 15 *Revenue from Contracts with Customers*.

The choice of transition option will have a significant impact on the extent of data gathering and the timing of system and process changes. Upon adoption, an entity will be able to choose either of the following transition approaches:

(a) Retrospective approach

An entity may choose to retrospectively adjust all prior periods presented.

(b) Modified retrospective approach

An entity may choose not to restate comparatives and instead adjust opening retained earnings at the date of initial application.

While there are several transition approaches, there are many individual options and practical expedients that can be elected independently of each other, some on a lease-by-lease basis. Most of the transition options involve a trade-off between the costs of implementation and the comparability of the resulting financial information. For lessees with significant lease portfolios, it may be worthwhile to model the different transition options early since the decisions made on transition will continue to affect the company's financials until the last lease in place on transition has expired. Before the effective date, companies will need to gather significant additional data about their leases, and make new estimates and calculations, as well as decisions about transition. For some companies, a key challenge will be gathering the required data. For others, more judgemental issues will dominate – e.g., identifying which transactions contain leases.

For more details, refer to KPMG's *web article, KPMG's SlideShare Presentation, First Impressions: IFRS 16 Leases*, *Leases: Transition Options* and *Leases Discount Rates – What's the correct rate?*

New Guidance – Amendments to IFRSs

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

Currently, there is ambiguity over how an entity should account for certain types of share-based payment arrangements. The IASB has responded by publishing amendments to IFRS 2 *Share-based Payment*. The amendments cover three accounting areas:

- Measurement of cash-settled share-based payments

  There is currently no guidance in IFRS 2 on how to measure the fair value of the liability incurred in a cash-settled share-based payment. As a result, diversity in practice exists between measuring the liability using the same approach as for equity-settled awards and using full fair value. The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments – i.e. the modified grant date method.

  The new requirements do not change the cumulative amount of expense that is ultimately recognized, because the total consideration for a cash-settled share-based payment is still equal to the cash paid on settlement.

- Classification of share-based payments settled net of tax withholdings

  Some share-based payment arrangements permit or require the entity to withhold a portion of the shares that would otherwise be issued to the employee, and to pay the tax authorities on the employee's behalf.

  Prior to the amendments, a question existed as to whether the portion of the share-based payment that is withheld in these instances should be accounted for as equity-settled or cash-settled.

  The amendments clarify the conditions under which a share-based payment transaction with employees settled net of tax withholding is accounted for as equity-settled.

- Accounting for a modification of a share-based payment from cash-settled to equity-settled

  There is no specific guidance in IFRS 2 that addresses the accounting when a share-based payment is modified from cash-settled to equity-settled. The amendments clarify that at the modification date the liability for the original cash-settled share-based payment is derecognized, and the equity-settled share-based payment is measured at its fair value as at the modification date, and recognized to the extent that the services have been received up to that date, with the difference recognized in profit or loss immediately.

The new requirements could affect the classification and/or measurement of these arrangements – and potentially the timing and amount of expense recognized for new and outstanding awards.

The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively.

Retrospective, or early, application is permitted if information is available without the use of hindsight.

For additional information, refer to KPMG's *web article*.

Annual Improvements to IFRSs 2014-2016 Cycle

In December 2016, as part of its process to make non-urgent but necessary amendments to IFRS, the IASB issued narrow-scope amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, and IAS 28 *Investments in Associates and Joint Ventures* which are effective for annual periods beginning on or after January 1, 2018.

The amendments to IAS 28 clarify that:

- a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis; and
- a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.

The amendments also remove outdated exemptions for first-time adopters of IFRS, which are effective for annual periods beginning on or after January 1, 2018.

For more details, refer to KPMG's *web article.*

Transfer of Investment Property (Amendments to IAS 40)

In December 2016, the IASB issued *Transfers of Investment Property (Amendments to IAS 40)*.

The amendments clarify that:

- an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred; and
- the list of circumstances of when a change in use has occurred is non-exhaustive.

The amendments apply for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

The amendments provide transitional provisions which allow an entity to apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments (the date of initial application). At the date of initial application, an entity shall also reassess the classification of property held at that date and, if applicable, reclassify property to reflect conditions that exist at that date. An entity is permitted to apply the amendments retrospectively, but only if it does not involve the use of hindsight.

For more details, refer to KPMG's *web article.*

Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*

IFRS 17 is effective for annual periods beginning on or after January 1, 2021, well after the effective date of IFRS 9 *Financial Instruments*, January 1, 2018. IFRS 9 will cover a majority of an insurer's investments; therefore, the expected differing effective dates created concerns related to temporary volatility and accounting mismatches in profit or loss. Some companies have also expressed concerns about the need to implement two significant changes in accounting on different dates, which will increase costs and complexity.

In September 2016, the IASB issued amendments to its existing insurance contracts standard, IFRS 4. The amendments introduced two approaches that supplement existing options in the Standard that can be used to address the temporary volatility as a result of the different effective dates of IFRS 9 and the forthcoming insurance contracts standard.

The amendments:

- provide a reporting entity (whose predominant activity is to issue insurance contracts) a temporary exemption from applying IFRS 9 until the earlier of:
    a) the application of IFRS 17; or
    b) January 1, 2021 (to be applied at the reporting entity level) (referred to as the 'temporary exemption'); and
- give entities issuing insurance contracts the option to remove from profit or loss the incremental volatility caused by changes in the measurement of specified financial assets upon application of IFRS 9 (referred to as the 'overlay approach'). This option will be in place until IFRS 17 comes into effect.

Additionally, the Board decided to provide relief for investors in associates and joint ventures by permitting a Company to not apply uniform accounting policies when the investee applies IAS 39 and the investor applies IFRS 9, or vice versa, when applying the equity method of accounting.

In response to constituents' concerns that the proposed disclosure requirements for the temporary exemption from applying IFRS 9 *Financial Instruments* for insurance companies would result in excessive costs and burdens on preparers, the Board has agreed to revise the disclosure requirements. The decision will limit the need to perform solely payments of principal and interest assessments to those financial assets that are not held for trading or managed on a fair value basis.

In March 2017, the Office of the Superintendent of Financial Institutions (OSFI) issued an advisory articulating its expectation that life insurers whose activities are predominately connected with insurance to apply the temporary exemption from IFRS 9 in annual periods beginning before January 1, 2021. An exception is available for federally regulated life insurers if its federally regulated parent does not meet the predominance test.

Visit our *IFRS – Insurance* hot topics page for the latest developments in the insurance contracts project. For more information about the decisions taken by the Board during its deliberation process, refer to KPMG publication *Insurance IFRS Newsletter Issue 57*.

Existing Guidance under Development – Exposure Draft

Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)

In June 2017, the IASB has issued an exposure draft, *Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16).* The proposed amendments seek to provide clarity on how companies account for the proceeds from selling items produced while testing an item of plant or equipment before it is used for its intended purpose.

Currently IAS 16, paragraph 17e, includes the costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition of use as a directly attributable cost of the asset. The proposed amendments will require an entity to recognize the proceeds from selling items produced while bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management in profit or loss in accordance with the applicable standards.

Comments on the exposure draft are due by October 19, 2017.

For more details refer to KPMG's *web article*.

IFRIC Updates

IFRS 9 – Modifications or Exchanges of Financial Liabilities that do not Result in Derecognition

In March, the IASB agreed with IFRIC's conclusions that under IFRS 9 a modification or exchange of a financial liability not resulting in derecognition leads to a recalculation of amortized cost, with any adjustment recognized in profit or loss, consistent with the requirements for modifications of the contractual cash flows of financial assets that do not result in derecognition. Under IAS 39 *Financial Instruments: Recognition and Measurement,* the most common practice is to recalculate the effective interest rate at the date of the modification in addition to re-estimating the contractual cash flows. As IFRS 9 requires retrospective application of its classification and measurement principles, this change in accounting policy will need to be applied retrospectively on the initial application of IFRS 9.

In July the IASB decided to highlight in the Basis for Conclusions in the IFRS 9 Amendments to be issued with respect to *Prepayment Features with Negative Compensation* that the requirements in IFRS 9 provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and no further standard-setting is required.

For additional information refer to KPMG's IFRS Newsletter *Financial Instruments – Issue 41 and IFRIC Update.*

Foreign Currency Transactions – Advance Consideration (IFRIC Interpretation 22)

In December 2016, the IASB issued IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* in response to diversity in practice in determining the appropriate exchange rate to use when translating assets, expenses or income, when foreign currency consideration is paid or received in advance of the item to which it relates.

The Interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

The Interpretation may be applied either:

- retrospectively; or
- prospectively to all assets, expenses and income in the scope of the Interpretation initially recognized on or after:
  - the beginning of the reporting period in which the entity first applies the Interpretation; or
  - the beginning of a prior reporting period presented as comparative information in the financial statements.

The Interpretation is applicable for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

An entity should consider the impact on net profit or loss, the interaction of IFRIC 22 with other standards, and possible changes to accounting systems.

For more details refer to KPMG's *web article.*

Uncertainty over Income Tax Treatments (IFRIC Interpretation 23)

In June 2017, the IASB issued IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* in response to diversity in practice for various issues in circumstances in which there is uncertainty in the application of the tax law. While IAS 12 *Income Taxes* provides requirements on the recognition and measurement of current and deferred tax liabilities and assets, there is diversity in the accounting for income tax treatments that have yet to be accepted by tax authorities.

The Interpretation requires an entity to:

- reflect an uncertainty in the amount of income tax payable (recoverable) if it is probable that it will pay (or recover) an amount for the uncertainty;
- measure a tax uncertainty based on the most likely amount or expected value depending on whichever method better predicts the amount payable (recoverable);
- reassess the judgements and estimates applied if facts and circumstances change (e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires); and
- consider whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;

The Interpretation is applicable for annual periods beginning on or after January 1, 2019 and may be applied on a fully retrospective basis, if this is possible without the use of hindsight, or on a modified retrospective basis, with an adjustment to equity on initial application. Earlier application is permitted.

For more details refer to KPMG's *web article.*

Other Matters

Other matters that have been presented in previous quarters are outlined as follows:

Topic	Effective Date/Comment Date	Publication
Exposure Drafts and Discussion Papers		
Proposed Annual Improvements to IFRS	Comments on the exposure draft were due by April 12, 2017	March 2017 Current Developments Refer to KPMG's publication *Proposed Annual Improvements to IFRS.*
Proposed Improvements to IFRS 8 Operating Segments	Comments on the exposure draft are due by July 31, 2017	March 2017 Current Developments Refer to KPMG's publication *Operating segments – Responding to the PIR of IFRS 8.*
Disclosure Initiative: Principles of Disclosure	Comments on discussion paper are due by October 2, 2017	March 2017 Current Developments

Other Financial Reporting Matters		
Accounting Implications of Rule Changes by Central Clearing Parties Impacting Derivatives, Hedge Accounting and Taxation	January 3, 2017	March 2017 Current Developments
Foreign Private Issuers now have XBRL Reporting Requirements	Annual reports on Form 20-F or Form 40-F relating to fiscal years ending on or after December 15, 2017	March 2017 Current Developments *SEC Posts Notice of Availability of IFRS Taxonomy.*
Changes to Bank of Canada Exchange Rates	May 1, 2017	March 2017 Current Developments For more details refer to *Bank of Canada*
Financial Reporting Implications of Brexit	TBD	March 2017 Current Developments

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Looking Ahead

Update on Major Projects

Update on the Revenue Standard

In May 2014, the IASB and the FASB ("the Boards") published their new joint standard on revenue recognition – IFRS 15/ASC Topic 606 *Revenue from Contracts with Customers* (the new revenue standard). The effective date of the standard is January 1, 2018. Early adoption is permitted. Additionally, the Boards formed a Joint Transition Resource Group for Revenue Recognition (the "TRG") to discuss issues arising from implementation of the new Revenue standard and inform the Boards about those implementation issues. The TRG does not have standard-setting authority.

A list of issues discussed by the TRG to-date and the status of these issues, including TRG's agenda papers, are publicly available and constitute a great source of information for stakeholders (refer to the IASB's website *Joint Transition Resource Group for Revenue Recognition (TRG)* and FASB's website *Transition Resource Group for Revenue*.

In 2016, the IASB issued amendments to IFRS 15 – *Clarifications to IFRS 15, Revenue from Contracts with Customers* to address questions raised by the TRG. The amendments do not change the underlying principles of the Standard but provide clarification on how those principles should be applied. The amendments include new examples and clarifications.

In contrast to the IASB approach of publishing a single set of amendments, the FASB has published a series of amendments, each of which address several topics. Although the new Revenue standards will no longer be completely converged, the Boards hope that the wording differences will not result in significantly different outcomes in practice. For additional information relating to the final standards, refer to KPMG second edition of *KPMG second edition of Revenue Issues In-Depth*, which provides insights and extensive examples.

In December 2016, the FASB issued Accounting Standard Update (ASU) 2016-20 *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*. This ASU addresses narrow issues that were proposed in the exposure drafts issued in May and September 2016.

In May 2017, the FASB issued a new standard clarifying that a customer of the operations services in a service concession arrangement is always the grantor (i.e. the government or public sector that owns the public infrastructure). The standard will reduce diversity in practice in identifying customers in these arrangements and enable more consistent application of other aspects of the revenue guidance, which are affected by this customer determination. While Topic 835 *Service Concession Arrangements* is similar in scope to IFRIC 12, the conclusions made by the FASB may result in divergence with the requirements under IFRIC 12 *Service Concession Arrangements*. This is because under IFRIC 12 the facts and circumstances of the arrangement and the nature of the consideration received by an operating entity (i.e. finanical asset, intangible asset or both) determines the subsequent accounting.

The year ahead

The effective date of the new Revenue Standard is almost here and implementation efforts are expected to be well underway. The implications of IFRS 15 can be pervasive – impacting everything from earnings before interest, taxes, depreciation and amortization (EBITDA) to systems and processes, including internal controls.

Regulators have stated clearly that they're anticipating information on expected impacts of the standard. A boilerplate transition disclosure that an implementation project is under way is likely not considered sufficient. Investors are also likely interested in learning about the impacts of the standard on your revenue profile.

Come December you will be expected to quantify the impact of the application in your year-end financial statements. The breadth and specificity of your disclosures will reflect the progress of your implementation project and disclosures should also include significant implementation matters that still need to be addressed.

For additional information, refer to KPMG's international and US websites *IFRS – Revenue* and *Latest on Revenue Recognition*, as well as *KPMG's Accounting Change Survey*, and KPMG's publication *Revenue – Transition Options*.

Update on Financial Instruments Projects

In 2014, the IASB issued its completed standard, IFRS 9 *Financial Instruments*.

The standard includes guidance on:

- classification and measurement of financial assets and liabilities;
- impairment; and
- general hedging.

The Board is still considering macro hedging as released in a Discussion Paper in April 2014 and continues to include the Dynamic Risk Management project (DRM) on the research program, with the discussion paper expected in the second half of 2018.

For additional information about the Financial Instruments standard, refer to KPMG's website *Financial Instruments - Introducing IFRS 9*.

Financial Instruments with Characteristics of Equity (FICE)

IAS 32 *Financial Instruments: Presentation* includes requirements for the classification of financial instruments between liabilities and equity. These binary classification requirements result in significant practice issues when applied to many financial instruments with characteristics of equity – other than, for example, typical non-redeemable common shares that pay discretionary dividends.

The Board continues to work on the research project, as part of the 2017-2021 work plan, including determining whether improvements can be made to how these instruments are classified, and to the presentation and disclosure requirements of such instruments.

At its February meeting, the IASB tentatively decided to require an entity to apply the Gamma approach, a proposed classification methodology, to the contractual terms of a financial instrument consistently with IAS 32 and IFRS 9 after assessing the interaction with legal and regulatory requirements. Additionally the Board discussed proposed application guidance and illustrative examples for clarifying how the Gamma approach would apply to the accounting within equity for different subclasses of equity instruments.

At its March meeting, the IASB discussed the application of the Gamma approach to the classification of derivatives on non-controlling interest with an exercise price denominated in a foreign currency and the interaction of the FICE project with other standards and research projects. The Board also considered the due process steps undertaken and gave permission for the staff to draft the discussion paper which will be published towards the end of 2017.

In April the IASB issued the exposure draft on *Prepayment Features with Negative Compensation*, previously *Symmetric Prepayment Options* which was further discussed in the third quarter (refer to below update).

At its May meeting, the Board continued its discussions on its DRM project by considering two of the focus areas of the project: DRM activities undertaken to stabilize net interest margin and core deposit modelling.

What happened this quarter?

In July the Board tentatively decided to finalize the amendments to IFRS 9 *Financial Instruments* to enable companies to measure at amortized cost some prepayable financial assets with 'negative compensation'. The final amendments are expected in October 2017.

The Exposure Draft *Prepayment Features with Negative Compensation* proposed that particular financial assets with prepayment features that may result in negative compensation, such as a 'make whole' prepayment option or a fair value prepayment option, would be eligible to be measured at amortized cost or at fair value through other comprehensive income (subject to the financial asset meeting the business model condition) if certain conditions are met.

To be eligible for this exception the Board decided that the asset should be consistent with the 'solely payments of principal and interest' (SPPI) criterion except for the negative compensation feature, and clarified that the existing exception for certain prepayment features at par would accommodate reasonable negative compensation. In their technical deliberations the Board decided to remove the second eligibility criteria presented in the Exposure Draft that required the feature to have an insignificant fair value on initial recognition.

The effective date of the amendments is now annual periods beginning on or after January 1, 2019, with earlier application permitted, rather than January 1, 2018. The amendments will require retrospective application with specific transition provisions and disclosures.

At the September meeting, the IASB staff discussed with the Board (1) prepayment risk and ways to manage it in the context of DRM and (2) hedge accounting and capacity. The Board did not make any decisions, but generally agreed with the observations and summary of the staff.

For more details, refer to KPMG's *IFRS Newsletters: Financial Instruments.*

Amended and new IFRSs effective date

Newly Effective Standards

The effective standards that need to be considered for financial years ending on or after December 31, 2017 are listed below:

Effective for years ending	Standards	KPMG's guidance
December 31, 2017	*Disclosures on Changes in Financial Liabilities* (Amendments to IAS 7)	Disclosure on changes in financing liabilities.
	Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)	Deferred tax assets on unrealized losses.
	Annual Improvements to IFRSs 2014 – 2016 Cycle – *IFRS 12 Disclosure of Interests in Other Entities*	Annual improvements to IFRS.

Standards not yet Effective, but Available for Early Adoption

A reminder of standards not yet effective for any reporters, but available for early adoption are listed in this table.

Effective for years ending	Standards	KPMG's guidance
December 31, 2018	IFRS 15 *Revenue from Contracts with Customers* and *Clarifications to IFRS 15 Revenues from Contracts with Customers*	Web article (with links to in-depth analysis)
	IFRS 9 *Financial Instruments*	Web article (with links to in-depth analysis)
	Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* (Amendments to IFRS 4)	Web article
	Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	Web article
	Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22)	Web article
	Transfers of Investment Property (Amendments to IAS 40)	Web article
	Annual Improvements 2014 - 2016 Cycle • IFRS 1 *First-time Adoption of International Financial Reporting Standards*: Deletion of short-term exemptions for first-time adopters • IAS 28 *Investments in Associates and Joint Ventures*: Measuring an associate or joint venture at fair value	Web article
December 31, 2019	IFRS 16 *Leases**	Web article (with links to in-depth analysis)
	Uncertainty over Income Taxes (IFRIC Interpretation 23)	Web article
December 31, 2021	IFRS 17 *Insurance Contracts*	*IFRS Newsletter: Insurance* and KPMG's website *IFRS – Insurance*.

* Early application of IFRS 16 *Leases* is permitted only for companies that also apply IFRS 15 *Revenue from Contracts with Customers*.

Standards Available for Optional Adoption

The IASB has decided to defer the effective date for these amendments indefinitely. Adoption is still permitted.

Standards	KPMG's guidance
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	Web article

IASB Work Plan

These tables are intended to act as an outlook of the expected final publication date of current IASB's projects that may impact your financial statements in the future.

IASB's research projects and Agenda consultation as well as Interpretation (IFRIC) projects are not included in these tables.

Standard-setting and related projects	Next Milestone	Within 3 months	Within 6 months	After 6 months	KPMG's Guidance
Conceptual Framework	Conceptual Framework		Q1 2018		Web article
Rate-regulated Activities	Discussion Paper or Exposure Draft		H1 2018		*In the Headlines, Issue 2014/20*
Disclosure Initiative – *Definition of Material* *(Amendments to IAS 1 and IAS 8)*	Exposure Draft feedback		Comments due January 15, 2018		
Published Discussion Papers (DP's)	**Next Milestone**	**Within 3 months**	**Within 6 months**	**After 6 months**	
Dynamic Risk Management	Discussion Paper			H2 2018	*IFRS Newsletter: Financial Instruments*
Financial Instruments with Characteristics of Equity	Discussion Paper		H1 2018		
Goodwill and Impairment	Discussion Paper		H1 2018		
Primary Financial Statements	Discussion Paper or Exposure Draft		Q1 2018		
Principles of Disclosure (comment period ended October 2, 2017)	Discussion Paper Feedback		Q1 2018		
Business Combinations under Common Control	Discussion Paper			H2 2018	
Narrow-scope Amendments and IFRIC Interpretations	**Next Milestone**	**Within 3 months**	**Within 6 months**	**After 6 months**	**KPMG Guidance**
Accounting Policies and Accounting Estimates (Proposed Amendments to IAS 8)	Exposure Draft feedback		Comments due January 15, 2018		

Classification of Liabilities (Amendments to IAS 1)	IFRS Amendment		H1 2018		Web article
Definition of a Business (Amendments to IFRS 3)	IFRS Amendment		H1 2018		Web article
Previously Held Interests in a Joint Operation (Amendments to IFRS 3 and IFRS 11)	IFRS Amendment	December 2017			
Improvements to IFRS 8 Operating Segments (Proposed amendments to IFRS 8 and IAS 34)	Exposure Draft Feedback	November 2017			
Availability of a refund (Amendments to IFRIC 14)	IFRS Amendment		H1 2018		Web article
Plan Amendment, Curtailment or Settlement (Amendment to IAS 19)	IFRS Amendment	December 2017			Web article
Property, Plant and Equipment: Proceeds before Intended Use (Proposed Amendments to IAS 16) (comment period ends October 19, 2017)	Exposure Draft Feedback	December 2017			Web article
Fees in the '10 per cent' test for derecognition (Amendments to IFRS 9)	Exposure Draft	TBD			
Prepayment Features with Negative Compensation (Proposed amendments to IFRS 9)	IFRS Amendment	October 2017			
Income tax consequences of payments on instruments classified as equity (Amendments to IAS 12)	IFRS Amendment	December 2017			
Borrowing costs eligible for capitalization (Amendments to IAS 23)	IFRS Amendment	December 2017			

Narrow-scope Amendments and IFRIC Interpretations	Next Milestone	Within 3 months	Within 6 months	After 6 months	KPMG Guidance
Long-term interests in associates and joint ventures (Amendments to IAS 28)	IFRS Amendment	October 2017			
Accounting Policy Changes (Amendments to IAS 8)	Exposure Draft		H1 2018		
Post-implementation Review – IFRS 13 *Fair Value Measurement*	Request for Information feedback	December 2017			*Web article*