Accounting Newsletter

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This quarterly *Accounting Newsletter* presents selected recent changes in International Financial Reporting Standards (IFRS), Polish accounting principles (including the Accounting Act and National Accounting Standards) and related topics that may be relevant to a significant number of entities operating in Poland. The publication can assist you in staying up to date with evolving application guidance and new regulatory developments concerning those standards.

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Effective dates – at a glance

The following is a list of recently published standards, amendments and interpretations of standards that need to be considered, and the status of their endorsement by the European Union as at 31 March 2016:

Effective date	Standard	Endorsed by EU?
1 January 2014	IFRIC Interpretation 21 *Levies*	Yes [a]
1 July 2014	Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)	Yes [c]
	Annual Improvements to IFRSs 2010-2012 Cycle	Yes [c]
	Annual Improvements to IFRSs 2011-2013 Cycle	Yes [b]
1 January 2016	IFRS 14 *Regulatory Deferral Accounts*	No [d]
	Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	Yes
	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	Yes
	Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)	Yes
	Equity Method in Separate Financial Statements (Amendments to IAS 27)	Yes
	Annual Improvements to IFRSs 2012-2014 Cycle	Yes
	Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	No
	Disclosure Initiative (Amendments to IAS 1)	Yes
1 January 2017	Disclosure Initiative (Amendments to IAS 7)	No
	Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)	No
1 January 2018	IFRS 15 *Revenue from Contracts with Customers*, including amendments to IFRS 15: Effective date of IFRS 15	No
	IFRS 9 *Financial Instruments* (2014)	No
1 January 2019	IFRS 16 *Leases*	No
Deferred indefinitely	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	No

[a] *Each company applying IFRS as adopted by the European Union (IFRS EU) shall apply IFRIC 21 from the commencement date of its first financial year beginning on or after **17 June 2014**.*

[b] *Each company applying IFRS EU shall apply amendments resulting from Annual Improvements to IFRSs 2011-2013 Cycle from the commencement date of its first financial year beginning on or after **1 January 2015**.*

[c] *Each company applying IFRS EU shall apply amendments resulting from Annual Improvements to IFRSs 2010-2012 Cycle and Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) from the commencement date of its first financial year beginning on or after **1 February 2015**.*

[d] *The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.*

Status of IFRS endorsement by the European Union (EU)

During the period from 1 January 2016 through 31 March 2016, there were no changes in the status of IFRS endorsement by the EU.

Go to: EFRAG Endorsement Status Report

IFRS 16 *Leases*

In January 2016, the International Accounting Standards Board (IASB, the Board) issued IFRS 16 *Leases*. The new standard replaces accounting requirements introduced more than 30 years ago that are no longer considered fit for purpose and is a major revision of the way in which companies account for leases.

Leasing provides an important and flexible source of financing for many companies. However, the old lease accounting Standard (IAS 17 *Leases*) makes it difficult for investors and others to get an accurate picture of a company's lease assets and liabilities, particularly for industries such as the airline, retail and transport sectors.

Given that leases to date have been categorised as either 'finance leases' (which are reported on the balance sheet) or 'operating leases' (which are disclosed only in the notes to the financial statements), a significant portion of lease arrangements do not appear on balance sheets.

This made it difficult for investors to compare companies. It also meant that investors and others had to estimate the effects of a company's off balance sheet lease obligations, which in practice often led to overestimating the liabilities arising from those obligations. IFRS 16 is set to solve this problem by requiring all leases to be reported on a company's balance sheet as assets and liabilities.

The IASB has worked in close collaboration with the Financial Accounting Standards Board (FASB) on the development of the new standard. The two Boards are aligned on the central issue of bringing leases onto balance sheets, and on the definition of a lease and how lease liabilities should be measured.

IFRS 16 is effective 1 January 2019. Early application is permitted for companies that also apply IFRS 15 *Revenue from Contracts with Customers*.

Go to: New leases standard – Introducing IFRS 16 (January 2016)

Disclosure Initiative (Amendments to IAS 7)

For some time, investors have been calling for more disclosures on net debt, a term not defined in IFRS. In January 2016, the IASB responded by issuing amendments to IAS 7 *Statement of Cash Flows* requiring disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities. However, the objective could also be achieved in other ways, which might be a relief for financial institutions or other entities that already present enhanced disclosures in this area.

Although disclosure of changes in other assets and liabilities is possible, such supplementary disclosure should be disclosed separately from changes in liabilities arising from financing activities.

The improvements are part of the IASB's Disclosure Initiative—a portfolio of projects aimed at improving the effectiveness of disclosures in financial reports. The amendments are effective for periods beginning on or after 1 January 2017, with earlier application permitted.

Go to: Disclosure on changes in financing liabilities (February 2016)

Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)

The amendments to IAS 12 *Income Taxes* issued by the IASB on 19 January 2016 bring clarity on the accounting for deferred tax assets related to debt instruments measured at fair value.

The amendments clarify *inter alia* the following aspects:

- the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;
- you can recognise a deferred tax asset if the future bottom line of your tax return is expected to be a loss, if certain conditions are met;
- an entity can assume that it will recover an asset for more than its carrying amount, if there is sufficient evidence that it is probable that the entity will achieve this.

Entities are required to apply the amendments for annual periods beginning on or after 1 January 2017, with early adoption permitted.

Go to: Deferred tax assets on unrealized losses (January 2016)

Guide to condensed interim financial statements – Illustrative disclosures and Disclosure checklist (March 2016)

Our *Guide to condensed* interim financial statements – incorporating Illustrative disclosures and the accompanying Disclosure checklist, produced by the KPMG International Standards Group ('KPMG ISG'), is intended to help preparers in the preparation and presentation of condensed interim financial statements in accordance with IAS 34 *Interim Financial Reporting* by illustrating one possible format for financial statements of a fictitious multinational corporation involved in general business activities. The guide reflects standards and interpretations that have been in issue by the IASB as at 15 March 2016 and that are required to be applied by an entity with an annual reporting period beginning on 1 January 2016.

Go to: Guide to condensed interim financial statements – Illustrative disclosures (March 2016)

Go to: Guide to condensed interim financial statements – Disclosure checklist (March 2016)

Guide to annual financial statements: IFRS 9 – Illustrative disclosures for banks (March 2016)

This guide illustrates one possible format for the presentation of annual financial statements, based on a fictitious banking group involved in a range of general banking activities, which is not a first time adopter of IFRS. This edition has been updated to illustrate example disclosures for the early adoption of IFRS 9 *Financial Instruments* and of consequential amendments to other standards, which are required to be adopted at the same time.

This guide reflects IFRSs in issue at 31 December 2015 that are required to be applied by an entity with an annual period beginning on 1 January 2015.

Go to: Guide to annual financial statements: IFRS 9 – Illustrative disclosures for banks (March 2016)

IFRS: New standards – are you ready? (March 2016)

Each quarter, we provide a summary of newly effective and forthcoming standards. This edition covers financial years ending on or after 31 December 2015, including interim periods within those financial years.

Go to: FRS: New standards – are you ready? (March 2016)

Evolving Banking Regulation Part Five

The publication is the fifth and final part of the Evolving Banking Regulation series for 2015 which examines the culture and conduct challenges facing banks. In this publication we set out the challenges arising from the commercial, regulatory and wider societal pressures on banks to improve their culture, behavior and standards of conduct. The commercial pressures include the need to rebuild reputation and trust; to establish commercial benefits from taking a more customer-centric approach; to respond to growing competition from non-banks and from other banks; and to avoid or minimize the financial costs of misconduct. The regulatory pressures arise from the magnitude of regulatory change in both retail and wholesale markets, some of which has been implemented but much of which is still under development; and from supervisors beginning to ask questions about the culture of financial institutions.

Go to: Evolving Banking Regulation Part Five

IFRS Newsletters

We also recommend the following selected IFRS-related newsletters recently issued by KPMG's International Standards Group:

- **IFRS Newsletter: Insurance – issues 51 and 52** highlight further discussions on the insurance contracts project held by the IASB in January and March 2016. In the meetings, the Board considered the level of aggregation for onerous contracts and allocation of the contractual service margin (CSM) and continued its discussion regarding discretionary cash flows, and on temporary consequences of the different effective dates of IFRS 9 and the new insurance contracts standard.

Go to: Newsletter: Insurance – issue 51

Go to: Newsletter: Insurance – issue 52

- **IFRS Newsletter: Financial Instruments – issue 28** highlights the IASB's discussions in February 2016 on its project on financial instruments with characteristics of equity. During the meeting, the Board continued to explore the three approaches identified as potential ways of improving IAS 32 *Financial Instruments: Presentation*. It discussed the merits of using sub-classes of financial liabilities and sub-classes within equity, as well as the subject of claims with conditional alternative settlement outcomes.

Go to: IFRS newsletter: Financial Instruments – issue 28

- **IFRS Newsletter: The Bank Statement – issue 20** discusses, among other things, the complexities of implementing the classification and measurement requirements of IFRS 9 and the revised disclosure requirements under Pillar 3 of the Basel Framework.

Go to: IFRS Newsletter: The Bank Statement – Q4 2015 (issue 20)

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