

Insights into IFRS

Your personal e-copy of Insights



How to search

Use the **search tool** to find key words or phrases

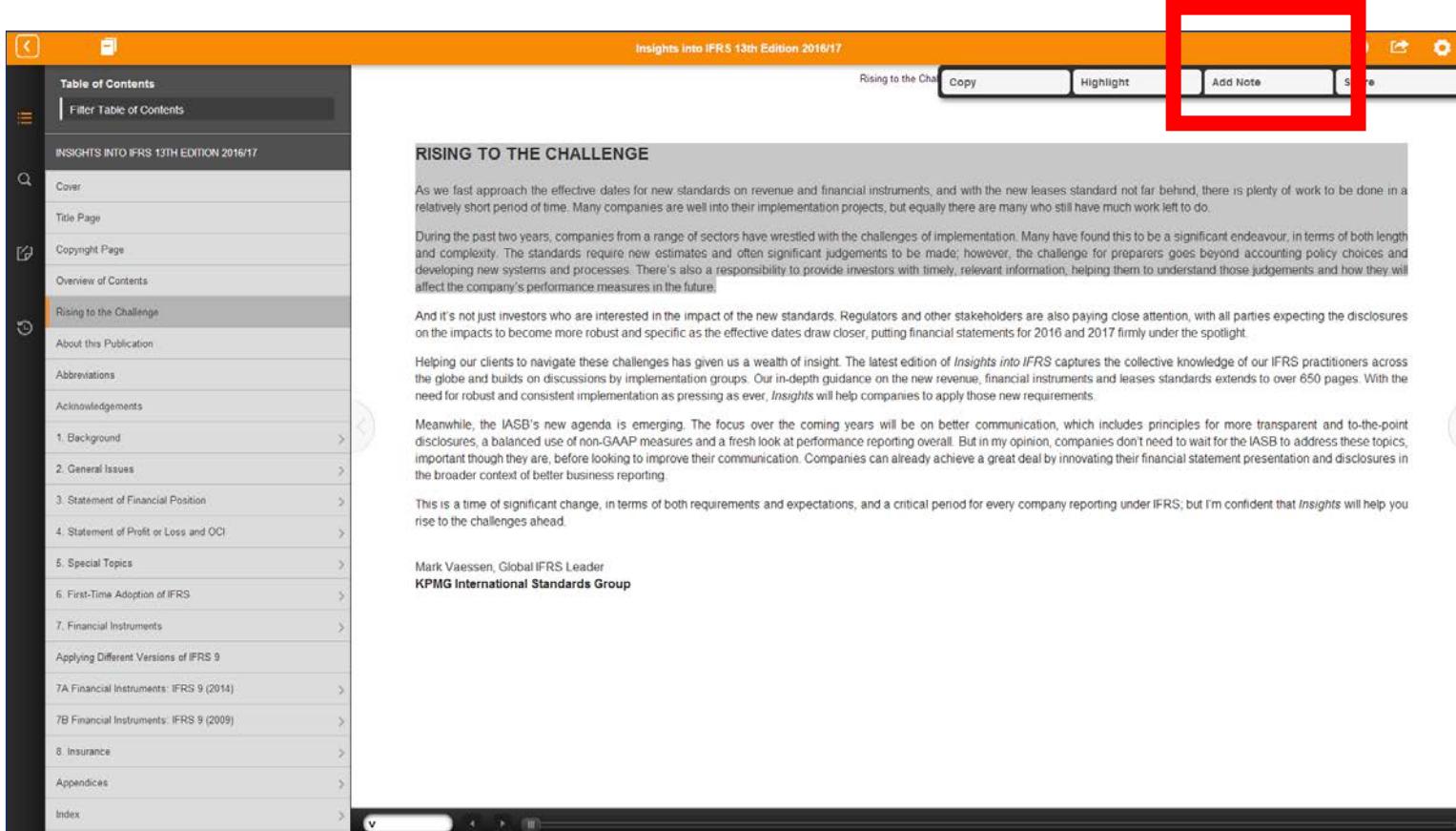
The screenshot shows the 'Search' interface of the software, which is highlighted with a red box. A yellow circle points to the search icon (magnifying glass) on the toolbar. A blue box highlights the 'Info on more complex searches is available here' text. The main content area displays the '1.2.10 Introduction' chapter of the IFRS 13th Edition. A conceptual framework diagram is overlaid on the right side of the page, showing the hierarchy of qualitative characteristics.

Qualitative characteristics (QC1)

- Fundamental (QC17)**
 - Relevance (QC6–QC7, BC3.11–BC3.13)**
 - Predictive value (QC8, BC3.14–BC3.15)**
 - Confirmatory value (QC9, BC3.14–BC3.15)**
 - Completeness (QC13)**
 - Faithful representation (QC12, BC3.19)**
 - Enhancing (QC19)**
 - Comparability (QC20–QC25, BC3.32–BC3.33)**
 - Neutrality (QC14, BC3.27–BC3.29)**
 - Verifiability (QC26–QC28, BC3.34–BC3.36)**
 - Timeliness (QC29, BC3.37–BC3.39)**
 - Understandability (QC30–QC32, BC3.40–BC3.43)**

How to make notes

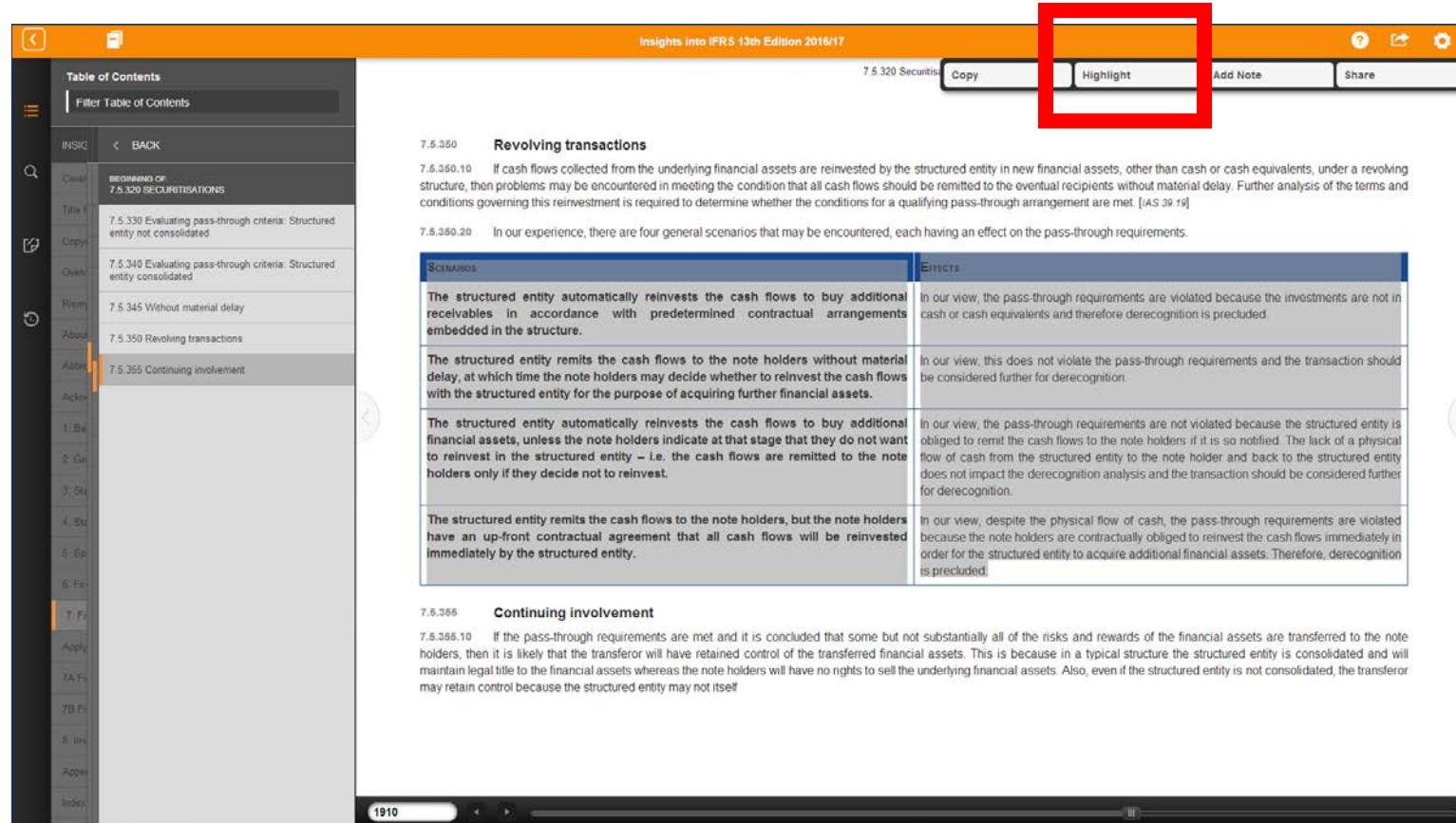
Highlight text, right click and select **Add note**



The screenshot shows a software application window titled "Insights into IFRS 13th Edition 2016/17". The left sidebar contains a "Table of Contents" for the publication, listing various sections such as Cover, Title Page, Copyright Page, Overview of Contents, and "Rising to the Challenge" (which is currently selected and highlighted in orange). The main content area displays an article titled "RISING TO THE CHALLENGE". The article discusses the challenges of implementing new financial standards, particularly the new leases standard. It mentions the involvement of investors, regulators, and other stakeholders, and highlights the role of "Insights" in providing guidance. The article is signed by Mark Vaessen, Global IFRS Leader, KPMG International Standards Group. At the top of the main content area, there is a toolbar with several buttons: "Copy", "Highlight" (which is highlighted with a red box), "Add Note" (also highlighted with a red box), and "Save".

How to highlight

Select text, right click and **Highlight**

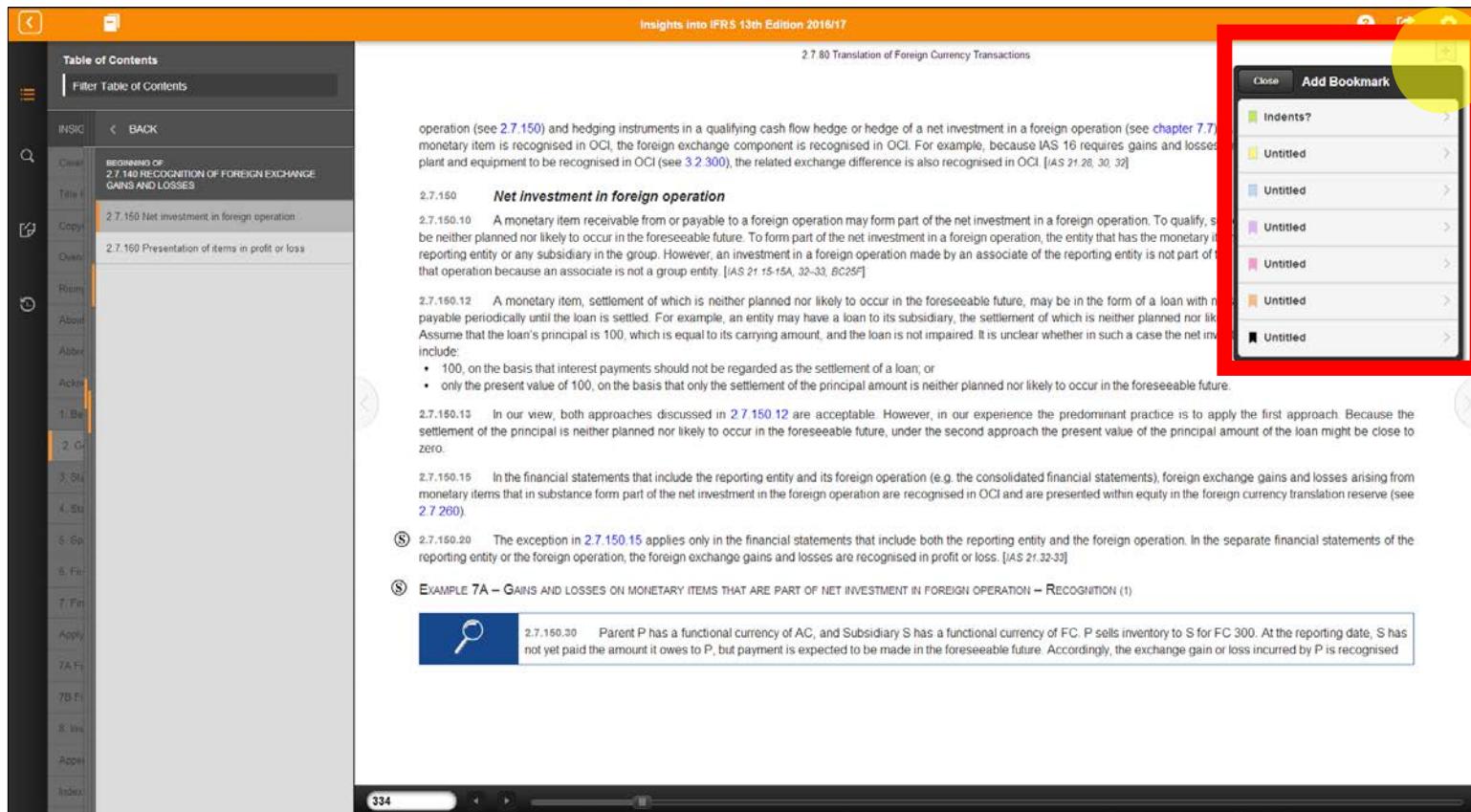


The screenshot shows a software interface for 'Insights into IFRS 13th Edition 2016/17'. The left sidebar contains a 'Table of Contents' with several sections and a search bar. The main content area displays a table with 'SCENARIOS' and 'EFFECTS' columns. A red box highlights the 'Highlight' button in the top right toolbar. The table rows contain detailed descriptions of scenarios and their effects on pass-through requirements.

SCENARIOS	EFFECTS
The structured entity automatically reinvests the cash flows to buy additional receivables in accordance with predetermined contractual arrangements embedded in the structure.	In our view, the pass-through requirements are violated because the investments are not in cash or cash equivalents and therefore derecognition is precluded.
The structured entity remits the cash flows to the note holders without material delay, at which time the note holders may decide whether to reinvest the cash flows with the structured entity for the purpose of acquiring further financial assets.	In our view, this does not violate the pass-through requirements and the transaction should be considered further for derecognition.
The structured entity automatically reinvests the cash flows to buy additional financial assets, unless the note holders indicate at that stage that they do not want to reinvest in the structured entity – i.e. the cash flows are remitted to the note holders only if they decide not to reinvest.	In our view, the pass-through requirements are not violated because the structured entity is obliged to remit the cash flows to the note holders if it is so notified. The lack of a physical flow of cash from the structured entity to the note holder and back to the structured entity does not impact the derecognition analysis and the transaction should be considered further for derecognition.
The structured entity remits the cash flows to the note holders, but the note holders have an up-front contractual agreement that all cash flows will be reinvested immediately by the structured entity.	In our view, despite the physical flow of cash, the pass-through requirements are violated because the note holders are contractually obliged to reinvest the cash flows immediately in order for the structured entity to acquire additional financial assets. Therefore, derecognition is precluded.

How to bookmark

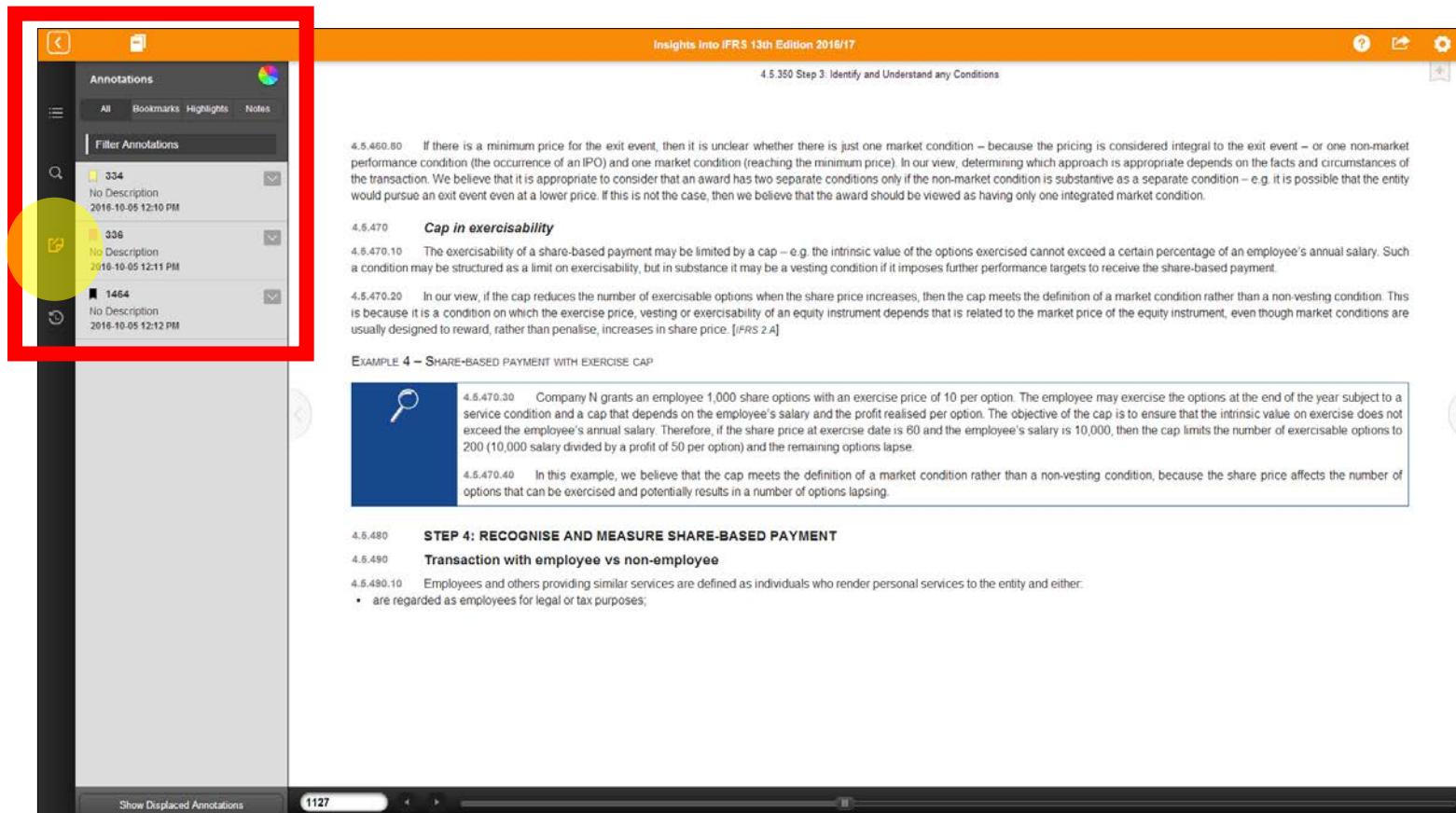
Click the top right + symbol



The screenshot shows a software interface for 'Insights into IFRS 13th Edition 2016/17'. The main window displays a table of contents on the left and a detailed text document on the right. The document is titled '2.7.80 Translation of Foreign Currency Transactions' and discusses the recognition of foreign currency gains and losses. A red box highlights the 'Add Bookmark' dialog box, which is overlaid on the right side of the screen. The dialog box has a yellow header 'Add Bookmark' and a list of bookmark entries: 'Indents?', 'Untitled', 'Untitled', 'Untitled', 'Untitled', 'Untitled', and 'Untitled'. A yellow circle highlights the '+' symbol in the top right corner of the main window, indicating where to click to add a bookmark.

How to review your work

Go back to your notes, highlights and bookmarks



The screenshot shows the 'Annotations' panel on the left, which is highlighted with a red box. The panel lists three annotations:

- 334: No Description, 2016-10-05 12:10 PM
- 336: No Description, 2016-10-05 12:11 PM
- 1464: No Description, 2016-10-05 12:12 PM

The main content area displays a document page titled '4.5.360 Step 3: Identify and Understand any Conditions'. The page contains several numbered paragraphs and a search icon. One paragraph is highlighted with a yellow oval:

4.5.460.80 If there is a minimum price for the exit event, then it is unclear whether there is just one market condition – because the pricing is considered integral to the exit event – or one non-market performance condition (the occurrence of an IPO) and one market condition (reaching the minimum price). In our view, determining which approach is appropriate depends on the facts and circumstances of the transaction. We believe that it is appropriate to consider that an award has two separate conditions only if the non-market condition is substantive as a separate condition – e.g. it is possible that the entity would pursue an exit event even at a lower price. If this is not the case, then we believe that the award should be viewed as having only one integrated market condition.

4.5.470 **Cap in exercisability**

4.5.470.10 The exercisability of a share-based payment may be limited by a cap – e.g. the intrinsic value of the options exercised cannot exceed a certain percentage of an employee's annual salary. Such a condition may be structured as a limit on exercisability, but in substance it may be a vesting condition if it imposes further performance targets to receive the share-based payment.

4.5.470.20 In our view, if the cap reduces the number of exercisable options when the share price increases, then the cap meets the definition of a market condition rather than a non-vesting condition. This is because it is a condition on which the exercise price, vesting or exercisability of an equity instrument depends that is related to the market price of the equity instrument, even though market conditions are usually designed to reward, rather than penalise, increases in share price. [IFRS 2.A]

EXAMPLE 4 – SHARE-BASED PAYMENT WITH EXERCISE CAP

4.5.470.30 Company N grants an employee 1,000 share options with an exercise price of 10 per option. The employee may exercise the options at the end of the year subject to a service condition and a cap that depends on the employee's salary and the profit realised per option. The objective of the cap is to ensure that the intrinsic value on exercise does not exceed the employee's annual salary. Therefore, if the share price at exercise date is 80 and the employee's salary is 10,000, then the cap limits the number of exercisable options to 200 (10,000 salary divided by a profit of 50 per option) and the remaining options lapse.

4.5.470.40 In this example, we believe that the cap meets the definition of a market condition rather than a non-vesting condition, because the share price affects the number of options that can be exercised and potentially results in a number of options lapsing.

4.5.480 **STEP 4: RECOGNISE AND MEASURE SHARE-BASED PAYMENT**

4.5.490 **Transaction with employee vs non-employee**

4.5.490.10 Employees and others providing similar services are defined as individuals who render personal services to the entity and either:

- are regarded as employees for legal or tax purposes;

How to share

Create pdf by clicking the top-right **share** symbol

The screenshot shows the software interface for 'Insights into IFRS 13th Edition 2016/17'. On the left is a 'Table of Contents' sidebar with various sections like 'INSIG', 'Cover', 'Title', 'Copy', 'Overview', 'Topics', 'About', 'Abbrev', 'Actions', and 'Index'. The main content area displays '4.5.1890 Practical Application Issues' with a sub-section 'EXAMPLE 41 – REVERSE ACQUISITION INTO SHELL COMPANY'. The right side features a 'Create & Share PDF' dialog box with a red border. The dialog has a 'Select Content' section with radio buttons for 'Selected Text' (unchecked), 'Current Page View' (checked), 'Current Section' (unchecked), and 'Include Annotations' (checked). A 'Next' button is at the bottom. The main content area shows a diagram titled 'Before' and 'After' illustrating a reverse acquisition. In the 'Before' state, Company N Shareholders own 100% of Company N, and Company P Shareholders own 100% of Company P. In the 'After' state, Company N Shareholders own 10% of Company N, and Company P Shareholders own 90% of Company N, with Company N still being a shell company.

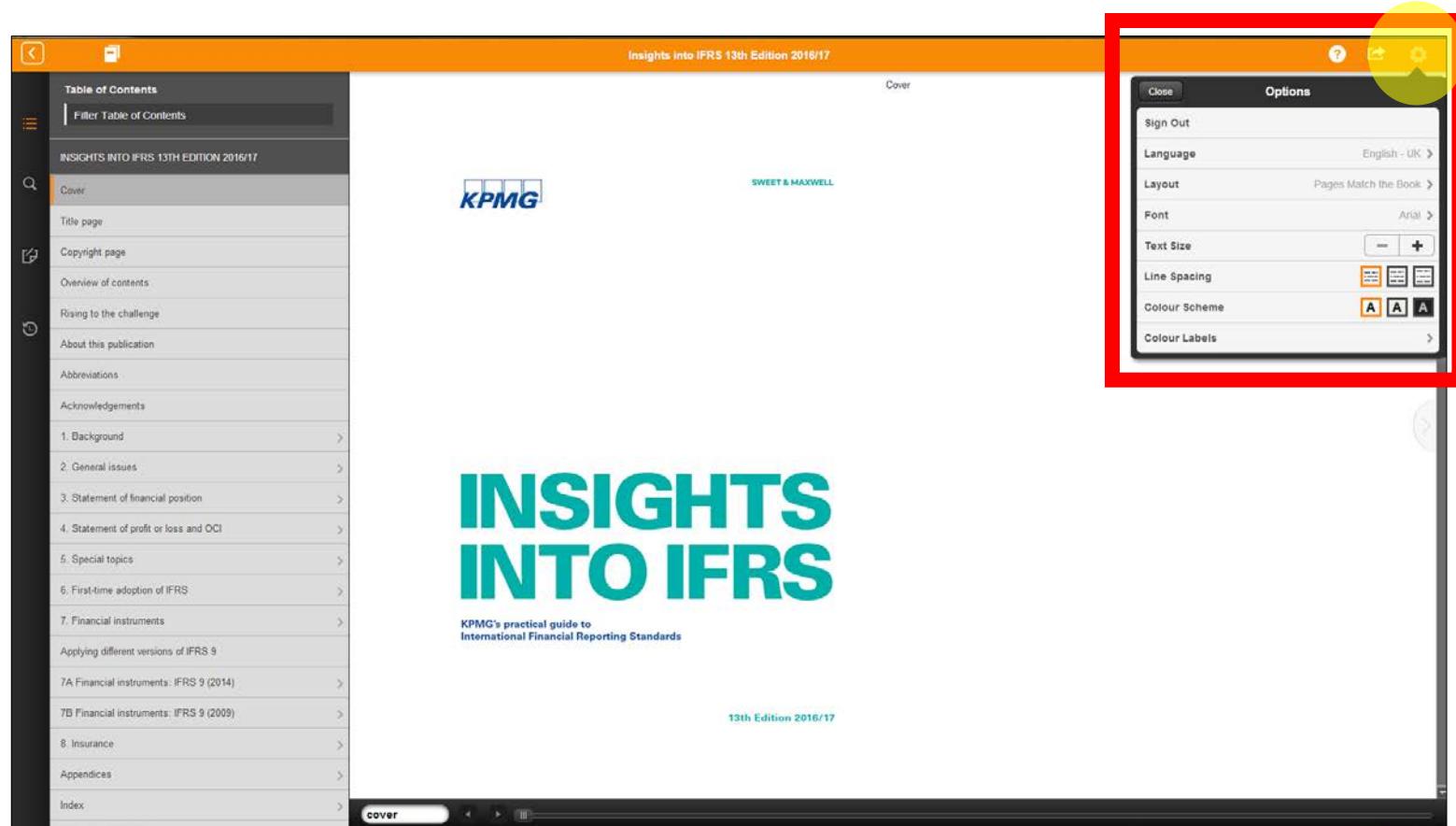
How to review your history

Retrace your steps

The screenshot shows a software interface for 'Insights into IFRS 13th Edition 2016/17'. A red box highlights the 'History' tab on the left, which lists a series of steps and their page numbers. A yellow circle highlights the 'Back' and 'Forward' navigation buttons. The main content area displays a section on 'Demergers' with two paragraphs of text. Below this is an example titled 'EXAMPLE 9 – DEMERGER OUTSIDE SCOPE OF IFRIC 17' with two more paragraphs of text. At the bottom, a diagram illustrates a group structure involving Company P, Company IP1, Company IP2, and several subsidiary companies (S1-S5). Company P controls Company IP1 (100%) and Company IP2 (100%). Company IP1 controls Company S1 (100%). Company IP2 controls Company S2 (80%) and Company S3 (100%). Company S3 controls Company S4 (100%) and Company S5 (100%). Company S3 is highlighted with a purple border.

How to customise your view

Adjust **font type**, **text size** and **line spacing** etc to suit



The image shows a digital document viewer for 'Insights into IFRS 13th Edition 2016/17'. On the left, a table of contents is visible. The main content area shows the 'Cover' page of the publication. The 'Cover' page features the KPMG logo, the title 'INSIGHTS INTO IFRS' in large teal letters, and the subtitle 'KPMG's practical guide to International Financial Reporting Standards'. At the bottom of the cover page, it says '13th Edition 2016/17'. A 'Cover' button is at the bottom left of the page. On the right, an 'Options' menu is open, showing settings for 'Sign Out', 'Language' (set to 'English - UK'), 'Layout' (set to 'Pages Match the Book'), 'Font' (set to 'Arial'), 'Text Size' (with a minus and plus sign), 'Line Spacing' (with a grid icon), 'Colour Scheme' (with a color palette icon), and 'Colour Labels' (with a color palette icon). The 'Options' menu is highlighted with a red box, and the close button in the top right corner of the menu is highlighted with a yellow circle.



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