

# NEW IFRS FOR 2019

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## (a). Application of new IFRS requirements

### Impact of initial application of IFRS 16 Leases

In the current year, entities apply IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described below. The impact of the adoption of IFRS 16 on financial statements is described below. The date of initial application of IFRS 16 is 1 January 2019.

## (b). Amendments to existing Standards

- (i) ***Amendments to IFRS 9 Prepayment Features with Negative Compensation.*** The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.
- (ii) **Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures** . The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of an entity's net investment in an associate or joint venture. An entity applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, an entity does not take account of any adjustments to the carrying amount of long-term interests required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

### (iii) Annual Improvements to IFRS Standards 2015–2017 Cycle

The Annual Improvements include amendments to four Standards:

- **IAS 12 Income Taxes** - The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where an entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

# NEW IFRS FOR 2019

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- **IAS 23 Borrowing Costs** - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.
- **IFRS 3 Business Combinations** - The amendments clarify that when an entity obtains control of a business that is a joint operation, an entity applies the requirements for a business combination achieved in stages, including re-measuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be re-measured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.
- **IFRS 11 Joint Arrangements** - The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, an entity does not remeasure its PHI in the joint operation.
- **Amendments to IAS 19 Employee Benefits Plan, Amendment, Curtailment or Settlement** . The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19:99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

- **IFRIC 23 Uncertainty over Income Tax Treatments**. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:
  - determine whether uncertain tax positions are assessed separately or as a group; and
  - assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, an entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.

# NEW IFRS FOR 2019

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- If no, an entity should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

## (c). New IFRS requirements and Interpretations in issue but not yet effective

Entities are required to disclose in their financial statements the potential impact of new and revised IFRS Standards that have been issued but are not yet effective. At the date of authorisation of these financial statements, an entity has not applied the following new and revised IFRS Standards that have been issued but are not yet effective. The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of an entity in future periods, except as noted below:

- **IFRS 17 Insurance Contracts** -IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts. IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. An exposure draft Amendments to IFRS 17 addresses concerns and implementation challenges that were identified after IFRS 17 was published. One of the main changes proposed is the deferral of the date of initial application of IFRS 17 by one year to annual periods beginning on or after 1 January 2022. For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

- **IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** -The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Board anticipate

# NEW IFRS FOR 2019

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that the application of these amendments will not have an impact on an entity's financial statements in future periods should such transactions arise.

- **Amendments to IFRS 3 Definition of a business** -The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Additional guidance is provided that helps to determine whether a substantive process has been acquired. The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.
- **Amendments to IAS 1 and IAS 8 Definition of material** -The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

- **Amendments to References to the Conceptual Framework in IFRS Standards** Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted. IAS 8:30 requires entities to give known or reasonably estimable information relevant to assessing the possible impact that the application of any new or revised IFRS Standard will have on the entity's financial statements in the period of initial application. This applies to all new or revised IFRS Standards that have been issued but are not yet effective.