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A look at current financial reporting issues

Hyper-inflation status update for Zimbabwe

At a glance

IAS 29, 'Financial reporting in hyper-inflationary economies', is applicable for entities that have the Zimbabwe currency (now also known as the Zimbabwe dollar) as their functional currency for periods ending after 1 July 2019. The standard should be applied as if the economy had always been hyper-inflationary.

What is the issue?

Background

Following a period of severe hyper-inflation more than 10 years ago, the government of Zimbabwe abandoned the Zimbabwe dollar, and other currencies such as the US dollar and the South African Rand became widely used as legal tender. However, in October 2018, the Zimbabwe currency was re-introduced so that other currencies are no longer legal tender. The national currency is now bond notes and their electronic equivalent, the RTGS$, which is known as the Zimbabwe dollar (Zim$).

Inflation has increased significantly since the return to a national currency, and cumulative inflation since October 2018 has exceeded 100%. Qualitative indicators also support the conclusion that Zimbabwe is now a hyper-inflationary economy for accounting purposes, for periods ending after 1 July 2019.

What is the impact and for whom?

Application of IAS 29

Paragraph 4 of IAS 29 states that it is preferable for all entities that report in the currency of a hyper-inflationary economy to apply the standard at the same date. IAS 29 is applied as if the economy had always been hyper-inflationary.

IAS 29 requires financial statements of an entity whose functional currency is the currency of a hyper-inflationary country to be restated into the current purchasing power at the end of the reporting period. Therefore, transactions in 2019 and non-monetary balances at the end of the period would be restated to reflect a price index that is current at the balance sheet date. Comparatives should also be restated to reflect a price index that is current at the balance sheet date. Entities in Zimbabwe should also consider the impact of the change in functional currency to the Zim$ in 2018. Entities are not required to present an additional balance sheet as at the beginning of the preceding period.

Multinational companies that have subsidiaries with the Zim$ as their functional currency should consider paragraph 43 of IAS 21, which requires the financial statements of a subsidiary entity that has the functional currency of a hyper-inflationary economy to be restated in accordance with IAS 29 before being included in the consolidated financial statements. Comparative amounts presented previously in a stable currency are not restated.

When does it apply?

IAS 29 is applicable for entities with the functional currency Zim$ for periods ending after 1 July 2019, and it should be applied as if the economy had always been hyper-inflationary.

Where do I get more details?

For more information, refer to the PwC Publication: In depth IAS 29 becomes applicable in Argentina, which explains the application of IAS 29.

A look at current financial reporting issues cont’d

IFRS IC decision on disclosure of changes in liabilities arising from financing activities

At a glance

The IFRS Interpretations Committee (IC) received a request from users of financial statements about the disclosure of changes in liabilities arising from financing activities.

The IC published an agenda decision identifying areas on which entities should focus when preparing this disclosure. It also emphasised the need for entities to consider carefully the disclosure and disaggregation requirements in IAS 1 and IAS 7.

All entities should reconsider their existing disclosures in the light of the IC’s comments and determine whether any changes are required.

What is the issue?

The IC received a request from users of financial statements about the disclosure requirements in IAS 7 relating to changes in liabilities arising from financing activities. The request asked whether the disclosure requirements in IAS 7 are adequate to require an entity to provide disclosures that allow users to evaluate changes in financing liabilities.

Paragraph 44A of IAS 7 requires an entity to ‘**provide disclosures that enable users of financial information to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes**’.

The IC observed that an entity applies judgement in determining the extent to which it disaggregates and explains the changes in liabilities arising from financing activities to meet the objective in paragraph 44A. However, an entity should not reduce the understandability of financial statements by aggregating material items that have different natures or functions or by failing to provide additional explanation relevant to understanding items in the financial statements.

The IC concluded that the principles and requirements in IAS 1 and IAS 7 provide an adequate basis for an entity to disclose information about changes in liabilities arising from financing activities that enables investors to evaluate those changes. Compliance with the disclosure requirements in IAS 7, together with the requirements in IAS 1, is adequate to require an entity to provide disclosures that meet the objective in IAS 7. The IC explained this conclusion in an agenda decision issued on 25 September 2019.

The agenda decision also explained that an entity which complies with the requirements in IAS 7 by preparing a tabular reconciliation should provide:

- A reconciliation of changes in liabilities arising from financing. (If an entity also chooses to define, and reconcile, a different ‘net debt’ measure, this does not remove the requirement for the entity to identify and reconcile the changes in its liabilities arising from financing activities.)
- Separate disclosure of changes in liabilities arising from financing activities from the changes in any other assets or liabilities.
- Information that enables users to link the items included in the reconciliation to the opening and closing balance in the statement of financial position.
- Appropriate disaggregation (for example, by presenting separately material reconciling items and not aggregating dissimilar items).
- Additional disclosure, where necessary, to explain the items in the reconciliation.

What is the impact and for whom?

The agenda decision identifies areas that require particular attention when entities prepare information to explain the changes in liabilities from financing activities. All entities should reconsider their existing disclosures in the light of the IC’s comments and determine whether any changes are required.

When does it apply?

The agenda decision has no formal effective date. The IC has noted that agenda decisions might often result in explanatory material that was not previously available, which might cause an entity to change an accounting policy. The IASB expects that an entity would be entitled to sufficient time to make that determination and implement any change. In this case, entities should consider carefully the presentation of disclosures about changes in financing activities in financial statements for periods ending on 31 December 2019. Any change in policy should be applied retrospectively, and comparative amounts should be restated.

Where do I get more details?

For more information, refer to the agenda decision (https://www.ifrs.org/news-and-events/updates/ifric-updates/september-2019/)

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A look at current financial reporting issues cont'd

IFRS IC decision on presentation of uncertain tax liabilities (or assets)

At a glance

The IFRS Interpretations Committee (IC) concluded that an entity is required to present uncertain tax balances as current or deferred tax assets or liabilities. Such balances are not presented as provisions. Entities that present uncertain tax liabilities (or assets) classified on lines other than current or deferred tax assets or liabilities should consider the impact of the agenda decision on this presentation.

What is the issue?

IFRIC 23 clarifies how the recognition and measurement requirements of IAS 12, 'Income taxes', are applied when there is uncertainty over income tax treatments. The Interpretation is effective for annual periods beginning on or after 1 January 2019. However, neither IAS 12 nor IFRIC 23 contains guidance on the presentation of uncertain tax liabilities or assets.

The IC was asked to clarify how uncertain tax positions should be presented on the balance sheet. It observed that IAS 1 requires disclosure of liabilities and assets for current tax and for deferred tax liabilities and assets, both as defined in IAS 12. The same standard also requires that dissimilar items should not be aggregated. The IC also observed that IFRIC 23 requires that current and deferred tax assets and liabilities should be recognised and measured, including the impact of tax uncertainties.

The IC therefore concluded that an entity is required to present liabilities for uncertain tax treatments as current tax liabilities or deferred tax liabilities; and assets for uncertain tax treatments should be presented as current tax assets or deferred tax assets. Tax uncertainties are not presented on other lines (for example, provisions or other liabilities). This conclusion is explained in an agenda decision issued on 25 September 2019.

What is the impact and for whom?

Entities that present uncertain tax liabilities (or assets) classified on lines other than current or deferred tax assets or liabilities should consider the impact of the agenda decision on this presentation. The impact on presentation could be material in some cases.

When does it apply?

The agenda decision has no formal effective date. The IC has noted that agenda decisions might often result in explanatory material that was not previously available, which might cause an entity to change an accounting policy. The IASB expects that an entity would be entitled to sufficient time to determine and implement any change. In this case, entities should consider carefully the presentation of tax uncertainties in financial statements for periods ending on 31 December 2019. Any change in policy should be applied retrospectively, and comparative amounts should be restated.

Where do I get more details?

For more information, refer to the agenda decision (https://www.ifrs.org/news-and-events/updates ifricupdates/september-2019/)

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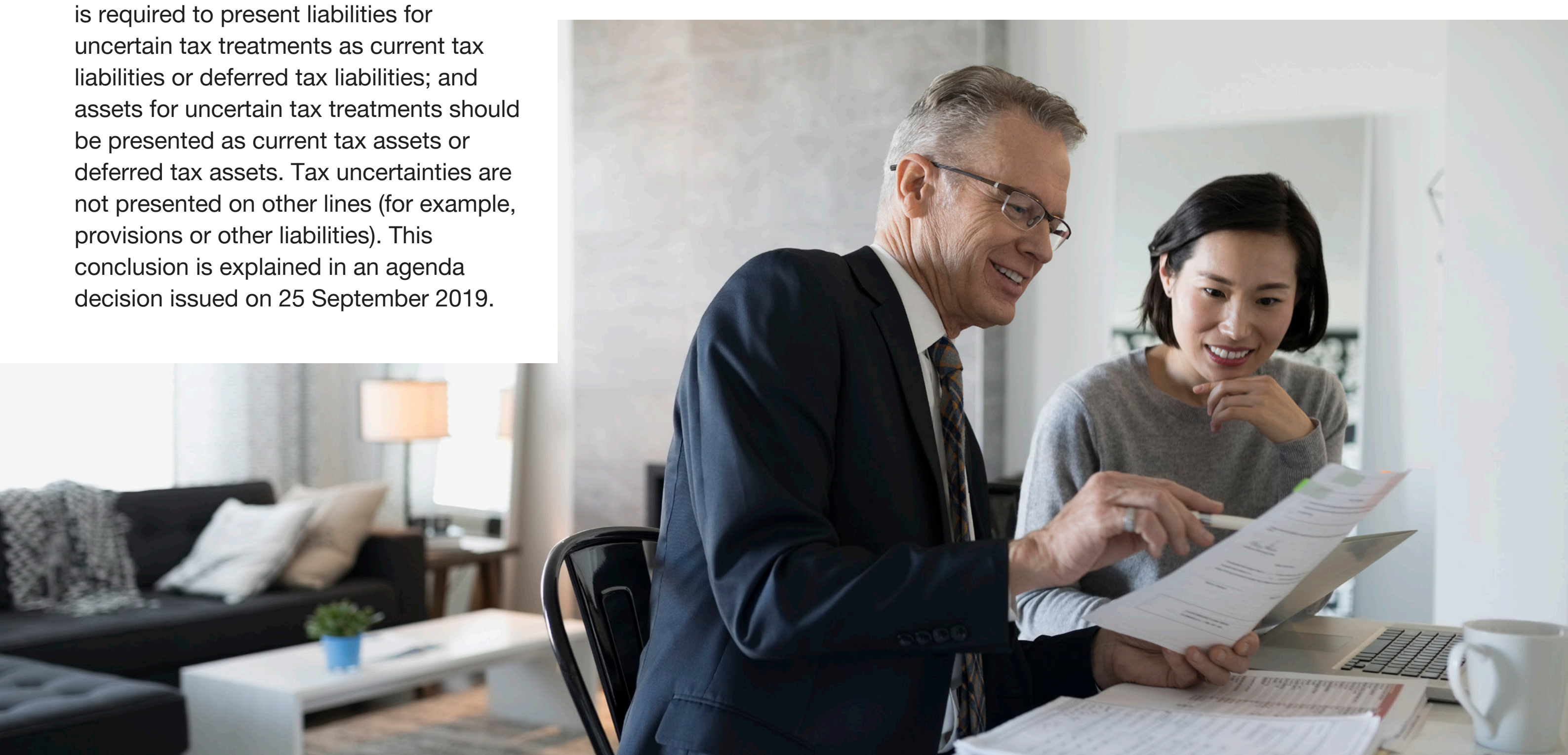

The latest on IFRS 17 implementation

The IASB considered a summary of the feedback gathered during outreach on the proposed amendments to IFRS 17, 'Insurance Contracts'

At a glance

On 22 October 2019, the IASB ('Board') considered the feedback gathered from the outreach activities undertaken by Board members and staff during July to September 2019. This feedback did not include an analysis of the 121 comment letters received on the Exposure Draft.

Most stakeholders welcomed the proposed amendments, but suggested that some amendments should go further.

No technical decisions were taken at this meeting. The Board expects to consider a summary of the comment letters received and a project plan for the re-deliberations at the November Board meeting.

The views in this In transition are based on our observations from the 22 October 2019 meeting, and they might differ in some respects from the official report of the meeting that will be published by the IASB in an IASB Update at a later date.

Background

1. On 26 June 2019, the Board published the Exposure Draft, 'Amendments to IFRS 17' ('ED'). The ED responded to some of the concerns and challenges raised by stakeholders, proposing amendments intended to support entities implementing IFRS 17 by reducing implementation costs and by making it easier for entities to explain results when applying IFRS 17 to users of financial statements.

2. The ED's 90-day comment period ended on 25 September 2019. During the ED's comment period, Board members and staff met with stakeholders in various round-table meetings and discussion forums to explain the proposed amendments and to obtain feedback from stakeholders.

Items discussed during the October Board meeting

3. On 22 October 2019 the Board considered the feedback gathered during the comment period from outreach on the ED. No technical decisions were taken at the meeting.

4. Overall, stakeholders expressed support for the Board considering the issues raised and proposed reliefs. However, some stakeholders believe that the scope of some of the proposed amendments is too narrow. In Europe, some stakeholders commented on areas which the Board had previously considered in preparing the Standard but for which the Board did not propose amendments in the ED.

5. Stakeholders did not oppose the proposed one-year deferral of the effective date to 1 January 2022. However, some stakeholders suggested deferring the effective date of IFRS 17 by two years to allow entities more time for implementation, whereas other insurance entities expressed concerns about the increased costs of a further delay. Several Board members expressed the importance of feedback received from the users of financial statements regarding further delay of the effective date. Many users believe that IFRS 17 is necessary to increase investment in the insurance sector and that the opportunity cost of not being able to invest in the sector outweighs the additional cost for preparers to implement the Standard.

6. Some stakeholders viewed the editorial correction to paragraph B107, which specifies that an entity should assess contracts eligible for the variable fee approach at an individual contract level, to be a major change to the requirements of IFRS 17. The staff noted that the change was made to make the wording consistent between paragraphs B101 and B107, but the feedback suggests entities are assessing eligibility at a group level rather than at an individual contract level.

7. One of the areas for which the Board did not propose amendments in the ED relates to paragraph B137, which requires that entities do not change accounting estimates made in previous interim financial statements when applying IFRS 17 subsequently. The staff noted that many stakeholders, across multiple jurisdictions, raised concerns about the effect of applying paragraph B137.

8. Details of the outreach and a summary of the feedback received by the Board and staff members on specific questions raised in the ED can be found here.

Next steps

9. The Board is expected to consider a summary of the feedback in the comment letters and a plan for the re-deliberations at its November 2019 meeting. Detailed analysis of feedback on specific topics will be presented to the Board when it re-deliberates these topics. These re-deliberations are expected to start at the December 2019 Board meeting. The Board emphasised that the re-deliberations should be done with the objective of the ED in mind, i.e. targeted, narrow-scope amendments to ease implementation without disrupting implementation or diminishing usefulness of the improvements introduced by IFRS 17.

10. The Board confirmed that its objective is to issue the final amendments to IFRS 17 in mid-2020.

Word on a Wharf

The Board met on Tuesday 22 until Thursday 24 October 2019 at the IFRS Foundation’s offices in London.

The topics were:

- Implementation matters
- Business Combinations under Common Control
- Management Commentary
- Amendments to IFRS 17 Insurance Contracts
- IBOR Reform and the Effects on Financial Reporting
- Financial Instruments with Characteristics of Equity
- Dynamic Risk Management
- SME Standard Review and Update
- Subsidiaries that are SMEs
- Accounting Policies and Accounting Estimates (Amendments to IAS 8)’

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