This edition

Introduction

This edition of *The Annotated IFRS® Standards* is the first to contain only the required, rather than latest issued, IFRS Standards. It brings together all the IFRS Standards that, both, have been approved by the International Accounting Standards Board (Board) for issue up to 31 December 2017, and are required to be applied for annual periods beginning on 1 January 2018.

When the Board issues new Standards, amendments to Standards, and Interpretations, it generally allows an entity to apply the new requirements before their mandatory effective date. The Standards included in this edition are those with a mandatory effective date of accounting periods beginning on 1 January 2018 or earlier. Any Standards, amendments to Standards, and Interpretations that have been issued by 1 January 2018, but with a mandatory effective date after 1 January 2018, are not included in this edition. They will be available in *The Annotated IFRS® Standards*–Issued 1 January 2018 (colloquially known as 'the Annotated Red Book').

The IFRS Standards in this edition have been annotated with extensive cross-references, explanatory notes and IFRS Interpretations Committee Agenda Decisions to help users apply the Standards.

New pronouncements for 2018

The following are effective for the first time for periods beginning 1 January 2018:

- two new Standards: IFRS 9 *Financial Instruments*; and IFRS 15 *Revenue from Contracts with Customers* (incorporating the *Clarifications to IFRS 15*);
- an amendment to IFRS 4: *Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts (Amendments to IFRS 4);
- amendments to two other Standards: IFRS 2 *Share-based Payment*; and IAS 40 *Investment Property*;
- one set of Annual Improvements: *Annual Improvements to IFRS Standards 2014–2016 Cycle*; and
- an IFRIC Interpretation: IFRIC 22 *Foreign Currency Transactions and Advance Consideration*.

In addition, an IFRS® Practice Statement, IFRS Practice Statement 2 *Making Materiality Judgements*, was published in September 2017 and is included in this edition because it can be applied to financial statements prepared from 14 September 2017.

The following table provides the publication and effective dates of the pronouncements listed above.

Standard/Interpretation/ Amendment/Practice Statement	**When issued**	**Effective date** (early application is possible unless otherwise noted)	**Standards/ Interpretations amended**	**Standards/ Interpretations withdrawn**
IFRS 9 *Financial Instruments*	July 2014	1 January 2018	IFRS 1, IFRS 2, IFRS 3, IFRS 4, IFRS 5, IFRS 7, IFRS 9 (as issued 2009), IFRS 9 (as issued 2010), IFRS 9 (as issued 2013), IFRS 13; IAS 1, IAS 2, IAS 8, IAS 10, IAS 12, IAS 20, IAS 21, IAS 23, IAS 28, IAS 32, IAS 33, IAS 36, IAS 37, IAS 39; IFRIC 2, IFRIC 5, IFRIC 10, IFRIC 12, IFRIC 16, IFRIC 19; SIC-27	IFRS 9 (as issued 2009), IFRS 9 (as issued 2010), IFRS 9 (as issued 2013); IFRIC 9
IFRS 15 *Revenue from Contracts with Customers*, *Effective date of IFRS 15,* and *Clarifications to IFRS 15*	May 2014 September 2015 April 2016	1 January 2018	IFRS 1, IFRS 3, IFRS 4, IFRS 9 (as issued 2009), IFRS 9 (as issued 2010), IFRS 9 (as issued 2013); IAS 1, IAS 2, IAS 12, IAS 16, IAS 32, IAS 34, IAS 36, IAS 37, IAS 38, IAS 39, IAS 40; SIC-27, SIC-32	IAS 11, IAS 18; IFRIC 13, IFRIC 15, IFRIC 18; SIC-31
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	June 2016	1 January 2018	IFRS 2	
Applying IFRS 9 Financial Instruments *with IFRS 4* Insurance Contracts (Amendments to IFRS 4)	September 2016	1 January 2018 (some aspects may be applied earlier if IFRS 9 is applied early)	IFRS 4	
Transfers of Investment Property (Amendments to IAS 40)	December 2016	1 January 2018	IAS 40	
Annual Improvements to IFRS Standards 2014–2016 Cycle: Amendments to IFRS 1 Amendments to IAS 28	December 2016	 1 January 2018 1 January 2018	 IFRS 1, IFRS 7, IFRS 10; IAS 19 IAS 28	

Standard/Interpretation/ Amendment/Practice Statement	**When issued**	**Effective date** (early application is possible unless otherwise noted)	**Standards/ Interpretations amended**	**Standards/ Interpretations withdrawn**
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	December 2016	1 January 2018	IFRS 1	
IFRS Practice Statement 2 *Making Materiality Judgements*	September 2017	n/a	None	

New and revised Standards, Interpretations and Practice Statements are available to eIFRS subscribers at eifrs.ifrs.org.

The summaries that follow outline the changes introduced by the pronouncements shown in the table above.

New Standards

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The Board had always intended that IFRS 9 would replace IAS 39 in its entirety. However, in response to requests from interested parties that the accounting for financial instruments should be improved quickly, the Board divided its project to replace IAS 39 into three main phases. As the Board completed each phase, it issued chapters in IFRS 9 that replaced the corresponding requirements in IAS 39.

In July 2014, that work culminated when the Board issued the completed version of IFRS 9, which includes:

(a) a model for classifying financial assets that is driven by an asset's cash flow characteristics and the business model in which it is held;

(b) a model for classifying financial liabilities, including recognition in other comprehensive income, rather than in profit or loss, of gains (and losses) that are due to the deterioration (or improvement) in an entity's own credit risk on financial liabilities that an entity has elected to measure at fair value;

(c) a single, forward-looking 'expected loss' impairment model for financial assets not measured at fair value through profit or loss that requires entities to account for expected credit losses from when the financial assets are first recognised, and to recognise full lifetime expected losses when credit risk has increased significantly since initial recognition; the new impairment model applies equally to off-balance sheet exposures such as loan commitments and financial guarantee contracts; and

(d) a hedge accounting model that more closely aligns the accounting treatment with the entity's risk management activities and (in IFRS 7 *Financial Instruments: Disclosures*) provides enhanced disclosures about risk management activity.

An entity that applies IFRS 9 can nevertheless elect (an accounting policy choice) to continue applying the hedge accounting requirements in IAS 39 for all hedge accounting relationships.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining *when* to recognise revenue and *how much* revenue to recognise. The core principle in that framework is that an entity should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To recognise revenue under the Standard, an entity applies the following five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognise revenue when (or as) the entity satisfies a performance obligation.

In September 2015, the Board changed the effective date of the Standard from 1 January 2017 to 1 January 2018.

In April 2016, the Board amended IFRS 15 by issuing *Clarifications to IFRS 15* Revenue from Contracts with Customers. The objective of these targeted amendments was to clarify the Board's intentions when developing some of the requirements in IFRS 15.

Amendments to Standards

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

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) contains requirements on the accounting for:

(a) the effects of vesting and non-vesting conditions on the measurement of cash-settled, share-based payments;

(b) share-based payment transactions with a net settlement feature for withholding tax obligations; and

(c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Applying IFRS 9 Financial Instruments *with IFRS 4* Insurance Contracts (Amendments to IFRS 4)

Applying IFRS 9 Financial Instruments *with IFRS 4* Insurance Contracts (Amendments to IFRS 4) addresses concerns arising from the different effective dates of IFRS 9 and IFRS 17 *Insurance Contracts*. The effective date of IFRS 17 is 1 January 2021.

The amendments introduce two optional approaches:

(a) a temporary exemption—entities whose activities are predominantly connected with insurance may choose to continue to apply IAS 39 instead of IFRS 9. This optional temporary exemption from IFRS 9 is available until 2021.

(b) an overlay approach—all entities that issue insurance contracts and apply IFRS 9 may choose to reclassify in other comprehensive income, the difference in the amounts recognised in profit or loss for eligible financial assets between applying IFRS 9 and applying IAS 39.

Transfers of Investment Property (Amendments to IAS 40)

Transfers of Investment Property (Amendments to IAS 40) clarifies when there is a transfer to, or from, investment property.

Annual Improvements to IFRS Standards 2014–2016 Cycle

Deletion of short-term exemptions for first-time adopters deletes some short-term exemptions and the related effective-date paragraphs from IFRS 1 *First-time Adoption of International Financial Reporting Standards* because these exemptions are no longer applicable.

Measuring an associate or joint venture at fair value clarifies that entities that elect to measure investments in joint ventures and associates at fair value through profit or loss may make this election separately for each associate or joint venture.

New IFRIC Interpretation

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

IFRIC 22 *Foreign Currency Transactions and Advance Consideration* addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income (or part of it) when derecognising a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

New IFRS Practice Statement

IFRS Practice Statement 2 *Making Materiality Judgements*

IFRS Practice Statement 2 *Making Materiality Judgements* provides entities with guidance on how to make materiality judgements when preparing their financial statements, so that those financial statements focus on the information that is useful to investors. The IFRS Practice Statement gathers all the materiality requirements in IFRS Standards and adds practical guidance and examples that entities may find helpful in deciding whether information is material. IFRS Practice Statement 2 is not mandatory and neither changes requirements nor introduces new ones.

Issued Standards that have an effective date later than 1 January 2018

As noted above, this edition does not include issued Standards that have an effective date later than 1 January 2018. However, those Standards are relevant even if an entity does not intend to adopt a requirement early. Paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Changes in Accounting Policies* requires an entity to disclose '... information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application'.

The following table lists the new Standards, Interpretations, and amendments to Standards issued by 1 January 2018 but with an effective date after 1 January 2018.

Standard/ Interpretation/ Amendment	**When issued**	**Effective date** (early application is possible unless otherwise noted)	**Standards/ Interpretations amended**	**Standards/ Interpretations withdrawn**
Sale or Contribution of Assets (Amendments to IFRS 10 and IAS 28)	September 2014	Postponed indefinitely	IFRS 10, IAS 28	
IFRS 16 *Leases*	January 2016	1 January 2019 (can be applied early if IFRS 15 is applied)	IFRS 1, IFRS 3, IFRS 4, IFRS 5, IFRS 7, IFRS 9, IFRS 13, IFRS 15; IAS 1, IAS 2, IAS 7, IAS 12, IAS 16, IAS 21, IAS 23, IAS 32, IAS 37, IAS 38, IAS 39, IAS 40, IAS 41; IFRIC 1, IFRIC 12; SIC-22, SIC-32	IAS 17; IFRIC 4; SIC-15, SIC-27
IFRS 17 *Insurance Contracts*	May 2017	1 January 2021	IFRS 1, IFRS 3, IFRS 3 (as amended by IFRS 16), IFRS 5, IFRS 7, IFRS 7 (as amended by IFRS 16), IFRS 9, IFRS 15; IAS 1, IAS 7, IAS 16, IAS 19, IAS 28, IAS 32, IAS 36, IAS 37, IAS 38, IAS 40; SIC 27	IFRS 4
IFRIC 23 *Uncertainty over Income Tax Treatments*	June 2017	1 January 2019	IFRS 1	
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	October 2017	1 January 2019	IFRS 9	
Long-term interests in Associates and Joint Ventures (Amendments to IAS 28)	October 2017	1 January 2019	IAS 28	
Annual Improvements to IFRS Standards 2015–2017 Cycle	December 2017			
–Amendments to IFRS 3 and IFRS 11		1 January 2019	IFRS 3, IFRS 11	
–Amendments to IAS 12		1 January 2019	IAS 12, IAS 32	
–Amendments to IAS 23		1 January 2019	IAS 23	

The summaries that follow explain the changes that will be introduced by the Standards mentioned in the table above.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) was issued in September 2014. The amendments address the conflict between the requirements in IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* when accounting for the sale or contribution of a subsidiary to a joint venture or associate (resulting in the loss of control of the subsidiary). In December 2015, the Board deferred the effective date of this amendment indefinitely.

IFRS 16 *Leases*

IFRS 16 *Leases* sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases in different ways.

IFRS 17 *Insurance Contracts*

IFRS 17 *Insurance Contracts* applies to: insurance contracts, including reinsurance contracts, issued by an entity; reinsurance contracts held by an entity; and investment contracts with discretionary participation features issued by an entity that issues insurance contracts. An insurance contract is defined as 'a contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder'.

In the statement of financial position, profitable insurance contracts are measured at the risk-adjusted present value of the future cash flows plus unearned profit for services to be provided under the contract.

Entities recognise profit from a group of insurance contracts over the period the entity provides insurance coverage, and as the entity is released from risk. If a group of contracts is or becomes loss-making, the entity recognises the loss immediately.

Insurance revenue, insurance service expenses, and insurance finance income or expenses are presented separately.

IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRIC 23 *Uncertainty over Income Tax Treatments* adds to the requirements in IAS 12 *Income Taxes* by specifying how to reflect the effects of uncertainty in accounting for income taxes when it is unclear how tax law applies to a particular transaction or circumstance, or it is unclear whether a taxation authority will accept an entity's tax treatment.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

By applying *Prepayment Features with Negative Compensation* (Amendments to IFRS 9), particular financial assets–with prepayment features that may result in reasonable negative compensation for the early termination of the contract–are eligible to be measured at amortised cost or at fair value through other comprehensive income, instead of at fair value through profit or loss.

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) clarifies that entities account for long-term interests in an associate or joint venture–to which the equity method is not applied–using IFRS 9 before accounting for any losses or impairment losses applying IAS 28.

Annual Improvements to IFRS Standards 2015–2017 Cycle

Annual Improvements to IFRS Standards 2015–2017 Cycle contains amendments to IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures a previously held interest in that business.

The amendments to IFRS 11 clarify that when an entity obtains *joint control* of a business that is a joint operation, it does not remeasure a previously held interest in that business.

The amendments to IAS 12 clarify that an entity accounts for all income tax consequences of dividends in the same way, regardless of how the tax arises.

The amendments to IAS 23 clarify that when a qualifying asset is ready for its intended use or sale, an entity treats any outstanding borrowing made to obtain that qualifying asset as part of general borrowings.

