# CPA Canada handbook – accounting, part I highlight summary no. I.29 February 2015

(Note: Any changes to previously issued standards are identified in the effective date guidance in each affected standard.)

**IFRS 9 Financial Instruments**

The final version of this new standard, issued by the IASB in July 2014, replaces IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. This standard largely retains the classification and measurement requirements and new hedge accounting model included in earlier versions, while introducing a single forward-looking expected credit loss impairment model.

The main features introduced in the final version of this new standard are as follows:

- Financial assets are measured at fair value through other comprehensive income if they are held within a business model whose objective is to both collect contractual cash flows and sell financial assets, and the contractual cash flows are solely payments of principal and interest.
- All gains and losses on financial assets measured at fair value through other comprehensive income are recognized in profit or loss when the financial asset is impaired, reclassified to fair value through profit or loss, or derecognized.
- An expected credit loss impairment model is applicable to financial instruments measured at amortized cost or fair value through other comprehensive income, lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes 12-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses if credit risk has increased significantly since initial recognition.

The following Highlight Summaries describe the main features of IFRS 9 relating to components introduced in earlier versions of the standard and retained in the final version:

- No. I.2 (April 2010) – classification and measurement of financial assets;
- No. I.9 (March 2011) – classification and reclassification of financial liabilities (with the exception of references to fair value measurement guidance in IFRS 9 as issued by the IASB in October 2010 that were replaced subsequently); and
- No. I.23 (February 2014) – hedge accounting.

The final version of this new standard supersedes the requirements of earlier versions of IFRS 9. However, for annual periods beginning before January 1, 2018, an entity may elect to apply those earlier versions instead of applying the final version of this new standard if, and only if, its initial application date is before February 1, 2015.

The final version of this new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

**IFRS 15 Revenue from Contracts with Customers**

This new standard, issued by the IASB in May 2014, establishes a comprehensive framework for the recognition, measurement and disclosure of revenue. The core principle in that framework is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The main features of the new standard are as follows:

- An entity identifies the contract(s) with a customer and the performance obligations in the contract, determines the transaction price and allocates it to the performance obligations, and recognizes revenue when (or as) the entity satisfies the performance obligations.
- Performance obligations are satisfied when promised goods or services are transferred to a customer (i.e., when the customer obtains control of those goods or services).
- An entity recognizes assets for some costs incurred to obtain a contract, or to fulfil a contract provided the costs are not within the scope of another standard.
- An entity discloses information about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

The new standard supersedes the requirements in IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers*, and SIC-31 *Revenue — Barter Transactions Involving Advertising Services*.

The new standard is effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

**Annual Improvements to IFRSs 2012–2014 Cycle**

The following standards have been revised to incorporate amendments issued by the IASB in September 2014:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* – The amendments clarify the application of the guidance in the standard in circumstances in which an entity reclassifies an asset (or disposal group) from held for sale to held for distribution (or vice versa), and the circumstances in which an asset (or disposal group) no longer meets the criteria for held for distribution.
- IFRS 7 *Financial Instruments: Disclosures* – The amendments clarify guidance on servicing contracts and the applicability of the amendments to IFRS 7 regarding offsetting financial assets and financial liabilities, issued by the IASB in December 2011, to interim financial statements.
- IAS 19 *Employee Benefits* – The amendments clarify the application of the discount rate requirements for currencies for which there is no deep market in high quality corporate bonds.
- IAS 34 *Interim Financial Reporting* – The amendments clarify the meaning of disclosure of information "elsewhere in the interim financial report."

The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

---