

Sinhala and Tamil versions of this *Gazette* extraordinary will be published separately.



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EXTRAORDINARY

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## PART I : SECTION (I) — GENERAL

### Government Notifications

**SRI LANKA ACCOUNTING AND AUDITING STANDARDS ACT, NO. 15 OF 1995**

**Publication under Section 4(2)**

By virtue of the powers vested in the Institute of Chartered Accountants of Sri Lanka (hereinafter referred to as the “Institute”), the Institute has adopted the Amendments to SLFRSs (SLFRS 2 *Share Based Payments*, SLFRS 15 *Revenue from Contracts with Customers* and SLFRS 4 *Insurance Contracts*) with effect from 01<sup>st</sup> January 2018, published herewith for the purpose of the Sri Lanka Accounting and Auditing Standards, Act, No. 15 of 1995. This Amendments shall be effective for financial statements covering period commencing on or after the first day of January Two Thousand Eighteen. Earlier application is permitted.

By Order of the Council,

ARUNA ALWIS,  
Secretary

The Institute of Chartered Accountants of Sri Lanka,  
No. 30A,  
Malalasekera Mawatha,  
Colombo 07.  
08th November, 2016



## **Amendments to SLFRSs (SLFRS 2 *Share Based Payments*, SLFRS 15 *Revenue from Contracts with Customers* and SLFRS 4 *Insurance Contracts*) - effective from 01<sup>st</sup> January 2018**

Amendments to SLFRS 2 *Share-based payment*

Amendments to SLFRS 15 *Revenue from Contracts with Customers*

Amendments to SLFRS 4 *Insurance Contracts*

### **Amendments to SLFRS 2- *Share-based payment***

Paragraphs 19, 30–31, 33, 52 and 63 are amended, and paragraphs 33A–33H, 59A–59B and 63D are added. Headings before paragraphs 33A and 33E are added. Deleted text is struck through and new text is underlined. Paragraphs 32 and 34 have not been amended, but are included for ease of reference.

#### **Treatment of vesting conditions**

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- 19 A grant of equity instruments might be conditional upon satisfying specified vesting conditions. For example, a grant of shares or share options to an employee is typically conditional on the employee remaining in the entity's employ for a specified period of time. There might be performance conditions that must be satisfied, such as the entity achieving a specified growth in profit or a specified increase in the entity's share price. Vesting conditions, other than market conditions, shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions, other than market conditions, shall be taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods or services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Hence, on a cumulative basis, no amount is recognised for goods or services received if the equity instruments granted do not vest because of failure to satisfy a *vesting condition*, other than a market condition, for example, eg—the counterparty fails to complete a specified service period, or a performance condition is not satisfied, subject to the requirements of paragraph 21.

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#### **Cash-settled share-based payment transactions**

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- 30 For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability, subject to the requirements of paragraphs 31–33D. Until the liability is settled, the entity shall remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.
- 31 For example, an entity might grant share appreciation rights to employees as part of their remuneration package, whereby the employees will become entitled to a future cash payment (rather than an equity instrument), based on the increase in the entity's share price from a specified level over a specified period of time. ~~Or Alternatively~~, an entity might grant to its employees a right to receive a future cash payment by granting to them a right to shares (including shares to be issued upon the exercise of share options) that are redeemable, either mandatorily (~~eg for example~~, upon cessation of employment) or at the employee's option. These arrangements are examples of cash-settled share-based payment transactions. Share appreciation rights are used to illustrate some of the requirements in paragraphs 32–33D; however, the requirements in those paragraphs apply to all cash-settled share-based payment transactions.

- 32 The entity shall recognise the services received, and a liability to pay for those services, as the employees render service. For example, some share appreciation rights vest immediately, and the employees are therefore not required to complete a specified period of service to become entitled to the cash payment. In the absence of evidence to the contrary, the entity shall presume that the services rendered by the employees in exchange for the share appreciation rights have been received. Thus, the entity shall recognise immediately the services received and a liability to pay for them. If the share appreciation rights do not vest until the employees have completed a specified period of service, the entity shall recognise the services received, and a liability to pay for them, as the employees render service during that period.
- 33 The liability shall be measured, initially and at the end of each reporting period until settled, at the fair value of the share appreciation rights, by applying an option pricing model, taking into account the terms and conditions on which the share appreciation rights were granted, and the extent to which the employees have rendered service to date,—subject to the requirements of paragraphs 33A–33D. An entity might modify the terms and conditions on which a cash-settled share-based payment is granted. Guidance for a modification of a share-based payment transaction that changes its classification from cash-settled to equity-settled is given in paragraphs B44A–B44C in Appendix B.

### **Treatment of vesting and non-vesting conditions**

- 33A A cash-settled share-based payment transaction might be conditional upon satisfying specified vesting conditions. There might be performance conditions that must be satisfied, such as the entity achieving a specified growth in profit or a specified increase in the entity's share price. Vesting conditions, other than market conditions, shall not be taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, vesting conditions, other than market conditions, shall be taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction.
- 33B To apply the requirements in paragraph 33A, the entity shall recognise an amount for the goods or services received during the vesting period. That amount shall be based on the best available estimate of the number of awards that are expected to vest. The entity shall revise that estimate, if necessary, if subsequent information indicates that the number of awards that are expected to vest differs from previous estimates. On the vesting date, the entity shall revise the estimate to equal the number of awards that ultimately vested.
- 33C Market conditions, such as a target share price upon which vesting (or exercisability) is conditioned, as well as non-vesting conditions, shall be taken into account when estimating the fair value of the cash-settled share-based payment granted and when remeasuring the fair value at the end of each reporting period and at the date of settlement.
- 33D As a result of applying paragraphs 30–33C, the cumulative amount ultimately recognised for goods or services received as consideration for the cash-settled share-based payment is equal to the cash that is paid.

### **Share-based payment transactions with a net settlement feature for withholding tax obligations**

- 33E Tax laws or regulations may oblige an entity to withhold an amount for an employee's tax obligation associated with a share-based payment and transfer that amount, normally in cash, to the tax authority on the employee's behalf. To fulfil this obligation, the terms of the share-based payment arrangement may permit or require the entity to withhold the number of equity instruments equal to the monetary value of the

employee's tax obligation from the total number of equity instruments that otherwise would have been issued to the employee upon exercise (or vesting) of the share-based payment (ie the share-based payment arrangement has a 'net settlement feature').

**33F** As an exception to the requirements in paragraph 34, the transaction described in paragraph 33E shall be classified in its entirety as an equity-settled share-based payment transaction if it would have been so classified in the absence of the net settlement feature.

**33G** The entity applies paragraph 29 of this Standard to account for the withholding of shares to fund the payment to the tax authority in respect of the employee's tax obligation associated with the share-based payment. Therefore, the payment made shall be accounted for as a deduction from equity for the shares withheld, except to the extent that the payment exceeds the fair value at the net settlement date of the equity instruments withheld.

**33H** The exception in paragraph 33F does not apply to:

- (a) a share-based payment arrangement with a net settlement feature for which there is no obligation on the entity under tax laws or regulations to withhold an amount for an employee's tax obligation associated with that share-based payment; or
- (b) any equity instruments that the entity withholds in excess of the employee's tax obligation associated with the share-based payment (ie the entity withheld an amount of shares that exceeds the monetary value of the employee's tax obligation). Such excess shares withheld shall be accounted for as a cash-settled share-based payment when this amount is paid in cash (or other assets) to the employee.

**34** **For share-based payment transactions in which the terms of the arrangement provide either the entity or the counterparty with the choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments, the entity shall account for that transaction, or the components of that transaction, as a cash-settled share-based payment transaction if, and to the extent that, the entity has incurred a liability to settle in cash or other assets, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.**

## **Disclosures**

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**52** If the information required to be disclosed by this ~~SLFRS~~ Standard does not satisfy the principles in paragraphs 44, 46 and 50, the entity shall disclose such additional information as is necessary to satisfy them. For example, if an entity has classified any share-based payment transactions as equity-settled in accordance with paragraph 33F, the entity shall disclose an estimate of the amount that it expects to transfer to the tax authority to settle the employee's tax obligation when it is necessary to inform users about the future cash flow effects associated with the share-based payment arrangement.

## **Transitional provisions**

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**59A** An entity shall apply the amendments in paragraphs 30–31, 33–33H and B44A–B44C as set out below. Prior periods shall not be restated.

- (a) The amendments in paragraphs B44A–B44C apply only to modifications that occur on or after the date that an entity first applies the amendments.
- (b) The amendments in paragraphs 30–31 and 33–33D apply to share-based payment transactions that are unvested at the date that an entity first applies the amendments and to share-based payment transactions with a grant date on or after the date that an entity first applies the amendments. For

unvested share-based payment transactions granted prior to the date that an entity first applies the amendments, an entity shall remeasure the liability at that date and recognise the effect of the remeasurement in opening retained earnings (or other component of equity, as appropriate) of the reporting period in which the amendments are first applied.

- (c) The amendments in paragraphs 33E–33H and the amendment to paragraph 52 apply to share-based payment transactions that are unvested (or vested but unexercised), at the date that an entity first applies the amendments and to share-based payment transactions with a grant date on or after the date that an entity first applies the amendments. For unvested (or vested but unexercised) share-based payment transactions (or components thereof) that were previously classified as cash-settled share-based payments but now are classified as equity-settled in accordance with the amendments, an entity shall reclassify the carrying value of the share-based payment liability to equity at the date that it first applies the amendments.

59B Notwithstanding the requirements in paragraph 59A, an entity may apply the amendments in paragraph 63D retrospectively, subject to the transitional provisions in paragraphs 53–59 of this Standard, in accordance with LKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* if and only if it is possible without hindsight. If an entity elects retrospective application, it must do so for all of the amendments made by *Classification and Measurement of Share-based Payment Transactions* (Amendments to SLFRS 2).

## **Effective date**

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63 [Deleted]

63D *Classification and Measurement of Share-based Payment Transactions* (Amendments to SLFRS 2), issued in September 2016, amended paragraphs 19, 30–31, 33, 52 and 63 and added paragraphs 33A–33H, 59A–59B, 63D and B44A–B44C and their related headings. An entity shall apply those amendments for annual periods beginning on or after 1 January 2018. Earlier application is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

In Appendix B, paragraphs B44A–B44C and their related heading are added. New text is underlined.

## **Accounting for a modification of a share-based payment transaction that changes its classification from cash-settled to equity-settled**

B44A If the terms and conditions of a cash-settled share-based payment transaction are modified with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as such from the date of the modification. Specifically:

- (a) The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date. The equity-settled share-based payment transaction is recognised in equity on the modification date to the extent to which goods or services have been received.

- (b) The liability for the cash-settled share-based payment transaction as at the modification date is derecognised on that date.
- (c) Any difference between the carrying amount of the liability derecognised and the amount of equity recognised on the modification date is recognised immediately in profit or loss.

B44B If, as a result of the modification, the vesting period is extended or shortened, the application of the requirements in paragraph B44A reflect the modified vesting period. The requirements in paragraph B44A apply even if the modification occurs after the vesting period.

B44C A cash-settled share-based payment transaction may be cancelled or settled (other than a transaction cancelled by forfeiture when the vesting conditions are not satisfied). If equity instruments are granted and, on that grant date, the entity identifies them as a replacement for the cancelled cash-settled share-based payment, the entity shall apply paragraphs B44A and B44B.

## Amendments to SLFRS 4 *Insurance Contracts*

Paragraph 3 is amended. New text is underlined and deleted text is struck through.

### Scope

- 3 This SLFRS does not address other aspects of accounting by insurers, such as accounting for financial assets held by insurers and financial liabilities issued by insurers (see LKAS 32 *Financial Instruments: Presentation*, SLFRS 7 and SLFRS 9 *Financial Instruments*), except:
- (a) paragraph 20A permits insurers that meet specified criteria to apply a temporary exemption from SLFRS 9;
- (b) paragraph 35B permits insurers to apply the overlay approach to designated financial assets; and
- (c) ~~in the transitional provisions in paragraph 45~~ permits insurers to reclassify in specified circumstances some or all of their financial assets so that the assets are measured at fair value through profit or loss.

Paragraph 5 is amended. New text is underlined.

- 5 For ease of reference, this SLFRS describes any entity that issues an insurance contract as an insurer, whether or not the issuer is regarded as an insurer for legal or supervisory purposes. All references in paragraphs 3(a)–3(b), 20A–20Q, 35B–35N, 39B–39M and 46–49 to an insurer shall be read as also referring to an issuer of a financial instrument that contains a discretionary participation feature.

New headings are added below paragraphs 20, 20K and 20N. New paragraphs 20A–20Q are added.

## Recognition and measurement

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### Temporary exemption from SLFRS 9

**20A** SLFRS 9 addresses the accounting for financial instruments and is effective for annual periods beginning on or after 1 January 2018. However, for an insurer that meets the criteria in paragraph 20B, this SLFRS provides a temporary exemption that permits, but does not require, the insurer to apply *LKAS 39 Financial Instruments: Recognition and Measurement* rather than SLFRS 9 for annual periods beginning before 1 January 2021. An insurer that applies the temporary exemption from SLFRS 9 shall:

- (a) use the requirements in SLFRS 9 that are necessary to provide the disclosures required in paragraphs 39B–39J of this SLFRS; and
- (b) apply all other applicable SLFRSs to its financial instruments, except as described in paragraphs 20A–20Q, 39B–39J and 46–47 of this SLFRS.

**20B** An insurer may apply the temporary exemption from SLFRS 9 if, and only if:

- (a) it has not previously applied any version of SLFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss in paragraphs 5.7.1(c), 5.7.7–5.7.9, 7.2.14 and B5.7.5–B5.7.20 of SLFRS 9; and
- (b) its activities are predominantly connected with insurance, as described in paragraph 20D, at its annual reporting date that immediately precedes 1 April 2016, or at a subsequent annual reporting date as specified in paragraph 20G.

**20C** An insurer applying the temporary exemption from SLFRS 9 is permitted to elect to apply only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss in paragraphs 5.7.1(c), 5.7.7–5.7.9, 7.2.14 and B5.7.5–B5.7.20 of SLFRS 9. If an insurer elects to apply those requirements, it shall apply the relevant transition provisions in SLFRS 9, disclose the fact that it has applied those requirements and provide on an ongoing basis the related disclosures set out in paragraphs 10–11 of SLFRS 7 (as amended by SLFRS 9 (2010)).

**20D** An insurer's activities are predominantly connected with insurance if, and only if:

- (a) the carrying amount of its liabilities arising from contracts within the scope of this SLFRS, which includes any deposit components or embedded derivatives unbundled from insurance contracts applying paragraphs 7–12 of this SLFRS, is significant compared to the total carrying amount of all its liabilities; and
- (b) the percentage of the total carrying amount of its liabilities connected with insurance (see paragraph 20E) relative to the total carrying amount of all its liabilities is:
  - (i) greater than 90 per cent; or
  - (ii) less than or equal to 90 per cent but greater than 80 per cent, and the insurer does not engage in a significant activity unconnected with insurance (see paragraph 20F).

**20E** For the purposes of applying paragraph 20D(b), liabilities connected with insurance comprise:

- (a) liabilities arising from contracts within the scope of this SLFRS, as described in paragraph 20D(a);
- (b) non-derivative investment contract liabilities measured at fair value through profit or loss applying LKAS 39 (including those designated as at fair value through profit or loss)
- (c) liabilities that arise because the insurer issues, or fulfils obligations arising from, the contracts in (a) and (b). Examples of such liabilities include derivatives used to mitigate risks arising from those contracts and from the assets backing those contracts, relevant tax liabilities such as the deferred tax liabilities for taxable temporary differences on liabilities arising from those contracts, and debt instruments issued that are included in the insurer's regulatory capital.

20F In assessing whether it engages in a significant activity unconnected with insurance for the purposes of applying paragraph 20D(b)(ii), an insurer shall consider:

- (a) only those activities from which it may earn income and incur expenses; and
- (b) quantitative or qualitative factors (or both), including publicly available information such as the industry classification that users of financial statements apply to the insurer.

20G Paragraph 20B(b) requires an entity to assess whether it qualifies for the temporary exemption from SLFRS 9 at its annual reporting date that immediately precedes 1 April 2016. After that date:

- (a) an entity that previously qualified for the temporary exemption from SLFRS 9 shall reassess whether its activities are predominantly connected with insurance at a subsequent annual reporting date if, and only if, there was a change in the entity's activities, as described in paragraphs 20H–20I, during the annual period that ended on that date
- (b) an entity that previously did not qualify for the temporary exemption from SLFRS 9 is permitted to reassess whether its activities are predominantly connected with insurance at a subsequent annual reporting date before 31 December 2018 if, and only if, there was a change in the entity's activities, as described in paragraphs 20H–20I, during the annual period that ended on that date.

20H For the purposes of applying paragraph 20G, a change in an entity's activities is a change that:

- (a) is determined by the entity's senior management as a result of external or internal changes;
- (b) is significant to the entity's operations; and
- (c) is demonstrable to external parties.

Accordingly, such a change occurs only when the entity begins or ceases to perform an activity that is significant to its operations or significantly changes the magnitude of one of its activities; for example, when the entity has acquired, disposed of or terminated a business line.

20I A change in an entity's activities, as described in paragraph 20H, is expected to be very infrequent. The following are not changes in an entity's activities for the purposes of applying paragraph 20G:

- (a) a change in the entity's funding structure that in itself does not affect the activities from which the entity earns income and incurs expenses.
- (b) the entity's plan to sell a business line, even if the assets and liabilities are classified as held for sale applying SLFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. A plan to sell a business line could change the entity's activities and give rise to a reassessment in the future but has yet to affect the liabilities recognised on its statement of financial position.



- 20J If an entity no longer qualifies for the temporary exemption from SLFRS 9 as a result of a reassessment (see paragraph 20G(a)), then the entity is permitted to continue to apply the temporary exemption from SLFRS 9 only until the end of the annual period that began immediately after that reassessment. Nevertheless, the entity must apply SLFRS 9 for annual periods beginning on or after 1 January 2021. For example, if an entity determines that it no longer qualifies for the temporary exemption from SLFRS 9 applying paragraph 20G(a) on 31 December 2018 (the end of its annual period), then the entity is permitted to continue to apply the temporary exemption from SLFRS 9 only until 31 December 2019.
- 20K An insurer that previously elected to apply the temporary exemption from SLFRS 9 may at the beginning of any subsequent annual period irrevocably elect to apply SLFRS 9.

### **First-time adopter**

- 20L A first-time adopter, as defined in SLFRS 1 *First-time Adoption of International Financial Reporting Standards*, may apply the temporary exemption from SLFRS 9 described in paragraph 20A if, and only if, it meets the criteria described in paragraph 20B. In applying paragraph 20B(b), the first-time adopter shall use the carrying amounts determined applying SLFRSs at the date specified in that paragraph.
- 20M SLFRS 1 contains requirements and exemptions applicable to a first-time adopter. Those requirements and exemptions (for example, paragraphs D16–D17 of SLFRS 1) do not override the requirements in paragraphs 20A–20Q and 39B–39J of this SLFRS. For example, the requirements and exemptions in SLFRS 1 do not override the requirement that a first-time adopter must meet the criteria specified in paragraph 20L to apply the temporary exemption from SLFRS 9.
- 20N A first-time adopter that discloses the information required by paragraphs 39B–39J shall use the requirements and exemptions in SLFRS 1 that are relevant to making the assessments required for those disclosures.

### **Temporary exemption from specific requirements in LKAS 28**

- 20O Paragraphs 35–36 of LKAS 28 *Investments in Associates and Joint Ventures* require an entity to apply uniform accounting policies when using the equity method. Nevertheless, for annual periods beginning before 1 January 2021, an entity is permitted, but not required, to retain the relevant accounting policies applied by the associate or joint venture as follows:
- (a) the entity applies SLFRS 9 but the associate or joint venture applies the temporary exemption from SLFRS 9; or
  - (b) the entity applies the temporary exemption from SLFRS 9 but the associate or joint venture applies SLFRS 9.
- 20P When an entity uses the equity method to account for its investment in an associate or joint venture:
- (a) if SLFRS 9 was previously applied in the financial statements used to apply the equity method to that associate or joint venture (after reflecting any adjustments made by the entity), then SLFRS 9 shall continue to be applied.
  - (b) if the temporary exemption from SLFRS 9 was previously applied in the financial statements used to apply the equity method to that associate or joint venture (after reflecting any adjustments made by the entity), then SLFRS 9 may be subsequently applied.

20Q An entity may apply paragraphs 20O and 20P(b) separately for each associate or joint venture.

New paragraphs 35A–35N, 39B–39M and 46–49 are added. New headings are added below paragraphs 35A, 35K, 35M, 39A, 39J, 45 and 47.

## **Discretionary participation features in financial instruments**

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35A The temporary exemptions in paragraphs 20A, 20L and 20O and the overlay approach in paragraph 35B are also available to an issuer of a financial instrument that contains a discretionary participation feature. Accordingly, all references in paragraphs 3(a)–3(b), 20A– 20Q, 35B–35N, 39B–39M and 46–49 to an insurer shall be read as also referring to an issuer of a financial instrument that contains a discretionary participation feature.

## **Presentation**

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### **The overlay approach**

**35B An insurer is permitted, but not required, to apply the overlay approach to designated financial assets. An insurer that applies the overlay approach shall:**

- (a) **reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if the insurer had applied LKAS 39 to the designated financial assets. Accordingly, the amount reclassified is equal to the difference between:**
  - (i) **the amount reported in profit or loss for the designated financial assets applying SLFRS 9; and**
  - (ii) **the amount that would have been reported in profit or loss for the designated financial assets if the insurer had applied LKAS 39.**
- (b) **apply all other applicable SLFRSs to its financial instruments, except as described in paragraphs 35B–35N, 39K–39M and 48–49 of this SLFRS.**

**35C An insurer may elect to apply the overlay approach described in paragraph 35B only when it first applies SLFRS 9, including when it first applies SLFRS 9 after previously applying:**

- (a) **the temporary exemption from SLFRS 9 described in paragraph 20A; or**
- (b) **only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss in paragraphs 5.7.1(c), 5.7.7–5.7.9, 7.2.14 and B5.7.5–B5.7.20 of SLFRS 9.**

**35D An insurer shall present the amount reclassified between profit or loss and other comprehensive income applying the overlay approach:**

- (a) **in profit or loss as a separate line item; and**
- (b) **in other comprehensive income as a separate component of other comprehensive income.**

- 35E A financial asset is eligible for designation for the overlay approach if, and only if, the following criteria are met:
- (a) it is measured at fair value through profit or loss applying SLFRS 9 but would not have been measured at fair value through profit or loss in its entirety applying LKAS 39; and
  - (b) it is not held in respect of an activity that is unconnected with contracts within the scope of this SLFRS. Examples of financial assets that would not be eligible for the overlay approach are those assets held in respect of banking activities or financial assets held in funds relating to investment contracts that are outside the scope of this SLFRS.
- 35F An insurer may designate an eligible financial asset for the overlay approach when it elects to apply the overlay approach (see paragraph 35C). Subsequently, it may designate an eligible financial asset for the overlay approach when, and only when:
- (a) that asset is initially recognised; or
  - (b) that asset newly meets the criterion in paragraph 35E(b) having previously not met that criterion.
- 35G An insurer is permitted to designate eligible financial assets for the overlay approach applying paragraph 35F on an instrument-by-instrument basis.
- 35H When relevant, for the purposes of applying the overlay approach to a newly designated financial asset applying paragraph 35F(b):
- (a) its fair value at the date of designation shall be its new amortised cost carrying amount; and
  - (b) the effective interest rate shall be determined based on its fair value at the date of designation.
- 35I An entity shall continue to apply the overlay approach to a designated financial asset until that financial asset is derecognised. However, an entity:
- (a) shall de-designate a financial asset when the financial asset no longer meets the criterion in paragraph 35E(b). For example, a financial asset will no longer meet that criterion when an entity transfers that asset so that it is held in respect of its banking activities or when an entity ceases to be an insurer.
  - (b) may, at the beginning of any annual period, stop applying the overlay approach to all designated financial assets. An entity that elects to stop applying the overlay approach shall apply LKAS 8 to account for the change in accounting policy.
- 35J When an entity de-designates a financial asset applying paragraph 35I(a), it shall reclassify from accumulated other comprehensive income to profit or loss as a reclassification adjustment (see LKAS 1) any balance relating to that financial asset.
- 35K If an entity stops using the overlay approach applying the election in paragraph 35I(b) or because it is no longer an insurer, it shall not subsequently apply the overlay approach. An insurer that has elected to apply the overlay approach (see paragraph 35C) but has no eligible financial assets (see paragraph 35E) may subsequently apply the overlay approach when it has eligible financial assets.

## Interaction with other requirements

- 35L Paragraph 30 of this SLFRS permits a practice that is sometimes described as 'shadow accounting'. If an insurer applies the overlay approach, shadow accounting may be applicable.
- 35M Reclassifying an amount between profit or loss and other comprehensive income applying paragraph 35B may have consequential effects for including other amounts in other comprehensive income, such as income taxes. An insurer shall apply the relevant SLFRS, such as LKAS 12 *Income Taxes*, to determine any such consequential effects.

### *First-time adopter*

- 35N If a first-time adopter elects to apply the overlay approach, it shall restate comparative information to reflect the overlay approach if, and only if, it restates comparative information to comply with SLFRS 9 (see paragraphs E1–E2 of SLFRS 1).

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## Disclosure

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### Disclosures about the temporary exemption from SLFRS 9

- 39B An insurer that elects to apply the temporary exemption from SLFRS 9 shall disclose information to enable users of financial statements:
- (a) to understand how the insurer qualified for the temporary exemption; and
  - (b) to compare insurers applying the temporary exemption with entities applying SLFRS 9.
- 39C To comply with paragraph 39B(a), an insurer shall disclose the fact that it is applying the temporary exemption from SLFRS 9 and how the insurer concluded on the date specified in paragraph 20B(b) that it qualifies for the temporary exemption from SLFRS 9, including:
- (a) if the carrying amount of its liabilities arising from contracts within the scope of this SLFRS (ie those liabilities described in paragraph 20E(a)) was less than or equal to 90 per cent of the total carrying amount of all its liabilities, the nature and carrying amounts of the liabilities connected with insurance that are not liabilities arising from contracts within the scope of this SLFRS (ie those liabilities described in paragraphs 20E(b) and 20E(c));
  - (b) if the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities was less than or equal to 90 per cent but greater than 80 per cent, how the insurer determined that it did not engage in a significant activity unconnected with insurance, including what information it considered; and
  - (c) if the insurer qualified for the temporary exemption from SLFRS 9 on the basis of a reassessment applying paragraph 20G(b):
    - (i) the reason for the reassessment;
    - (ii) the date on which the relevant change in its activities occurred; and
    - (iii) a detailed explanation of the change in its activities and a qualitative description of the effect of that change on the insurer's financial statements.

39D If, applying paragraph 20G(a), an entity concludes that its activities are no longer predominantly connected with insurance, it shall disclose the following information in each reporting period before it begins to apply SLFRS 9:

- (a) the fact that it no longer qualifies for the temporary exemption from SLFRS 9;
- (b) the date on which the relevant change in its activities occurred; and
- (c) a detailed explanation of the change in its activities and a qualitative description of the effect of that change on the entity's financial statements.

39E To comply with paragraph 39B(b), an insurer shall disclose the fair value at the end of the reporting and the amount of change in the fair value during that period for the following two groups of financial assets separately:

- (a) financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (ie financial assets that meet the condition in paragraphs 4.1.2(b) and 4.1.2A(b) of SLFRS 9), excluding any financial asset that meets the definition of held for trading in SLFRS 9, or that is managed and whose performance is evaluated on a fair value basis (see paragraph B4.1.6 of SLFRS 9).
- (b) all financial assets other than those specified in paragraph 39E(a); that is, any financial asset:
  - (i) with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding;
  - (ii) that meets the definition of held for trading in SLFRS 9; or
  - (iii) that is managed and whose performance is evaluated on a fair value basis.

39F When disclosing the information in paragraph 39E, the insurer:

- (a) may deem the carrying amount of the financial asset measured applying LKAS 39 to be a reasonable approximation of its fair value if the insurer is not required to disclose its fair value applying paragraph 29(a) of SLFRS 7 (eg short-term trade receivables); and
- (b) shall consider the level of detail necessary to enable users of financial statements to understand the characteristics of the financial assets.

39G To comply with paragraph 39B(b), an insurer shall disclose information about the credit risk exposure, including significant credit risk concentrations, inherent in the financial assets described in paragraph 39E(a). At a minimum, an insurer shall disclose the following information for those financial assets at the end of the reporting period:

- (a) by credit risk rating grades as defined in SLFRS 7, the carrying amounts applying LKAS 39 (in the case of financial assets measured at amortised cost, before adjusting for any impairment allowances).
- (b) for the financial assets described in paragraph 39E(a) that do not have low credit risk at the end of the reporting period, the fair value and the carrying amount applying LKAS 39 (in the case of financial assets measured at amortised cost, before adjusting for any impairment allowances). For the purposes of this disclosure, paragraph B5.5.22 of SLFRS 9 provides the relevant requirements for assessing whether the credit risk on a financial instrument is considered low.

- 39H To comply with paragraph 39B(b), an insurer shall disclose information about where a user of financial statements can obtain any publicly available SLFRS 9 information that relates to an entity within the group that is not provided in the group's consolidated financial statements for the relevant reporting period. For example, such SLFRS 9 information could be obtained from the publicly available individual or separate financial statements of an entity within the group that has applied SLFRS 9.
- 39I If an entity elected to apply the exemption in paragraph 200 from particular requirements in LKAS 28, it shall disclose that fact.
- 39J If an entity applied the temporary exemption from SLFRS 9 when accounting for its investment in an associate or joint venture using the equity method (for example, see paragraph 200(a)), the entity shall disclose the following, in addition to the information required by SLFRS 12 *Disclosure of Interests in Other Entities*:
- (a) the information described by paragraphs 39B–39H for each associate or joint venture that is material to the entity. The amounts disclosed shall be those included in the SLFRS financial statements of the associate or joint venture after reflecting any adjustments made by the entity when using the equity method (see paragraph B14(a) of SLFRS 12), rather than the entity's share of those amounts.
  - (b) the quantitative information described by paragraphs 39B–39H in aggregate for all individually immaterial associates or joint ventures. The aggregate amounts:
    - (i) disclosed shall be the entity's share of those amounts; and
    - (ii) for associates shall be disclosed separately from the aggregate amounts disclosed for joint ventures.

### **Disclosures about the overlay approach**

- 39K **An insurer that applies the overlay approach shall disclose information to enable users of financial statements to understand:**
- (a) how the total amount reclassified between profit or loss and other comprehensive income in the reporting period is calculated; and**
  - (b) the effect of that reclassification on the financial statements.**
- 39L To comply with paragraph 39K, an insurer shall disclose:
- (a) the fact that it is applying the overlay approach;
  - (b) the carrying amount at the end of the reporting period of financial assets to which the insurer applies the overlay approach by class of financial asset;
  - (c) the basis for designating financial assets for the overlay approach, including an explanation of any designated financial assets that are held outside the legal entity that issues contracts within the scope of this SLFRS;
  - (d) an explanation of the total amount reclassified between profit or loss and other comprehensive income in the reporting period in a way that enables users of financial statements to understand how that amount is derived, including:
    - (i) the amount reported in profit or loss for the designated financial assets applying SLFRS 9; and
    - (ii) the amount that would have been reported in profit or loss for the designated financial assets if the insurer had applied LKAS 39.

- (e) the effect of the reclassification described in paragraphs 35B and 35M on each affected line item in profit or loss; and
- (f) if during the reporting period the insurer has changed the designation of financial assets:
  - (i) the amount reclassified between profit or loss and other comprehensive income in the reporting period relating to newly designated financial assets applying the overlay approach (see paragraph 35F(b));
  - (ii) the amount that would have been reclassified between profit or loss and other comprehensive income in the reporting period if the financial assets had not been de-designated (see paragraph 35I(a)); and
  - (iii) the amount reclassified in the reporting period to profit or loss from accumulated other comprehensive income for financial assets that have been de-designated (see paragraph 35J).

39M If an entity applied the overlay approach when accounting for its investment in an associate or joint venture using the equity method, the entity shall disclose the following, in addition to the information required by SLFRS 12:

- (a) the information described by paragraphs 39K–39L for each associate or joint venture that is material to the entity. The amounts disclosed shall be those included in the SLFRS financial statements of the associate or joint venture after reflecting any adjustments made by the entity when using the equity method (see paragraph B14(a) of SLFRS 12), rather than the entity's share of those amounts.
- (b) the quantitative information described by paragraphs 39K–39L(d) and 39L(f), and the effect of the reclassification described in paragraph 35B on profit or loss and other comprehensive income in aggregate for all individually immaterial associates or joint ventures. The aggregate amounts:
  - (i) disclosed shall be the entity's share of those amounts; and
  - (ii) for associates shall be disclosed separately from the aggregate amounts disclosed for joint ventures.

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## **Effective date and transition**

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## **Applying SLFRS 4 with SLFRS 9**

### **Temporary exemption from SLFRS 9**

- 46 *Applying SLFRS 9 Financial Instruments with SLFRS 4 Insurance Contracts* (Amendments to SLFRS 4), issued in October 2016, amended paragraphs 3 and 5, and added paragraphs 20A– 20Q, 35A and 39B–39J and headings after paragraphs 20, 20K, 20N and 39A. An entity shall apply those amendments, which permit insurers that meet specified criteria to apply a temporary exemption from SLFRS 9, for annual periods beginning on or after 1 January 2018.

- 47 An entity that discloses the information required by paragraphs 39B–39J shall use the transitional provisions in SLFRS 9 that are relevant to making the assessments required for those disclosures. The date of initial application for that purpose shall be deemed to be the beginning of the first annual period beginning on or after 1 January 2018.

### **The overlay approach**

- 48 *Applying SLFRS 9 Financial Instruments with SLFRS 4 Insurance Contracts* (Amendments to SLFRS 4), issued in October 2016, amended paragraphs 3 and 5, and added paragraphs 35A–35N and 39K–39M and headings after paragraphs 35A, 35K, 35M and 39J. An entity shall apply those amendments, which permit insurers to apply the overlay approach to designated financial assets, when it first applies SLFRS 9 (see paragraph 35C).
- 49 An entity that elects to apply the overlay approach shall:
- (a) apply that approach retrospectively to designated financial assets on transition to SLFRS 9. Accordingly, for example, the entity shall recognise as an adjustment to the opening balance of accumulated other comprehensive income an amount equal to the difference between the fair value of the designated financial assets determined applying SLFRS 9 and their carrying amount determined applying LKAS 39.
  - (b) restate comparative information to reflect the overlay approach if, and only if, the entity restates comparative information applying SLFRS 9.

### **Amendments to SLFRS 15 *Revenue from Contracts with Customers***

Paragraphs 26, 27 and 29 are amended. Deleted text is struck through and new text is underlined. Paragraphs 28 and 30 have not been amended but have been included for ease of reference.
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### **Distinct goods or services**

- 26 Depending on the contract, promised goods or services may include, but are not limited to, the following:
- (a) sale of goods produced by an entity (for example, inventory of a manufacturer);
  - (b) resale of goods purchased by an entity (for example, merchandise of a retailer);
  - (c) resale of rights to goods or services purchased by an entity (for example, a ticket resold by an entity acting as a principal, as described in paragraphs B34–B38);
  - (d) performing a contractually agreed-upon task (or tasks) for a customer;
  - (e) providing a service of standing ready to provide goods or services (for example, unspecified updates to software that are provided on a when-and-if-available basis) or of making goods or services available for a customer to use as and when the customer decides;
  - (f) providing a service of arranging for another party to transfer goods or services to a customer (for example, acting as an agent of another party, as described in paragraphs B34–B38);



- (g) granting rights to goods or services to be provided in the future that a customer can resell or provide to its customer (for example, an entity selling a product to a retailer promises to transfer an additional good or service to an individual who purchases the product from the retailer);
  - (h) constructing, manufacturing or developing an asset on behalf of a customer;
  - (i) granting licences (see paragraphs B52–B63B); and
  - (j) granting options to purchase additional goods or services (when those options provide a customer with a material right, as described in paragraphs B39–B43).
- 27 A good or service that is promised to a customer is distinct if both of the following criteria are met:
- (a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (ie the good or service is capable of being distinct); and
  - (b) the entity’s promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (ie the promise to transfer the good or service is distinct within the context of the contract).
- 28 A customer can benefit from a good or service in accordance with paragraph 27(a) if the good or service could be used, consumed, sold for an amount that is greater than scrap value or otherwise held in a way that generates economic benefits. For some goods or services, a customer may be able to benefit from a good or service on its own. For other goods or services, a customer may be able to benefit from the good or service only in conjunction with other readily available resources. A readily available resource is a good or service that is sold separately (by the entity or another entity) or a resource that the customer has already obtained from the entity (including goods or services that the entity will have already transferred to the customer under the contract) or from other transactions or events. Various factors may provide evidence that the customer can benefit from a good or service either on its own or in conjunction with other readily available resources. For example, the fact that the entity regularly sells a good or service separately would indicate that a customer can benefit from the good or service on its own or with other readily available resources.
- 29 In assessing whether an entity’s promises to transfer goods or services to the customer are separately identifiable in accordance with paragraph 27(b), the objective is to determine whether the nature of the promise, within the context of the contract, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs. Factors that indicate that ~~an entity’s promise~~ two or more promises to transfer a ~~good or service~~ goods or services to a customer ~~is are not~~ separately identifiable (~~in accordance with paragraph 27(b)~~) include, but are not limited to, the following:
- (a) the entity ~~does not provide~~ provides a significant service of integrating the ~~good or service~~ goods or services with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted. In other words, the entity is ~~not~~ using the ~~good or service as an input~~ goods or services as inputs to produce or deliver the combined output or outputs specified by the customer. A combined output or outputs might include more than one phase, element or unit.
  - (b) one or more of the ~~good or service does not~~ goods or services significantly ~~modify or customise~~ modifies or customises, or are significantly modified or customised by, ~~one or more of the other~~ another good or service goods or services promised in the contract.
  - (c) the ~~good or service is not~~ goods or services are highly interdependent on, or highly interrelated with, ~~other goods or services promised in the contract. For example, the fact that a customer could decide to~~

~~not purchase the good or service without significantly affecting the other promised goods or services in the contract might indicate that the good or service is not highly dependent on, or highly interrelated with, those other promised goods or services. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the contract. For example, in some cases, two or more goods or services are significantly affected by each other because the entity would not be able to fulfil its promise by transferring each of the goods or services independently.~~

- 30 If a promised good or service is not distinct, an entity shall combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases, that would result in the entity accounting for all the goods or services promised in a contract as a single performance obligation.

In Appendix B, paragraphs B1, B34–B38, B52–B53 and B58 are amended and paragraphs B34A, B35A, B35B, B37A, B59A, B63A and B63B are added. Paragraph B57 is deleted. Deleted text is struck through and new text is underlined. Paragraphs B54–B56, B59 and B60–B63 have not been amended but have been included for ease of reference.

## Appendix B Application Guidance

...

- B1 This application guidance is organised into the following categories:

(a) ...

(i) licensing (paragraphs B52–B63B);

(j) ...

### Principal versus agent considerations

- B34 When another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (ie the entity is a principal) or to arrange for those goods or services to be provided by the other party ~~to provide those goods or services~~ (ie the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the customer. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer (see paragraphs 27–30). If a contract with a customer includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

- B34A To determine the nature of its promise (as described in paragraph B34), the entity shall:

- (a) identify the specified goods or services to be provided to the customer (which, for example, could be a right to a good or service to be provided by another party (see paragraph 26)); and  
(b) assess whether it controls (as described in paragraph 33) each specified good or service before that good or service is transferred to the customer.

- B35 An entity is a principal if ~~the entity~~ it controls ~~a promised~~ the specified good or service before ~~the entity transfers the~~ that good or service is transferred to a customer. However, an entity ~~is~~ does not necessarily ~~acting as a principal~~ control a specified good if the entity obtains legal title ~~of a product to that good~~ only momentarily before legal title is transferred to a customer. An entity that is a principal in a contract may satisfy a its performance obligation by to provide the specified good or service itself or it may engage another party (for example, a subcontractor) to satisfy some or all of a the performance obligation on its behalf. When

~~an entity that is a principal satisfies a performance obligation, the entity recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for those goods or services transferred.~~

**B35A** When another party is involved in providing goods or services to a customer, an entity that is a principal obtains control of any one of the following:

- (a) a good or another asset from the other party that it then transfers to the customer.
- (b) a right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf.
- (c) a good or service from the other party that it then combines with other goods or services in providing the specified good or service to the customer. For example, if an entity provides a significant service of integrating goods or services (see paragraph 29(a)) provided by another party into the specified good or service for which the customer has contracted, the entity controls the specified good or service before that good or service is transferred to the customer. This is because the entity first obtains control of the inputs to the specified good or service (which includes goods or services from other parties) and directs their use to create the combined output that is the specified good or service.

**B35B** When (or as) an entity that is a principal satisfies a performance obligation, the entity recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred.

**B36** An entity is an agent if the entity's performance obligation is to arrange for the provision of goods or services the specified good or service by another party. An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the customer. When (or as) an entity that is an agent satisfies a performance obligation, the entity recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the other party to provide its the specified goods or services to be provided by the other party. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

**B37** Indicators that an entity is an agent (and therefore does not control controls the specified good or service before it is provided transferred to a the customer) (and is therefore a principal (see paragraph B35)) include, but are not limited to, the following:

- (a) another party the entity is primarily responsible for fulfilling the contract; promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service (for example, primary responsibility for the good or service meeting customer specifications). If the entity is primarily responsible for fulfilling the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity's behalf.
- (b) the entity does not have has inventory risk before or after the goods have the specified good or service has been ordered by transferred to a customer, during shipping or on return; or after transfer of control to the customer (for example, if the customer has a right of return). For example, if the entity obtains, or commits itself to obtain, the specified good or service before obtaining a contract with a customer, that may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the good or service before it is transferred to the customer.
- (c) the entity does not have has discretion in establishing prices the price for the other party's goods or services and, therefore, the benefit that the entity can receive from those goods or services is limited;

specified good or service. Establishing the price that the customer pays for the specified good or service may indicate that the entity has the ability to direct the use of that good or service and obtain substantially all of the remaining benefits. However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to customers.

- (d) ~~the entity's consideration is in the form of a commission; and~~
- (e) ~~the entity is not exposed to credit risk for the amount receivable from a customer in exchange for the other party's goods or services.~~

B37A The indicators in paragraph B37 may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the contract. In addition, different indicators may provide more persuasive evidence in different contracts.

B38 If another entity assumes the entity's performance obligations and contractual rights in the contract so that the entity is no longer obliged to satisfy the performance obligation to transfer the ~~promised~~ specified good or service to the customer (ie the entity is no longer acting as the principal), the entity shall not recognise revenue for that performance obligation. Instead, the entity shall evaluate whether to recognise revenue for satisfying a performance obligation to obtain a contract for the other party (ie whether the entity is acting as an agent).

...

## Licensing

B52 A licence establishes a customer's rights to the intellectual property of an entity. Licences of intellectual property may include, but are not limited to, licences of any of the following:

- (a) software and technology;
- (b) motion pictures, music and other forms of media and entertainment;
- (c) franchises; and
- (d) patents, trademarks and copyrights.

B53 In addition to a promise to grant a licence (or licences) to a customer, an entity may also promise to transfer other goods or services to the customer. Those promises may be explicitly stated in the contract or implied by an entity's customary business practices, published policies or specific statements (see paragraph 24). As with other types of contracts, when a contract with a customer includes a promise to grant a licence (or licences) in addition to other promised goods or services, an entity applies paragraphs 22–30 to identify each of the performance obligations in the contract.

B54 If the promise to grant a licence is not distinct from other promised goods or services in the contract in accordance with paragraphs 26–30, an entity shall account for the promise to grant a licence and those other promised goods or services together as a single performance obligation. Examples of licences that are not distinct from other goods or services promised in the contract include the following:

- (a) a licence that forms a component of a tangible good and that is integral to the functionality of the good; and
- (b) a licence that the customer can benefit from only in conjunction with a related service (such as an online service provided by the entity that enables, by granting a licence, the customer to access content).

B55 If the licence is not distinct, an entity shall apply paragraphs 31–38 to determine whether the performance obligation (which includes the promised licence) is a performance obligation that is satisfied over time or satisfied at a point in time.

B56 If the promise to grant the licence is distinct from the other promised goods or services in the contract and, therefore, the promise to grant the licence is a separate performance obligation, an entity shall determine whether the licence transfers to a customer either at a point in time or over time. In making this determination, an entity shall consider whether the nature of the entity's promise in granting the licence to a customer is to provide the customer with either:

- (a) a right to access the entity's intellectual property as it exists throughout the licence period; or
- (b) a right to use the entity's intellectual property as it exists at the point in time at which the licence is granted.

### **Determining the nature of the entity's promise**

B57 ~~To determine whether an entity's promise to grant a licence provides a customer with either a right to access an entity's intellectual property or a right to use an entity's intellectual property, an entity shall consider whether a customer can direct the use of, and obtain substantially all of the remaining benefits from, a licence at the point in time at which the licence is granted. A customer cannot direct the use of, and obtain substantially all of the remaining benefits from, a licence at the point in time at which the licence is granted if the intellectual property to which the customer has rights changes throughout the licence period. The intellectual property will change (and thus affect the entity's assessment of when the customer controls the licence) when the entity continues to be involved with its intellectual property and the entity undertakes activities that significantly affect the intellectual property to which the customer has rights. In these cases, the licence provides the customer with a right to access the entity's intellectual property (see paragraph B58). In contrast, a customer can direct the use of, and obtain substantially all of the remaining benefits from, the licence at the point in time at which the licence is granted if the intellectual property to which the customer has rights will not change (see paragraph B61). In those cases, any activities undertaken by the entity merely change its own asset (ie the underlying intellectual property), which may affect the entity's ability to provide future licences; however, those activities would not affect the determination of what the licence provides or what the customer controls.~~ [Deleted]

B58 The nature of an entity's promise in granting a licence is a promise to provide a right to access the entity's intellectual property if all of the following criteria are met:

- (a) the contract requires, or the customer reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the customer has rights (see paragraphs B59 and B59A);
- (b) the rights granted by the licence directly expose the customer to any positive or negative effects of the entity's activities identified in paragraph B58(a); and
- (c) those activities do not result in the transfer of a good or a service to the customer as those activities occur (see paragraph 25).

B59 Factors that may indicate that a customer could reasonably expect that an entity will undertake activities that significantly affect the intellectual property include the entity's customary business practices, published policies or specific statements. Although not determinative, the existence of a shared economic interest (for example, a sales-based royalty) between the entity and the customer related to the intellectual property to

which the customer has rights may also indicate that the customer could reasonably expect that the entity will undertake such activities.

**B59A** An entity's activities significantly affect the intellectual property to which the customer has rights when either:

- (a) those activities are expected to significantly change the form (for example, the design or content) or the functionality (for example, the ability to perform a function or task) of the intellectual property; or
- (b) the ability of the customer to obtain benefit from the intellectual property is substantially derived from, or dependent upon, those activities. For example, the benefit from a brand is often derived from, or dependent upon, the entity's ongoing activities that support or maintain the value of the intellectual property.

Accordingly, if the intellectual property to which the customer has rights has significant stand-alone functionality, a substantial portion of the benefit of that intellectual property is derived from that functionality. Consequently, the ability of the customer to obtain benefit from that intellectual property would not be significantly affected by the entity's activities unless those activities significantly change its form or functionality. Types of intellectual property that often have significant stand-alone functionality include software, biological compounds or drug formulas, and completed media content (for example, films, television shows and music recordings).

**B60** If the criteria in paragraph B58 are met, an entity shall account for the promise to grant a licence as a performance obligation satisfied over time because the customer will simultaneously receive and consume the benefit from the entity's performance of providing access to its intellectual property as the performance occurs (see paragraph 35(a)). An entity shall apply paragraphs 39–45 to select an appropriate method to measure its progress towards complete satisfaction of that performance obligation to provide access.

**B61** If the criteria in paragraph B58 are not met, the nature of an entity's promise is to provide a right to use the entity's intellectual property as that intellectual property exists (in terms of form and functionality) at the point in time at which the licence is granted to the customer. This means that the customer can direct the use of, and obtain substantially all of the remaining benefits from, the licence at the point in time at which the licence transfers. An entity shall account for the promise to provide a right to use the entity's intellectual property as a performance obligation satisfied at a point in time. An entity shall apply paragraph 38 to determine the point in time at which the licence transfers to the customer. However, revenue cannot be recognised for a licence that provides a right to use the entity's intellectual property before the beginning of the period during which the customer is able to use and benefit from the licence. For example, if a software licence period begins before an entity provides (or otherwise makes available) to the customer a code that enables the customer to immediately use the software, the entity would not recognise revenue before that code has been provided (or otherwise made available).

**B62** An entity shall disregard the following factors when determining whether a licence provides a right to access the entity's intellectual property or a right to use the entity's intellectual property:

- (a) Restrictions of time, geographical region or use—those restrictions define the attributes of the promised licence, rather than define whether the entity satisfies its performance obligation at a point in time or over time.
- (b) Guarantees provided by the entity that it has a valid patent to intellectual property and that it will defend that patent from unauthorised use—a promise to defend a patent right is not a performance obligation because the act of defending a patent protects the value of the entity's intellectual property assets and provides assurance to the customer that the licence transferred meets the specifications of the licence promised in the contract.

## Sales-based or usage-based royalties

**B63** Notwithstanding the requirements in paragraphs 56–59, an entity shall recognise revenue for a sales-based or usage-based royalty promised in exchange for a licence of intellectual property only when (or as) the later of the following events occurs:

- (a) the subsequent sale or usage occurs; and
- (b) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

**B63A** The requirement for a sales-based or usage-based royalty in paragraph B63 applies when the royalty relates only to a licence of intellectual property or when a licence of intellectual property is the predominant item to which the royalty relates (for example, the licence of intellectual property may be the predominant item to which the royalty relates when the entity has a reasonable expectation that the customer would ascribe significantly more value to the licence than to the other goods or services to which the royalty relates).

**B63B** When the requirement in paragraph B63A is met, revenue from a sales-based or usage-based royalty shall be recognised wholly in accordance with paragraph B63. When the requirement in paragraph B63A is not met, the requirements on variable consideration in paragraphs 50–59 apply to the sales-based or usage-based royalty.

In Appendix C, paragraphs C2, C5 and C7 are amended and paragraphs C1B, C7A and C8A are added. Deleted text is struck through and new text is underlined. Paragraphs C3 and C6 have not been amended but have been included for ease of reference.

## Effective date

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**C1B** Clarifications to SLFRS 15 Revenue from Contracts with Customers, issued in November 2016, amended paragraphs 26, 27, 29, B1, B34–B38, B52–B53, B58, C2, C5 and C7, deleted paragraph B57 and added paragraphs B34A, B35A, B35B, B37A, B59A, B63A, B63B, C7A and C8A. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

## Transition

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**C2** For the purposes of the transition requirements in paragraphs C3–C8A:

- (a) the date of initial application is the start of the reporting period in which an entity first applies this Standard; and
- (b) a completed contract is a contract for which the entity has transferred all of the goods or services identified in accordance with LKAS 11 *Construction Contracts*, LKAS 18 *Revenue* and related Interpretations.

**C3** An entity shall apply this Standard using one of the following two methods:

- (a) retrospectively to each prior reporting period presented in accordance with LKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to the expedients in paragraph C5; or

- (b) retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application in accordance with paragraphs C7–C8.

...

C5 An entity may use one or more of the following practical expedients when applying this Standard retrospectively in accordance with paragraph C3(a):

- (a) for completed contracts, an entity need not restate contracts that:
- (i) begin and end within the same annual reporting period; or
  - (ii) are completed contracts at the beginning of the earliest period presented.
- (b) for completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods; ~~and~~
- (c) for contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract for those contract modifications in accordance with paragraphs 20–21. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:
- (i) identifying the satisfied and unsatisfied performance obligations;
  - (ii) determining the transaction price; and
  - (iii) allocating the transaction price to the satisfied and unsatisfied performance obligations.
- ~~(e)~~(d) for all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue (see paragraph 120).

C6 For any of the practical expedients in paragraph C5 that an entity uses, the entity shall apply that expedient consistently to all contracts within all reporting periods presented. In addition, the entity shall disclose all of the following information:

- (a) the expedients that have been used; and
- (b) to the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.

C7 If an entity elects to apply this Standard retrospectively in accordance with paragraph C3(b), the entity shall recognise the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application. Under this transition method, an entity ~~shall~~ may elect to apply this Standard retrospectively only to contracts that are not completed contracts at the date of initial application (for example, 1 January 2018 for an entity with a 31 December year-end).

C7A An entity applying this Standard retrospectively in accordance with paragraph C3(b) may also use the practical expedient described in paragraph C5(c), either:

- (a) for all contract modifications that occur before the beginning of the earliest period presented; or
- (b) for all contract modifications that occur before the date of initial application.

If an entity uses this practical expedient, the entity shall apply the expedient consistently to all contracts and disclose the information required by paragraph C6.



...

C8A An entity shall apply *Clarifications to SLFRS 15* (see paragraph C1B) retrospectively in accordance with LKAS 8. In applying the amendments retrospectively, an entity shall apply the amendments as if they had been included in SLFRS 15 at the date of initial application. Consequently, an entity does not apply the amendments to reporting periods or to contracts to which the requirements of SLFRS 15 are not applied in accordance with paragraphs C2–C8. For example, if an entity applies SLFRS 15 in accordance with paragraph C3(b) only to contracts that are not completed contracts at the date of initial application, the entity does not restate the completed contracts at the date of initial application of SLFRS 15 for the effects of these amendments.