ACCOUNTING NEWSLETTER

Issue 2013/03

Quarterly publication of KPMG in Poland

This quarterly Accounting Newsletter presents selected recent changes in International Financial Reporting Standards (IFRS), Polish accounting principles (including the Accounting Act and National Accounting Standards) and related topics that may be relevant to a significant number of entities operating in Poland. The publication can assist you in staying up to date with evolving application guidance and new regulatory developments concerning those standards.

Contents

Effective dates of IFRSs

Effective dates – at a glance

The following is a list of recently published standards, amendments and interpretations of standards that need to be considered, and the status of their endorsement by the European Union as at 31 December 2013:

Effective date	Standard	Endorsed by EU?
1 July 2012	Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)	Yes
1 January 2013	IFRS 10 Consolidated Financial Statements	Yes*
	IFRS 11 Joint Arrangements	Yes*
	IFRS 12 Disclosure of Interests in Other Entities	Yes*
	IFRS 13 Fair Value Measurement	Yes
	IAS 19 Employee Benefits (amended 2011)	Yes
	IAS 27 Separate Financial Statements (2011)	Yes*
	IAS 28 Investments in Associates and Joint Ventures (2011)	Yes*
	IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine	Yes
	Government Loans (Amendments to IFRS 1)	Yes
	Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	Yes
	Annual Improvements to IFRSs 2009–2011 Cycle – various standards	Yes
	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)	Yes*
1 January 2014	Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	Yes
	Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	Yes
	Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)	Yes
	IFRIC Interpretation 21 Levies	No
	Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)	Yes
1 July 2014	Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)	No
	Annual Improvements to IFRSs 2010–2012 Cycle	No
	Annual Improvements to IFRSs 2011–2013 Cycle	No
Available for adoption**	IFRS 9 Financial Instruments (2009) and subsequent amendments (amendments to IFRS 9 and IFRS 7)	No

** Each company applying IFRS as adopted by the European Union (IFRS EU) shall apply IFRS 10, IFRS 11, IFRS 12, the amended IAS 27, the amended IAS 28, and the consequential amendments, at the latest, from the commencement date of its first financial year starting on or after 1 January 2014.*

***Mandatory effective date removed by the IASB*

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Status of IFRS endorsement by the European Union (EU)

The following new pronouncements were endorsed by the EU during the period from 1 July 2013 through 31 December 2013:

- **Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)**
  The amendments:
  - clarify that recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generating units for which an impairment loss was recognised or reversed during the period, and
  - require the following additional disclosures when an impairment for individual assets (including goodwill) or cash-generating units has been recognised or reversed in the period and recoverable amount is based on fair value less costs to disposal:
    - the level of IFRS 13 Fair value hierarchy within which the fair value measurement of the asset or cash-generating unit is categorised;
    - for fair value measurements categorised within Level 2 or Level 3 of the fair value hierarchy:
      - a description of the valuation techniques used and any changes in those valuation techniques;
      - key assumptions used in the measurement of fair value less costs of disposal, including discount rate(s) used both in those current and previous measurement, if fair value less costs of disposal is measured using a present value technique.
- **Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)**
  The amendments add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria, as follows:
  - The novation is made as a consequence of laws or regulations,
  - A clearing counterparty becomes a new counterparty to each of the original counterparties of the derivative instrument,
  - Changes to the terms of the derivative are limited to those necessary to replace the counterparty.
- **Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)**

The amendments provide an exception to the consolidation requirements in IFRS 10 and require qualifying investment entities to measure their investments in controlled entities at fair value through profit or loss, instead of consolidating them.

The consolidation exemption is mandatory (i.e. not optional), with the only exception being that subsidiaries that are considered an extension of the investment entity's investing activities, must still be consolidated.

To qualify as an investment entity, an entity is required to meet three "essential" tests, and is expected to have one or more "typical" characteristics. The "essential" tests include the requirement that an entity:

- obtains funds from investors to provide those investors with investment management services;
- commits to its investors that its business purpose is to invest for returns solely from appreciation and/or investment income; and
- measures and evaluates the performance of substantially all of its investments on a fair value basis.

The amendments also set out disclosure requirements for investment entities.

Go to: EFRAG Endorsement Status Report

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New IFRS standards, amendments and interpretations

Hedge accounting and amendments to IFRS 9, IFRS 7 and IAS 39

On 19 November 2013, the International Accounting Standards Board (IASB) issued new general hedge accounting principles – part of IFRS 9 Financial Instruments (2013) – which will align hedge accounting more closely with risk management. The new principles do not fundamentally change the types of hedging relationships or the requirement to measure and recognise ineffectiveness; however, more hedging strategies that are used for risk management will qualify for hedge accounting.

Assessing the effectiveness of a hedging relationship will require more judgement, and the application guidance in some areas remains complex. Significant effort may be needed to analyse the requirements and their impact, while changes to current practice may lead to additional systems requirements.

The mandatory effective date is still to be determined, but entities may early adopt the new general hedging model if they also apply all existing IFRS 9 requirements at the same time.

Go to: In the Headlines: Hedge accounting moves closer to risk management (2013/19)

Go to: First Impressions: IFRS 9 (2013) – Hedge accounting and transition

Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

The IASB on 21 November 2013 published narrow-scope amendments to IAS 19 Employee Benefits entitled Defined Benefit Plans: Employee Contributions (Amendments to IAS 19).

The narrow-scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

The amendments are effective from 1 July 2014 with earlier application permitted.

Go to: In the Headlines: Employee contributions (2013/20)

Annual Improvements

On 12 December 2013, the IASB issued Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs 2011–2013 Cycle.

The IASB uses the annual improvements process to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of any other project. By presenting the amendments in the form of a single document rather than as a series of piecemeal changes, the IASB aims to ease the burden of change for all concerned.

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Annual Improvements (continued)

The Annual Improvements to IFRSs 2010-2012 contains 8 amendments to 7 standards, with consequential amendments to other standards and interpretations. The main changes were made to:

- clarify the definition of 'vesting condition' in Appendix A of IFRS 2 Share-based Payment by separately defining a 'performance condition' and a 'service condition';
- clarify certain aspects of accounting for contingent consideration in a business combination;
- amend paragraph 22 of IFRS 8 Operating Segments to require entities to disclose those factors that are used to identify the entity's reportable segments when operating segments have been aggregated. This is to supplement the current disclosure requirements in paragraph 22(a) of IFRS 8;
- amend paragraph 28(c) of IFRS 8 Operating Segments to clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed, if that amount is regularly provided to the chief operating decision maker. This amendment is consistent with the requirements in paragraphs 23 and 28(d) in IFRS 8;
- clarify the IASB's rationale for removing paragraph B5.4.12 of IFRS 9 Financial Instruments and paragraph AG79 of IAS 39 Financial Instruments: Recognition and Measurement as consequential amendments from IFRS 13 Fair Value Measurement;
- clarify the requirements of the revaluation model in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets recognising that the restatement of accumulated depreciation (amortisation) is not always proportionate to the change in the gross carrying amount of the asset;
- make an entity providing management personnel services to the reporting entity a related party of the reporting entity under IAS 24 Related Party Disclosures;

The Annual Improvements to IFRSs 2011-2013 contains 4 amendments to standards, with consequential amendments to other standards and interpretations. The main changes were made to:

- clarify the meaning of 'each IFRS effective at the end of an entity's first IFRS reporting period' as used in paragraph 7 of IFRS 1 First-time Adoption of IFRSs, and also clarify that in its first IFRS financial statements a first – time adopter is permitted but not required to apply a new or revised IFRS that is not yet mandatory, but is available for earlier application;
- clarify that the scope exemption in paragraph 2(a) of IFRS 3 Business Combinations:
  - excludes the formation of all types of joint arrangements as defined in IFRS 11 Joint Arrangements from the scope of IFRS 3; and
  - only applies to the financial statements of the joint venture or the joint operation itself.
- clarify that the portfolio exception included in paragraph 48 of IFRS 13, applies to all contracts within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation;
- clarify that judgement is needed to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of IFRS 3 and that this judgement is based on the guidance in IFRS 3.

Most amendments will apply prospectively for annual periods beginning on or after 1 July 2014. Early application is permitted. Special transitional requirements have been set for amendments to the following standards: IFRS 2, IAS 16, IAS 38 and IAS 40.

Go to: IFRS Newsletter: Balancing Items (6/2013)

Regulatory activities

ESMA announces enforcement priorities for 2013 financial statements

On 11 November 2013, the European Securities and Markets Authority (ESMA) issued a public statement, *European common enforcement priorities for 2013 financial statements.* The statement includes topics that ESMA believes are of particular significance to European listed companies in light of the current economic situation and therefore should be taken into consideration when preparing and auditing IFRS financial statements for the year ending 31 December 2013.

The statement focuses on specific aspects of applying IFRS, relating to an entity's:

- impairment of non-financial assets;
- measurement of post-employment benefit obligations;
- fair value measurement and disclosure;
- disclosures related to significant accounting policies, judgments and estimates; and
- financial instruments.

Given the global economic and market environment, national regulators around the world, including Poland's Financial Supervision Authority (KNF), are likely to take notice of ESMA's statement, and to pay particular attention to these same areas of focus.

Go to: In the Headlines: Focus areas for regulators. Reinforcing the need for consistency and clarity (Issue 2013/17)

Go to: European common enforcement priorities for 2013 financial statements (ESMA statement)

KNF's statement on *bancassurance*

The term *bancassurance* refers to situations in which insurance products are being sold by banks (often acting in the capacity of an insurer's agent) to their clients. On 23 December 2013, the KNF issued a letter addressed to the banks operating in Poland, reiterating the significance of its recommendations on accounting for revenue from *bancassurance* arrangements (previously outlined in its letter dated 7 March 2013), and also on estimates of credit risk (as included in the regulator's recommendation dated 20 September 2013).

In the letter, the KNF takes the view that under IFRS the recognition of revenue from insurance products distributed by banks should be based on the matching concept and be reflective of the economic substance of each transaction. The regulator also reiterates that banks preparing their financial statements under IFRS are expected to recognize revenue from insurance commissions in accordance with IAS 18 Revenue, which among other things requires that:

- Insurance agency commissions received or receivable which do not require the agent to render further service be recognized as revenue by the agent on the effective commencement or renewal dates of the related policies. However, when it is probable that the agent will be required to render further services during the life of the policy, the commission, or part thereof, is deferred and recognized as revenue over the period during which the policy is in force, and

- Fees which are an integral part of issuing a financial instrument are recognised as an adjustment to the effective interest rate.

Pursuant to the letter, those banks that do not apply the KNF's recommended approach to estimates of credit risk and accounting for revenue from bancassurance arrangements, may be subject to further regulatory actions.

Go to: KNF's statement on bancassurance (pol.)

Our recent publications

Guide to annual financial statements - Illustrative disclosures (September 2013)

This guide illustrates one possible format for the presentation of annual financial statements, based on a fictitious multinational company.

Go to: Guide to annual financial statements - Illustrative disclosures (September 2013)

Guide to annual financial statements – Disclosure checklist (September 2013)

2013 sees a number of new and revised IFRSs come into effect, some of which contain significant new disclosures. This publication, together with the illustrative disclosures in our Guide to financial statements suite, sets out many of the potential disclosure requirements under IFRS.

Go to: Guide to annual financial statements – Disclosure checklist (September 2013)

Guide to annual financial statements - Illustrative disclosures for banks (December 2013)

This guide illustrates one possible format for the presentation of annual financial statements, based on a fictitious multinational bank.

Go to: Guide to annual financial statements – Illustrative disclosures for banks (December 2013)

IFRS Compared to US GAAP (November 2013)

The purpose of the publication IFRS compared to US GAAP, from which the below-linked overview has been extracted, is to assist you in understanding the significant differences between IFRS and US GAAP.

Go to: IFRS Compared to US GAAP – an overview (November 2013)

In the Headlines: Integrated reporting (December 2013)

This issue of In the Headlines looks at the newly issued Integrated Reporting ("IR") Framework, which aims to reshape the direction and focus of corporate reporting. The proposals are likely to be of particular interest to those companies already looking to improve the quality of their narrative reporting as a basis for a better dialogue with their investors. Broadly, we expect IR to result in the following outcomes:

- more operationally focused measures of performance;
- greater focus on explaining key business assets – e.g. customer base, intellectual property and reputation; and;
- more emphasis on explaining factors driving future performance.

Go to: In the Headlines: Integrated reporting (2013/23) (December 2013)

In the Headlines: Equity method in separate financial statements (December 2013)

This issue of In the Headlines looks at proposals to allow equity accounting in separate financial statements under IFRS.

Go to: In the Headlines: Equity method in separate financial statements (2013/21) (December 2013)

Fair Value Measurement: Questions and Answers (November 2013)

This edition of Questions and Answers deals with fair value measurement under both U.S. GAAP and IFRS. The purpose of this publication is to assist in understanding of FASB ASC Topic 820 *Fair Value Measurement*, and IFRS 13 *Fair Value Measurement* and the differences between these standards.

Go to: Fair Value Measurement: Questions and Answers (November 2013)

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Insights into IFRS – The latest thinking on IFRS from KPMG experts

This tenth edition of KPMG's Insights into IFRS reflects IFRSs in issue as at 1 August 2013. The publication provides detailed practical guidance and presents KPMG's most up-to-date thinking on IFRSs, encompassing not only current and forthcoming requirements but also potential future developments.

Organised into topics, Insights into IFRS broadly follows typical presentation of items in the financial statements to give the readers ready access to the answers they need. In particular, the book:

- offers practical guidance for preparing and interpreting financial statements;
- cuts through complexity by offering clear and insightful analysis of technical content; and
- provides real-life examples to address issues of practical application.

Use the **link** to order the hard copy of the publication.

IFRS Newsletters

We also recommend the following selected IFRS-related newsletters recently issued by KPMG's International Standards Group:

- **IFRS Newsletter: Financial Instruments – issues 14 through 18** highlight the discussions and tentative decisions of the IASB from July to December 2013, on the financial instruments (IAS 39 replacement) project.

Go to: IFRS newsletter: Financial Instruments – issue 14

Go to: IFRS newsletter: Financial Instruments – issue 15

Go to: IFRS newsletter: Financial Instruments – issue 16

Go to: IFRS newsletter: Financial Instruments – issue 17

Go to: IFRS newsletter: Financial Instruments – issue 18

- **IFRS Newsletter: Revenue – issues 10 and 11** examine the current thinking on the revenue project, and what the proposals could mean for you. Despite the IASB and FASB completing substantive redeliberations in February 2013, they continued their discussions of sweep issues in July and October 2013. For a full summary of the redeliberations refer to the Newsletters.

Go to: IFRS Newsletter: Revenue – issue 10

Go to: IFRS Newsletter: Revenue – issue 11

- **IFRS Newsletter: Banking – issues 11 and 12** highlight (among other matters) continued deliberations on some of the key aspects of IASB's classification and measurement and expected credit losses models to form part of the future financial instruments standard, release of the hedge accounting model and IFRS 10 lessons from first year of application outside the EU.

Go to: IFRS Newsletter: Banking – issue 11

Go to: IFRS Newsletter: Banking – issue 12

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