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Deloitte Czech Republic

March 2018



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Amendment to Regulation No. 501/2002 Coll., for Banks and Other Financial Institutions, from 1 January 2018

On 15 December 2017, an amendment to the implementing regulation to the Accounting Act for banks and other financial institutions was published in the Collection of Laws under number 442/2017 Coll.

Main reasons for the amendment

The main reasons for the amendment to Regulation No. 501/2002 Coll., for reporting entities that are banks or other financial institutions (hereinafter the “Regulation Amendment”), were as follows:

- Effectiveness of the new International Financial Reporting Standard adopted for use in the EU – *IFRS 9 Financial Instruments*, which replaces *IAS 39 Financial Instruments: Recognition and Measurement* from 1 January 2018;
- Incorporation of changes brought by Act No. 257/2016 Coll., on Consumer Lending, as amended; and
- Changes of a legislative and technical nature.

Primary changes in the Regulation

The primary changes brought by the Regulation Amendment include:

1. Presentation, measurement and disclosure of financial instruments

A new Section 4a was added, introducing the obligation for reporting entities “to present, measure and disclose information on financial instruments in the notes to the financial statements in line with the international accounting standards adjusted by directly applicable regulations of the European Union on the application of international accounting standards”. A financial instrument means a financial instrument as per international accounting standards. This therefore means that from 1 January 2018 reporting entities have to present, measure and disclose information on financial instruments in line with the following International Financial Reporting Standard (IFRS):

- **IFRS 9 Financial Instruments**
The standard sets out requirements for recognition, measurement, impairment and derecognition of financial assets and financial liabilities and general hedge accounting.
- **IAS 32 Financial Instruments: Presentation**
The standard sets out the principles of classification and presentation of financial instruments as debt or equity instruments and for offsetting financial assets and liabilities.
- **IFRS 7 Financial Instruments: Disclosures**
The standard defines requirements for disclosures that will enable users of financial statements to evaluate the significance of financial instruments for the reporting entity and to discover the nature and extent of risks arising from financial instruments and the way in which the reporting entity manages these risks.



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In Financial Bulletin No. 10/2017 of 22 December 2017, the Ministry of Finance issued a communication concerning this extensive change of accounting methods in the area of financial instruments.

The communication of the Ministry of Finance states: “The reference to IFRS for the purposes of presentation, measurement and disclosure of financial instruments in the notes to the financial statements will ensure that the affected reporting entities will have access to principles and policies for reporting more complicated transactions.”

The Communication of the Ministry of Finance also provides a more comprehensible explanation of the transitional guidance included in Article II, paragraph 2 of the Regulation, which provides certain reporting entities with a **three-year transitional period** to ensure a problem-free transition to the new accounting methods and

requirements concerning financial standards. The reporting entities which will have to follow IFRS in the area of financial instruments only from 1 January 2021 are:

- Securities traders**, organisational branches of a foreign securities trader pursuant to the Act on Capital Market Trading;
- Investment companies and investment funds** or branches of a foreign entity that is authorised to manage investment funds or foreign investment funds pursuant to the Act on the Activities of Investment Companies and Investment Funds; and
- Pension companies**, participants funds or transformed funds pursuant to the Act on Supplementary Pension Savings.

In line with the communication of the Ministry of Finance the above reporting entities will use Czech Accounting

Standards for Financial Institutions as amended as of 1 January 2018.

Reporting entities that cannot use the transitional period in the area of financial instruments (i.e. banks, savings and loan cooperatives, financial holding groups, electronic money institutions and payments institutions) will not use Czech Accounting Standards for Financial Institutions effective as of 1 January 2018 in the area of financial instruments, but instead the directly applicable regulations of the European Union on the application of international accounting standards in line with Section 4a of the Regulation.



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A number of changes to the Regulation also follow from the fact that IFRS 9 categorises financial assets differently from the previous standard IAS 39. Financial assets are now classified as measured at amortised cost, at fair value through equity and at fair value through profit or loss.

2. Cash flow statement

Section 3 of the Regulation adds the obligation to prepare the cash flow statement, which already follows from Section 18 (2) of the Accounting Act. Pursuant to the Act, this obligation applies only to medium-sized and large reporting entities, but it does not concern public interest entities (banks, savings and loan cooperatives, insurance companies, pension companies and health insurance companies).

Entities are newly required to prepare the cash flow statement with an adequate application of Regulation No. 500/2002 Coll., for Businesses.

3. Cancellation of extraordinary income and expenses

The profit and loss account items 'Extraordinary income' and 'Extraordinary expenses' have been cancelled.

The Regulation Amendment also fine-tunes certain other provisions in a legislative and technical respect, which will not lead to any significant changes in practice.

The Regulation Amendment came into force on 1 January 2018 and it will apply for reporting periods beginning on or after 1 January 2018.

The full text of Regulation No. 501/2002 Coll. can be found [here](#).

Amendment to Czech Accounting Standards

Following the Regulation Amendment, on 22 December 2017 the Financial Bulletin published **changes to Czech Accounting Standards** for reporting entities maintaining accounting records under Regulation No. 501/2002 Coll., effective from 1 January 2018.

The main change is that from 1 January 2018 CAS Nos. 108 Securities and 110 Derivatives will not be used by banks, savings and loan cooperatives, securities traders, financial holding groups, electronic money institutions and payments institutions.

The full text of the changes in Czech Accounting Standards for Banks and Other Financial Institutions can be found [here](#).



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How we can help you

The amendment to Regulation No. 501/2002 Coll., for Banks and Other Financial Institutions, and the newly introduced obligation to follow IFRS in the area of financial instruments will entail an extensive and difficult change for many reporting entities.

In this respect Deloitte can offer you:

- English-language publications at www.iasplus.com;
- Consultations with Deloitte experts concerning the specific impacts of IFRS 9 on your reporting entity;
- dReport articles addressing this topic;
- Assistance during the implementation of the requirements set by this new standard; and
- Seminars on IFRS 9 *Financial instruments*.

If you would like to find out more about our advisory services, please contact David Jurčík (djurcik@deloitteCE.com).



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Amendment to Regulation No. 502/2002 Coll., for Insurance Companies, from 1 January 2018

On 15 December 2017, an amendment to the implementing regulation to the Accounting Act for insurance companies was published in the Collection of Laws under number 443/2017 Coll.

The main reasons for the amendment to Regulation No. 502/2002 Coll., for reporting entities that are insurance companies (hereinafter the “Regulation Amendment”), were as follows:

- Effectiveness of the new International Financial Reporting Standard adopted for use in the EU – IFRS 9 *Financial Instruments*, which replaces IAS 39 *Financial Instruments: Recognition and Measurement* from 1 January 2018;
- Terminology adjustments related to the amendment to Act No. 277/2009 Coll., on Insurance, as amended; and
- Changes of a legislative and technical nature in response to changes in other legal regulations.

We believe that the most important change from the perspective of insurance companies is the inclusion of a new paragraph 6 in Section 3, which stipulates that for the purposes of presentation, measurement and disclosure of information in the notes to the financial statements regarding securities, equity investments and derivatives and transactions with them, a reporting entity should apply the provisions of Regulation No. 501/2002 Coll., for Banks and Other Financial Institutions, as amended as of **31 December 2017**.

This is because the amendment to the Regulation for Banks as of 1 January 2018 eliminates the previous provisions and refers to IFRS 9 *Financial Instruments* for the presentation of financial instruments, their measurement and disclosure. The maintenance of the current approach to securities, equity investments and derivatives will mean a significant simplification for insurance companies as they will not have to transition to IFRS 9 in the area of financial instruments.

The Regulation Amendment came into force on 1 January 2018 and it will apply for reporting periods beginning on or after 1 January 2018.

The full text of Regulation No. 502/2002 Coll. can be found [here](#).

Following the Regulation Amendment, on 22 December 2017 the Financial Bulletin published **changes to Czech Accounting Standards** for reporting entities maintaining accounting records under Regulation No. 502/2002 Coll., effective from 1 January 2018.

The full text of changes in Czech Accounting Standards for Insurance Companies can be found [here](#).



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The IASB issued amendments to IAS 19 regarding plan amendments, curtailments, and settlements

On 7 February 2018, the International Accounting Standards Board (IASB) published 'Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)' thus finalising one of two issues relating to IAS 19 submitted to the IFRS Interpretations Committee and exposed together in June 2015.

Background

In June 2015, the IASB published ED/2015/5 *Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan (Proposed amendments to IAS 19 and IFRIC 14)* combining two issues submitted separately to the IFRS Interpretations Committee into a single package of narrow-scope amendments to IAS 19 *Employee Benefits* and IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

However, in April 2017 the IASB decided to pursue the amendments to IAS 19 and in September 2017 it confirmed it would do so despite putting off the amendments to IFRIC 14. Although exposed together, the IAS 19 amendments are unrelated to the IFRIC 14 amendments.

Changes

IAS 19 *Employee Benefits* specifies how a company accounts for a defined benefit plan. When a change to a plan—an amendment, curtailment or settlement—takes place, IAS 19 requires a company to remeasure its net defined benefit liability or asset.

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) specifies how companies determine pension expenses when changes to a defined benefit pension plan occur.

The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Until now, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements.

Effective date and transition requirements

An entity applies the amendments to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after **1 January 2019**. Early application is permitted but must be disclosed.

Source: www.iasplus.com

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Annual Improvements to IFRSs (cycle 2014–2016) endorsed for use in the EU

On 8 February 2018, the European Commission endorsed the Annual Improvements (cycle 2014 – 2016) for use in the EU.

The Annual Improvements include amendments to three IFRSs, which have been summarised below.

Standard	Subject of amendment	Details
IFRS 1 <i>First-time Adoption of IFRSs</i>	Deletion of short-term exemptions for first-time adopters	The amendments delete certain short-term exemptions in IFRS 1 because the reporting period to which the exemptions applied have already passed. As such, these exemptions are no longer applicable.
IFRS 12 <i>Disclosure of Interests in Other Entities</i>	Clarification of the scope of the standard	Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> .
IAS 28 <i>Investments in Associates and Joint Ventures</i>	Measuring an associate or joint venture at fair value	<p>The amendments clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture.</p> <p>In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture.</p> <p>The amendments apply retrospectively with earlier application permitted.</p>

Amendments to IFRS 12 are effective for annual periods beginning on or after **1 January 2017**.

Amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after **1 January 2018**.

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IFRS EU Endorsement Process

The European Financial Reporting Advisory Group (EFRAG) updated its report showing the status of endorsement of each IFRS, including standards, interpretations, and amendments, most recently on 8 February 2018.

As of 20 February 2018, the following IASB pronouncements are awaiting European Commission endorsement for use in the EU:

Standards

- IFRS 14 *Regulatory Deferral Accounts* (issued in January 2014) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard
- IFRS 17 *Insurance contracts* (issued in May 2017)

Amendments

- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (issued in June 2016)
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation* (issued in October 2017)
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued in September 2014)
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* (issued in February 2018)
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* (issued in October 2017)
- Amendments to IAS 40 *Transfers of Investment Property* (issued in December 2016)
- *Annual Improvements to IFRS Standards 2015–2017 Cycle* (issued in December 2017)

Interpretation

- IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (issued in December 2016)
- IFRIC 23 *Uncertainty over Income Tax Treatments* (issued in June 2017)

Click here for the [Endorsement Status Report](#).



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The FASB clarifies the application of the new leasing standard to land easements

On 25 January 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-01, “Land Easement Practical Expedient for Transition to Topic 842” that clarifies the application of the new leases guidance to land easements and eases adoption efforts for some land easements.

Background

On 25 February 2016, the FASB issued Accounting Standards Update No. 201602, Leases (Topic 842), to increase transparency and comparability among organisations by recognising lease assets and lease liabilities on the balance sheet and disclosing key information about leasing transactions.

In connection with the FASB’s transition support efforts, a number of stakeholders

inquired about the application of the new lease requirements in Topic 842 to land easements.

Land easements (also commonly referred to as rights of way) represent the right to use, access, or cross another entity’s land for a specified purpose. Land easements are used by utility and telecommunications companies, for example, when they need to take a small strip of land—or easement—to bury wires. Not all companies have historically accounted for them as leases.

Stakeholders pointed out that the requirement to evaluate all old and existing land easements—sometimes numbering in the tens of thousands—to determine if they meet the definition of a lease under the new standard could be very costly. They also noted there would be limited benefit to applying this requirement, as many of

their land easements would not meet the definition of a lease—or, even if they met that definition, many of their easements are prepaid and, therefore, already are recognised on the balance sheet.

Scope of the ASU

The amendments in this ASU affect entities with land easements that exist or expired before an entity’s adoption of Topic 842, provided that the entity does not account for those land easements as leases under Topic 840.

Main provisions of the ASU

- The amendments in this ASU permit an entity to elect an optional transition practical expedient not to evaluate under Topic 842 land easements that exist or expired before the entity’s adoption of Topic 842 and that were not previously



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accounted for as leases under Topic 840. An entity that elects this practical expedient should apply the practical expedient consistently to all of its existing or expired land easements that were not previously accounted for as leases under Topic 840.

- Once an entity adopts Topic 842, it should apply that Topic prospectively to all new (or modified) land easements to determine whether the arrangement should be accounted for as a lease.
- An entity that does not elect this practical expedient should evaluate all existing or expired land easements in connection with the adoption of the

new lease requirements in Topic 842 to assess whether they meet the definition of a lease. An entity should continue to apply its current accounting policy for accounting for land easements that existed before the entity's adoption of Topic 842. For example, if an entity currently accounts for certain land easements as leases under Topic 840, it should continue to account for those land easements as leases before its adoption of Topic 842.

- This ASU also amends Example 10 of Subtopic 350-30, Intangibles–Goodwill and Other–General Intangibles Other Than Goodwill.

Effective dates

The amendments in this ASU affect the amendments in Update 2016-02, which are not yet effective but may be early adopted, and Example 10 of Subtopic 35030. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in Update 2016-02. An entity that early adopted Topic 842 should apply the amendments in this Update upon issuance.

The new ASU is available [here](#).

Sources: www.iasplus.com
www.FASB.org



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