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# IFRS News

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IFRS News is your quarterly update on all things relating to International Financial Reporting Standards. We'll bring you up to speed on topical issues, provide comment and points of view and give you a summary of any significant developments.

We begin this first edition of 2016 by looking at IFRS 16, the new Standard on lease accounting which was published by the IASB on 13 January. We then move on to items currently in the IASB's pipeline before taking a look at issues that regulators are likely to focus on in the coming months.

Further on in the newsletter, you will find IFRS-related news at Grant Thornton and a general round-up of financial reporting developments. We finish with a summary of the implementation dates of newer Standards that are not yet mandatory, and a list of IASB publications that are out for comment.

# New standard on leases

## The IASB has published IFRS 16 ‘Leases’, completing its long-running project on lease accounting.

The new Standard, which is effective for accounting periods beginning on or after 1 January 2019, requires lessees to account for leases ‘on-balance sheet’ by recognising a ‘right of use’ asset and a lease liability. It will affect most companies that report under IFRS and are involved in leasing, and will have a substantial impact on the financial statements of lessees of property and high value equipment. For many other businesses, however, exemptions for short-term leases and leases of low value assets will reduce the impact (see below). The table summarises the main changes at a glance.

IFRS 16 at a glance

| Issue | Effect |
|---|---|
| Who’s affected? | • entities that lease assets as a lessee or a lessor |
| What’s the impact on lessees? | • all leases will be accounted for ‘on-balance sheet’, other than short-term and low value asset leases<br>• lease expense will typically be ‘front-loaded’<br>• lease liability will exclude:<br>– option periods unless exercise is reasonably certain<br>– contingent payments that are linked to sales/usage and future changes in an index/rate |
| What’s the impact on lessors? | • only minor changes from the current Standard, IAS 17 ‘Leases’ |
| Are there other changes? | • a new definition of a lease will result in some arrangements previously classified as leases ceasing to be so, and vice versa<br>• new guidance on sale and leaseback accounting<br>• new and different disclosures |
| When are the changes effective? | • annual periods beginning on or after 1 January 2019<br>• various transition reliefs<br>• early application is permitted provided IFRS 15 ‘Revenue from Contracts with Customers’ is applied. |

### Definition of a lease

Because the new lease accounting model brings many more leases 'on-balance sheet', the evaluation of whether a contract is (or contains) a lease becomes even more important than it is today.

Under IFRS 16 a lease is defined as: 'a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration'.

A contract can be (or contain) a lease only if the underlying asset is 'identified'. Having the right to control the use of the identified asset requires having the right to:

- obtain all of the economic benefits from use of the identified asset; and
- direct the use of the identified asset.

In practice, the main impact of IFRS 16's new definition and supporting guidance is likely to be on contracts that are not in the legal form of a lease but involve the use of a specific asset and may therefore contain a lease.

### Lessee accounting

Subject to the optional accounting simplifications discussed below, a lessee will be required to recognise its leases on the balance sheet. This involves recognising:

- a 'right-of-use' asset; and
- a lease liability.

The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods in which extension is 'reasonably certain'.

In subsequent periods, the right-of-use asset is accounted for similarly to a purchased asset and depreciated and reviewed for impairment. The lease liability is accounted for similarly to a financial liability using the effective interest method.

### Optional accounting simplifications

IFRS 16 provides important reliefs or exemptions for:

- short-term leases (a lease is short-term if it has a lease term of 12 months or less at the commencement date).
- low-value asset leases (the assessment of value is based on the value of the underlying asset when new and therefore requires judgement. In the Basis for Conclusions which accompanies the Standard, however, the IASB notes that they had in mind leases of assets with a value when new of around US $5,000 or less).

If these exemptions are used, the accounting is similar to operating lease accounting under the current Standard IAS 17 'Leases'. Lease payments are recognised as an expense on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

### Watch this space: Special edition of IFRS News

To mark the publication of IFRS 16, we will be issuing a special edition of IFRS News which will look in detail at the Standard's new requirements and provide practical insights into the changes that may arise from them.

### Lessor accounting

IFRS 16's requirements for lessor accounting are similar to IAS 17's. In particular:

- the distinction between finance and operating leases is retained
- the definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as IAS 17's
- the basic accounting mechanics are also similar, but with some different or more explicit guidance in a few areas. These include variable payments; sub-leases; lease modifications; the treatment of initial direct costs; and lessor disclosures.

### Effective date and transition

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided IFRS 15 'Revenue from Contracts with Customers' is also applied.

In terms of transition, IFRS 16 provides lessees with a choice between two broad methods:

- full retrospective application – with restatement of comparative information in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
- partial retrospective application – without restating comparatives. Under this approach the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to equity at the date of initial application. If a lessee chooses this method, a number of more specific transition requirements and optional reliefs also apply.

### Grant Thornton International Ltd comment

Bringing all leases on-balance sheet is controversial. The IASB has therefore made compromises to reduce the controversy, in particular exemptions for short-term and low value asset leases. As a result businesses that lease only assets such as printers and laptops will face only a limited impact. For businesses that lease 'big-ticket' assets, such as property and high-value equipment, this will however be a major change. Whatever your views on the new Standard, businesses would be well-advised to start an impact analysis sooner rather than later.

# IASB postpones changes to IFRS 10 and IAS 28

'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28' was issued in 2014 and addressed an acknowledged inconsistency between IFRS 10 and IAS 28 relating to how to account for transactions in which a parent entity loses control of a subsidiary by contributing it to an associate or joint venture.

The 2014 Amendments required entities to recognise:

- a full gain or loss when a transfer to an associate or a joint venture involves a business; and
- a partial gain or loss if the asset transferred does not contain a business. The gain or loss that is not recognised is eliminated against the cost of the investment in the associate or joint venture.

The 2014 Amendments were due to become effective for accounting periods beginning on or after 1 January 2016. A number of questions were however raised over the application of the Amendments. The IASB decided that it would be best to consider these questions more fully as part of its research project on equity accounting rather than make more changes now.

'Effective Date of Amendments to IFRS 10 and IAS 28' therefore defers indefinitely the mandatory effective date of the 2014 Amendments. The underlying issues will instead be considered in the IASB's research project on equity accounting. Entities will still be permitted to apply the 2014 Amendments if they wish to. Any proposal to insert a new effective date will be exposed for public comment.

### Grant Thornton International Ltd comment

We agree with the proposal to defer the effective date of the 2014 Amendments. We believe it does not make sense to require entities to change the way they apply IAS 28 now if further amendments are likely to arise from the IASB's research project on the equity method of accounting in the near future.

A new effective date has not yet been determined. Despite this change, the 2014 Amendments may still be adopted early if entities wish to do so.

# Annual improvements proposals published

## Proposed amendments address non-urgent (but necessary) minor amendments.

The IASB has published an Exposure Draft ‘Annual Improvements to IFRSs 2014-2016 Cycle’ which proposes minor amendments to three Standards.

The proposals are the latest under the IASB’s annual improvements process, which aims to make non-urgent, but necessary, minor amendments to IFRSs.

A summary of the proposals, which reflect issues discussed by the IASB in a project cycle that began in 2014, is set out in the table.

Main issues addressed in the Exposure Draft

| Standard | Issue | Proposed change |
|---|---|---|
| IFRS 1 ‘First-time Adoption of International Financial Reporting Standards’ | Deletion of short-term exemptions for first-time adopters | A number of short-term exemptions are proposed to be deleted because the reliefs provided are no longer available or because they were relevant for reporting periods that have now passed. |
| IFRS 12 ‘Disclosure of Interests in Other Entities’ | Clarification of the scope of the disclosure requirements | Clarifies the scope of IFRS 12 by specifying that its disclosure requirements (except for those in IFRS 12.B10–B16) apply to an entity’s interests irrespective of whether they are classified as held for sale, as held for distribution to owners or as discontinued operations in accordance with IFRS 5. |
| IAS 28 ‘Investments in Associates and Joint Ventures’ | Measuring investees at fair value through profit or loss on an investment-by-investment basis | Clarifies that a qualifying entity is able to choose between applying the equity method, or measuring an investment in an associate or joint venture at fair value through profit or loss, on an investment-by-investment basis upon initial recognition.<br>Similar clarifications are proposed for a reporting entity that is not an investment entity and that has an associate or a joint venture that is an investment entity. IAS 28 permits such a reporting entity the choice to retain the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The Exposure Draft proposes to clarify that this choice is also made separately for each investment in an associate or joint venture that is an investment entity, upon initial recognition. |

# IASB proposes changes to insurance contracts standard to provide relief from IFRS 9

## Proposals are a reaction to concerns over the impact of the different effective dates of two major new standards on the insurance industry.

The IASB has issued an Exposure Draft 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' to address the temporary accounting consequences of the different effective dates of IFRS 9 'Financial Instruments' and the anticipated new insurance contracts Standard. The new insurance contracts Standard is yet to be finalised but, when it is, its effective date is expected to be at least three years later. This means the mandatory effective date of the new insurance Standard will be after the 2018 effective date of IFRS 9.

As companies that issue insurance contracts will be affected by both IFRS 9 and the new insurance Standard, there was considerable concern over the practical challenges of implementing these two significant accounting changes on different dates. Further concerns were raised over the potential for increased volatility in profit or loss if IFRS 9's new requirements for financial instruments come into force before the new insurance accounting rules.

To address these concerns while still fulfilling the needs of users of financial statements, the IASB is proposing the following two amendments to IFRS 4:

The 'overlay approach'
- an option for all entities that issue insurance contracts to adjust profit or loss to remove some of the additional 'accounting volatility' that may arise as a result of IFRS 9

The 'deferral approach'
- an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing insurance contracts.

We describe the two proposed amendments in further detail on the next page:

### The overlay approach

The overlay approach aims to remove from profit or loss any additional volatility that may arise if IFRS 9 is applied together with IFRS 4. All entities would be permitted to apply it but only to certain assets (see below). Furthermore, the approach must be chosen on the initial adoption of IFRS 9.

Entities applying the overlay approach would be required to apply IFRS 9 from its 1 January 2018 effective date. However they would be permitted to reclassify from profit or loss to other comprehensive income an amount equal to the difference between:

- the amount reported in profit or loss when IFRS 9 is applied to the qualifying financial assets (that are newly measured at fair value through profit or loss under IFRS 9); and
- the amount that would have been reported in profit or loss if IAS 39 were applied to those assets.

The reclassification would be shown as a separate line item in the statement of profit or loss, other comprehensive income or both, with additional disclosures being given in order to enable users to understand it.

Only financial assets that meet both of the following criteria would qualify for the overlay approach:

- the financial assets are measured at fair value through profit or loss when applying IFRS 9 but would not have been so measured in their entirety when applying IAS 39
- the financial assets are designated by the entity as relating to insurance contracts for the purposes of the overlay approach.

### The deferral approach

The deferral approach would permit entities whose predominant activity is issuing insurance contracts to defer the application of IFRS 9 until the earliest of:

- the application of the new insurance contracts Standard
- 1 January 2021.

If an entity elects to use this temporary exemption, it would continue to apply IAS 39 and provide some key disclosures to assist users of financial statements to make comparisons with entities that apply IFRS 9.

Entities are eligible for the deferral approach only if their 'predominant activity' is issuing insurance. The IASB's intention is that predominance should be assessed as a high threshold and should be assessed at group-level. Predominance should be assessed by comparing the amount of an entity's insurance contract liabilities with the total amount of its liabilities.

Unlike the overlay approach, the temporary exemption would be applied to all, rather than some, financial assets of the limited population of entities that qualify for and elect to apply this approach.

The Exposure Draft is open for comment until 8 February 2016.

# Transfers of investment property

## The IASB has issued an Exposure Draft which looks to clarify when a property under construction or development that is classified as inventory can be transferred to investment property on a change of use.

This issue has been raised because IAS 40 'Investment Property' currently lists the circumstances that provide evidence of a change in use of a property. This list does not cover the situation in concern.

The IASB therefore proposes to re-characterise the list of circumstances set out in the Standard as non-exhaustive examples of evidence of a change in use (ie, not an exhaustive list). The Exposure Draft does not propose adding more examples because the focus should instead be on the principle that transfers to, or from, investment property should occur on a relevant change in use that is supported by evidence. If adopted, the proposed changes would be retrospectively applied.

# Areas of regulatory focus

## Most jurisdictions around the world have established systems to enforce accounting requirements, including those of IFRS.

Many of the regulatory bodies responsible for accounting enforcement publish some form of feedback from past reviews as well as information about priority areas for the next review cycle. Drawing on reports and feedback from several enforcement bodies around the world, we have identified the following common themes, which we discuss in more detail below:

- telling a coherent story
- use of judgements and estimates
- consolidation issues
- financial instruments valuations
- impairment testing
- revenue recognition policies
- exceptional items
- tax
- cash flow statements.

With the 2016 reporting season upon us, we believe these common themes will help you in preparing your financial statements. Of course the matters above are not intended to be a definitive list and regulators will no doubt raise points on many other areas in the forthcoming reporting season. It is also worth being aware that market conditions related to matters such as the slide in oil prices or reduced economic activity in China will affect the issues and sectors that regulators will concentrate on in the coming months.

### Telling a coherent story

In recent years, regulators and many others have encouraged companies to ensure their notes are tailored to reflect the individual circumstances of the reporting entity. These efforts to 'cut the clutter' and focus on the matters that are important to the company in concern have been supplemented by the IASB's own 'Disclosure Initiative' which seeks to improve the disclosure of financial information and ensure that companies are able to use judgement when preparing their financial statements.

Over the last 12 months, we have seen a number of regulators going even further and encouraging or instructing issuers to streamline their accounting policies where irrelevant or immaterial policies have been included. The table sets out some pointers which may help users to provide more concise and meaningful information to users, while at the same time linking their financial report together in a more consistent and meaningful way.

#### Tips for more meaningful disclosure

- important messages need to be highlighted and supported with relevant context and not be obscured by immaterial detail
- effective cross-referencing needs to be provided and repetition avoided
- the language used needs to be precise and explain complex issues clearly
- jargon and 'generic' wording should be avoided
- items in the financial statements should be reported at an appropriate level of aggregation to convey the essential messages and avoid unnecessary detail
- tables of reconciliations need to be supported by and consistent with the accompanying narrative
- preparers should avoid a mentality of erring on the side of caution by seeking to include each and every disclosure requirement regardless of materiality.

Also of importance to telling a coherent story, is the need for consistency within the different parts of the financial statements and accompanying reports. Regulators commonly raise concerns about a lack of consistency both within the financial statements and between the statements and accompanying management commentary-type reports. Apparent inconsistencies can lead to various accounting treatments and disclosures being challenged. Particular areas to note include:

Areas of inconsistency

| Disclosure area | Common problems |
|---|---|
| Segment disclosures | • companies that provide a segmental analysis in their management commentary but then describe their operating segments differently in the notes to their financial statements. |
| Going concern and impairment testing disclosures | • inconsistency between management commentary and the financial statements in relation to the assumptions and outlook that underpin those assessments<br>• regulators will also look for inconsistency relating to events after the reporting period between the management commentary at the front and the financial statements at the back. |
| Accounting policies | • failure to cover all the key types of transactions mentioned in a company's management commentary<br>• failure to provide appropriate disclosure on critical judgements and estimates. |

## Use of judgements and estimates

Various aspects of IAS 1 'Presentation of Financial Statements' remain a source of regulatory scrutiny. Regulators continue to stress the importance of adequate and meaningful disclosure of:

- the significant judgements that management makes in the process of applying the company's accounting policies
- sources of estimation uncertainties.

## Consolidation issues

Regulators have raised a number of issues relating to consolidations, including:

- acquisition dates
- whether an acquisition constitutes an asset acquisition or a business combination
- determining the accounting acquirer
- separation of identifiable assets from goodwill.

### Acquisition date

IFRS 3 'Business Combinations' differentiates between the acquisition date, which is the date on which an acquirer obtains control of an acquiree, and the closing date, which is the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree. The acquisition date drives the fair value-based business combination accounting.

Some companies disclose a date for their business combinations without saying whether this is the acquisition date, the closing date or something else (eg the agreement date). A lack of clarity about this may lead to questions from regulators and suggest – perhaps incorrectly – that IFRS 3 has been applied on the wrong date.

### Whether an acquisition constitutes an asset acquisition or a business combination

IFRS 3 provides guidance on identifying a business combination and the definition of a business. Applying the definition of a business can require significant judgement. In borderline situations regulators will look for an explanation of management's judgement and the basis for reaching the particular conclusion.

### Determining the accounting acquirer

IFRS 3 provides further guidance on identifying the accounting acquirer in situations where this remains unclear following the application of IFRS 10 'Consolidated Financial Statements'.

Where a company needs to refer to this additional guidance to determine the acquirer, it is likely that significant judgements will have been made, and these should be disclosed as such. Similar reasoning applies when a reverse acquisition occurs. Given the complexity of some acquisition transactions, regulators are likely to demand expanded disclosures in these areas.

### Separation of identifiable assets from goodwill

IFRS 3 requires all identifiable assets to be recognised separately from goodwill. Regulators have therefore challenged companies when intangibles such as technology or customer- and brand-related intangibles seem to be subsumed into goodwill.

## Financial instruments valuations

Regulators have regularly raised questions relating to disclosures about financial instruments designated as measured at fair value. Companies have been criticised here for failing to state the valuation techniques and inputs used to determine the fair value of certain financial assets and liabilities. In particular, questions have been raised over the level of detail behind 'Level 3' valuations and the disclosure of appropriate quantitative sensitivity analysis.

Regulators have also reminded companies that they should cover all financial receivables (eg deferred consideration) and not just trade receivables when making their credit risk disclosures.

Regulatory points regarding impairment

| Focus areas | Issue |
|---|---|
| Level of entities' impairment assessments | • disclosures that are too broad and do not provide entity-specific factors of the main events and circumstances that resulted in the impairment. |
| Discount rates used | • discount rates should reflect the current market assumptions of the time value of money and asset specific risks, with the pre-tax rate(s) being disclosed<br>• it is inappropriate to use a single discount rate when CGUs have differing risk profiles. |
| Lack of sufficient context regarding the impact of the impairment on the overall activities and operations of the entity | • disclosures do not provide a description of the CGU or lack substance and entity-specific information<br>• lack of disclosures where goodwill is allocated to a cash generating unit or units despite specific requirements in IAS 36. |
| Lack of disclosure of key management assumptions | • specific focus on:<br>– cash flow projections for the period<br>– approach used to determine recoverable amounts<br>• lack of sensitivity disclosures for goodwill impairments when the 'headroom' in the calculation is small<br>• disclosures often fail to make it clear whether key assumptions reflect past experience or are consistent with external sources of information. |
| Where goodwill or indefinite life intangibles have been allocated to a CGU but no impairment recognised | • a frequent concern from regulators is that the disclosures do not contain a sensitivity analysis or for those that do, there is a lack of consistency in the analyses provided. |

## Impairment testing

Impairment testing is a frequent focus for regulators, with concerns being frequently raised over:

- the level of companies' impairment assessments
- the supportability of management's underlying assumptions
- the transparency and adequacy of the related disclosures.

Executing the impairment assessment at the appropriate level is critical to ensuring that an over-performing asset or CGU does not mask an impairment of an under-performing asset or group of CGUs. The table above illustrates some points that are regularly raised by regulators.

## Revenue recognition policies

The revenue recognition policy is often the most important accounting policy in a company's financial statements. This continues to be a key area of focus and scrutiny for regulators.

Common (and recurring) criticisms from regulators when reviewing disclosures of revenue recognition accounting policies include:

- failure to provide an accounting policy for revenue recognition that is tailored to the company's operations
- failure to disclose the accounting policy for all significant categories of revenue, particularly when other parts of the report indicate multiple revenue streams
- recording revenues on a gross basis for transactions where an entity has been acting as agent
- insufficient explanation of areas of significant judgement.

Given the inadequacy of some disclosures, regulators continue to ask management for additional information. Common questions include:

- revenue for services – how has management satisfied itself that the stage of completion of a contract to provide services can be determined reliably?
- multiple element arrangements – when revenue relates to both the sale of goods and the rendering of services, how has the overall consideration been allocated among the various components?
- significant judgments and estimates – what are the key areas of judgement and estimation uncertainty and are they adequately disclosed?

## Exceptional items

Regulators have commented on the need to improve the reporting of exceptional items. In brief, companies should have a clear accounting policy for exceptional items and should recognise items as exceptional when they are 'one-off' items. Companies can expect to be challenged by regulators where items are disclosed as 'exceptional' yet seem to occur on a recurring basis. Conversely, companies may also be challenged if regulators identify items which they believe to be one-off yet have not been disclosed as exceptional.

Companies are also likely to be challenged if they:

- keep changing their definition of 'exceptional' items
- make selective or inconsistent use of exceptional items, by presenting certain types of loss as exceptional but presenting gains arising in similar circumstances as 'normal'
- treat a provision as exceptional in one year but then treat a subsequent release of an unused portion of the same provision as 'normal'.

### Tax

Regulators continue to raise various tax-related questions including:

- requesting evidence supporting the recognition of a deferred tax asset when a company has suffered a loss in the current or preceding period and the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences
- requesting explanations around the reconciliation of tax expense (income) and accounting profit multiplied by the applicable tax rate(s).

### Cash flow statements

Cash flow statements are a primary source of financial information and are valued by investors because they help them to assess the company's ability to convert profits to cash. Regulators have frequently identified misclassifications of cash flow items between operating, investing and financing activities. They have also urged companies to beware of unusual or non-recurring cash flows as these may still fall within the definition of operating cash flows. Some examples of misclassifications are:

- business acquisition expenses classified as investing activities that should have been classified as operating activities
- costs of early settling a foreign currency derivative being classified as financing rather than operating activities
- purchase of own shares being classified as investing rather than financing activities
- loans to related parties being classified as financing rather than investing activities.

# Draft guidance published on applying materiality

The IASB has taken the next step in its ongoing 'Disclosure Initiative'. It has published a draft Practice Statement entitled 'Application of Materiality to Financial Statements'. This responds to concerns that management are often uncertain about how to apply the concept of materiality – especially to disclosures. The IASB believes this uncertainty has contributed to what some commentators describe as a 'checklist mentality' when deciding what needs to be disclosed.

A Practice Statement is not a Standard and its application is not required in order to state compliance with IFRS. Instead the aim is to provide guidance to assist management in applying the concept of materiality when preparing their financial statements.

The draft Practice Statement provides guidance in the following three main areas:

- characteristics of materiality;
- how to apply the concept of materiality when making decisions about presenting and disclosing information in the financial statements; and
- how to assess whether omissions and misstatements of information are material to the financial statements.

It also contains a short section on applying materiality when applying recognition and measurement requirements.

The draft guidance on materiality complements a 2014 amendment made to IAS 1 'Presentation of Financial Statements'. This clarified that companies do not need to apply the specific disclosure requirements in IFRSs if the information is not material. That amendment also specified that a company should consider whether to provide additional disclosures when compliance with specific requirements in a Standard would be insufficient in disclosing material information.

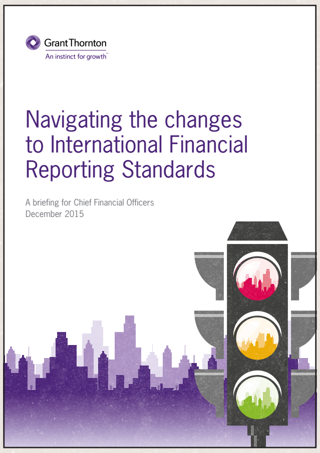
The Exposure Draft is open for comment until 26 February 2016.

# Get ready for IFRS 9 – classifying and measuring financial instruments


The Grant Thornton International Ltd IFRS Team has published ‘Get ready for IFRS 9 – classifying and measuring financial instruments’, the first in a series of publications intended to get you ready for IFRS 9.

IFRS 9 (2014) ‘Financial Instruments’ fundamentally rewrites the accounting rules for financial instruments. While the Standard is not effective until 2018, companies really need to start evaluating its impact now. Issue 1 in this series aims to get you up to speed with the new Standard’s classification and measurement requirements.

# Navigating the changes to IFRS




The Grant Thornton International Ltd IFRS Team has released an updated version of its publication ‘Navigating the changes to International Financial Reporting Standards: a briefing for Chief Financial Officers’.

The publication is designed to give Chief Financial Officers a high-level awareness of recent changes that will affect companies’ future financial reporting. It covers both new Standards and Interpretations that have been issued and amendments made to existing ones, giving brief descriptions of each.

The December 2015 edition of the publication has been updated for changes to International Financial Reporting Standards that have been published between 1 December 2014 and 30 November 2015.

# Grant Thornton provides new CEO of EFRAG and TEG Chair

Grant Thornton’s Global Head of IFRS, Andrew Watchman, has been appointed to the prestigious role of CEO of the European Financial Reporting Advisory Group (EFRAG) and Chairman of its Technical Expert Group (TEG).

Congratulations to Andrew, who will leave Grant Thornton at the end of March. His appointment is a great achievement for him and is a reflection of the success he has achieved within Grant Thornton International Ltd.

# Comment letters submitted

## The Grant Thornton International IFRS Team has submitted its comments on the following consultation documents:

### IASB Request for Views '2015 Agenda Consultation'

In our letter we provide our views regarding the priority and urgency of each of the IASB's existing research projects, the current mix of implementation support, and the overall pace of change being delivered by the IASB through its work plan. We also express our support for lengthening the period between formal Agenda Consultations from three to five years.

### IFRS Foundation Trustees' Request for Views 'Trustees' Review of Structure and Effectiveness: Issues for the Review'

In our letter we generally agree with the Trustees' proposals and recommendations set out in the paper. We make some suggestions on enhancing the organisation's activities in the area of consistent application, and on the focus of the organisation's future efforts to maintain the relevance of IFRS.

### IASB Exposure Draft ED/2015/3 'Conceptual Framework for Financial Reporting'

In our letter we express our overall belief that the ED builds successfully on the preceding Discussion Paper and also represents a considerable improvement on the existing Conceptual Framework. We also agree with most of the proposed changes, subject to various detailed comments. Our most significant comments relate to the following areas:

Equity
We support the proposal to define equity as a residual for the time being but we encourage the IASB to consider other approaches to defining equity that might result in more useful information as its research project in this area progresses.

Prudence
We believe that an 'asymmetric' notion of prudence is and should continue to be a feature of standard-setting decisions.

Other comprehensive income (OCI)
Although we acknowledge that developing a robust conceptual distinction between profit and loss and OCI might not be practical as part of this project, we do think some more work is needed before issuing a revised Conceptual Framework.

### IFRIC Draft Interpretation 'Uncertainty over Income Tax Treatments'

We support the IFRS Interpretations Committee's (IFRIC) decision to develop an Interpretation on how to account for income taxes when uncertainty exists over tax treatments. Although it can be argued that IAS 12's existing principles already provide sufficient guidance, we acknowledge that diversity has arisen in practice in this area. We also agree with the Draft Interpretation's proposed approach, subject to some minor clarifications and drafting suggestions.

### IFRIC Draft Interpretation 'Foreign Currency Transactions and Advance Consideration'

We support the Interpretations Committee's decision to develop an Interpretation dealing with what exchange rate to use for translation when payments are made or received in a foreign currency in advance of the related asset, expense or income. We also agree in our letter with the Draft Interpretation's proposed approach (see last quarter's IFRS News), subject to some minor clarifications and drafting suggestions.

# Grant Thornton partner appointed to South Africa's Financial Reporting Technical Committee

## South African partner and Head of Technical, Theunis Schoeman, has been appointed as a member of the country's Financial Reporting Technical Committee.

The Financial Reporting Technical Committee is a sub-committee of the Financial Reporting Standards Council (FRSC) in South Africa. The FRSC is a statutory body that was introduced with the country's revised Companies Act in 2011 and is the official standard setter in South Africa.

# Colombian firm addresses deferred tax accounting

## Our firm in Colombia recently organised a seminar to address the challenges faced by local businesses when implementing IAS 12 'Income Taxes'.

The seminar, which was attended by more than a hundred clients and potential clients, was presented by IFRS Manager, Hans Thomas, with the support of tax partners María Nelcy Cubides and José Florez.

The use of IFRS has been mandatory for large companies in Colombia since 1 January 2015. The IFRS for SMEs is mandatory for all small and medium-sized entities from 1 January 2016.

# Grant Thornton and CPA Australia

## For the last four years, Grant Thornton in New Zealand has been the principal sponsor of CPA Australia's Congress in New Zealand, which is the professional accounting body's best attended conference training event in the country.


Held in Auckland, the October 2015 event was attended by more than 280 people and featured headline speakers from all aspects of business as well as current rowing world champions and Olympic Gold medallists, Eric Murray and Hamish Bond.

The Congress also saw a presentation from Mark Hucklesby. Mark is the National Technical Director in our New Zealand member firm and has for the last four years been a member of Grant Thornton International Ltd's Financial Instruments Working Group. Mark presented a paper on what he considers to be the 20 most significant issues in financial reporting in New Zealand. Particular attention was given to the need to be well prepared ahead of the 1 January 2018 effective start date for the adoption of both IFRS 9 'Financial Instruments' and IFRS 15 'Revenue Contracts with Customers'.

# Raymond Chabot Grant Thornton webinar on IFRS developments

## In December 2015, Raymond Chabot Grant Thornton gave a webinar on IFRS developments to clients and business contacts.

The presentation was made by partner Gilles Henley, senior managers Diane Joly and Stéphanie Laframboise as well as manager Caroline Lessard, four members of Raymond Chabot Grant Thornton's Risk Management and Accounting Research Department.

The online event presented an overview of the past year's IFRS-related activities by the IASB, the IFRS Interpretations Committee (IFRIC) and the Canadian regulators.

You can watch the webinar or download the presentation used during the event (both in French) by going to: http://www.rcgt.com/en/assurance/presentation-on-ifrs-developments/.

# Spotlight on the IFRS Interpretations Group

Grant Thornton International Ltd's IFRS Interpretations Group (IIG) consists of a representative from each of our member firms in the United States, Canada, Brazil, Australia, South Africa, India, the United Kingdom, Ireland, France, Sweden and Germany as well as members of the Grant Thornton International Ltd IFRS team. The Group meets in person twice a year to discuss technical matters which are related to IFRS.

Each quarter we throw a spotlight on one of the members of the IIG. This quarter we focus on the representative from India:

### Neeraj Goel, India

Neeraj Goel is a partner in the audit practice of our Indian member firm. He joined the firm in 2004 and has over 15 years of experience in auditing and financial reporting.

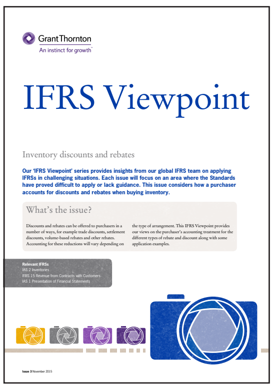
During his tenure with the firm Neeraj has advised many large Indian companies on the transition from Indian GAAP to IFRS and has also led various audit engagements of Indian companies listed on stock exchanges in the US, UK and Singapore. Neeraj has represented the Indian firm as an expert in financial reporting at various seminars and trade/professional forums and regularly contributes articles to various accounting and business journals. He frequently presents at both internal and external events.

# IFRS Viewpoints released

The Grant Thornton International Ltd IFRS Team has released the following two new IFRS Viewpoints. IFRS Viewpoints provide insights on applying IFRSs in challenging situations. Each edition focuses on an area where the Standards have proved difficult to apply or lack guidance.

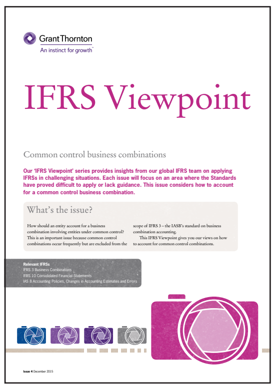
### Issue 3: Inventory discounts and rebates

Issue 3 addresses how a purchaser accounts for discounts and rebates when buying inventory. Accounting for these discounts and rebates will vary depending on the type of arrangement. The Viewpoint provides our views on the purchaser's accounting treatment for the different types of rebate and discount, together with some application examples.




### Issue 4: Common control business combinations

Issue 4 addresses how to account for a common control business combination. This is an important issue because common control combinations occur frequently but are excluded from the scope of IFRS 3 – the IASB's standard on business combination accounting. The Viewpoint gives you our views on how to account for common control combinations.



# Round-up

## IASB

### IASB sets up procedure for submitting issues on the IFRS for SMEs

The IASB has set up a procedure to enable small companies and other interested parties to submit implementation issues on the IFRS for SMEs for public consideration. Issues submitted will be dealt with in one of two ways:

- by referral to the SME Implementation Group (SMEIG) if the issue is likely to meet the criteria for consideration by the SMEIG and the IASB staff believe that the SMEIG will be able to reach a consensus on it
- by the IASB staff considering them when updating the IASB's education material or holding them for consideration during the next periodic review of the IFRS for SMEs.

### IASB comments on EDTF report on expected credit losses and disclosures

The Financial Stability Board's Enhanced Disclosure Task Force has published a report proposing updated risk disclosures for banks in the context of an expected credit loss framework.

The recommended disclosures are intended to help prepare the market for the fundamental change in impairment accounting that will be introduced by IFRS 9 'Financial Instruments' by enhancing the understanding of that Standard's use of expected credit losses.

The EDTF report concludes that for many banks significant changes to systems and processes may be required, which will require substantial time and resources to deliver. It also concludes that some banks will need to develop and enhance governance over the recognition and measurement of credit losses, particularly to develop capability to make informed judgements about the use of forward-looking information.

### ITG discusses implementation of impairment requirements in IFRS 9

The IFRS Transition Resource Group for Impairment of Financial Instruments ('ITG'), on which Grant Thornton is represented, held its third meeting in December to discuss implementation issues arising from IFRS 9's new impairment requirements. Among the issues discussed were whether IFRS 9 requires the consideration of multiple forward looking scenarios and how the provision for expected credit losses should be presented in the primary financial statements.

This was the last scheduled meeting of the ITG, although the group will continue to exist during the implementation timeline. The IASB's questions submission page will however remain open and it is possible that the receipt of significant additional questions may result in the ITG being reconvened at a later date.

## United States

### FASB issues final standard on classification and measurement of financial instruments

The US Financial Accounting Standards Board (FASB) has issued an Accounting Standards Update (ASU) intended to improve the recognition and measurement of financial instruments. The ASU makes targeted improvements to US GAAP.

FASB had been working jointly with the IASB on converging the accounting for financial instruments but the two Boards ultimately decided to go their own way. The ASU is not therefore intended to reduce the differences between US GAAP and IFRSs, although it does achieve convergence with IFRS 9 in some limited areas. These include:

- requiring equity investments to be measured at fair value with changes in fair value recognised in net income (although IFRS 9 contains an option to recognise gains and losses on certain equity investments in OCI, which is not available under the ASU)
- requiring a reporting entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument's 'own credit' risk when the reporting entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.

## Europe

### Basel Committee on Banking Supervision: Guidance on credit risk and accounting for expected credit losses

The Basel Committee on Banking Supervision (BCBS) has issued 'Guidance on credit risk and accounting for expected credit losses'.

The document, which is aimed at the banking sector, sets out supervisory guidance on sound credit risk practices associated with the implementation and ongoing application of expected credit loss (ECL) accounting frameworks such as IFRS 9 'Financial Instruments'.

The guidance, which is intended to be complementary to the accounting standards, presents the Basel Committee's view of the appropriate application of ECL accounting standards. It provides banks with supervisory guidance on how the ECL accounting model should interact with a bank's overall credit risk practices and regulatory framework, but does not set out regulatory capital requirements on expected loss provisioning under the Basel capital framework.

### ESMA enforcement decisions

The European Securities and Markets Authority (ESMA) has published a new batch of extracts from the European Enforcers' Coordination Sessions (EECS) confidential database of enforcement decisions on financial statements.

European enforcers monitor and review IFRS financial statements and consider whether they comply with IFRS and other applicable reporting requirements, including relevant national law. ESMA publishes these extracts with the aim of providing issuers and users of financial statements with relevant information on the appropriate application of IFRS.

Publication of the enforcement decisions informs market participants about European national enforcers' views on compliance with IFRS. Together with the rationale behind these decisions, the publication helps contribute towards a consistent application of IFRS in the EEA. Topics covered in this latest batch of extracts include:

- presentation of licensed activities as discontinued operations
- disclosures in interim financial statements
- disclosures on post-employment benefit plans
- going concern disclosures
- control of an entity without holding any equity interests
- de facto control
- impairment of goodwill
- fair value measurement for fixed-rate loans
- carrying amounts of a cash-generating unit to be tested for impairment
- presentation and disclosure of discontinued operations in separate financial statements.

## Other

### China to explore further use of IFRS

The IFRS Foundation and the Chinese Ministry of Finance have announced the formation of a joint working group to explore ways to advance the use of IFRS Standards within China. Building on the success of an earlier joint statement made in 2005, this new 2015 Statement:

- establishes a joint working group to explore steps and ways to advance the use of IFRS within China, especially for internationally oriented Chinese companies
- identifies the vision of Chinese Accounting Standards to become fully converged with IFRS Standards, consistent with the G20-endorsed objective of a single set of high quality, global accounting standards
- encourages continued co-operation between the IASB and Chinese stakeholders in the future development of IFRS Standards.

### Saudi Arabia

Saudi Arabia has announced that IFRS Standards will be the financial reporting framework for all listed companies in Saudi Arabia starting in 2017, and the IFRS for SMEs will be the reporting framework for unlisted companies starting in 2018.

# Effective dates of new standards and IFRIC interpretations

The table below lists new IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2014. Companies are required to make certain disclosures in respect of new Standards and Interpretations under IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

New IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2014

| Title | Full title of Standard or Interpretation | Effective for accounting periods beginning on or after | Early adoption permitted? |
|---|---|---|---|
| IFRS 16 | Leases | 1 January 2019 | Yes (but only when IFRS 15 is applied) |
| IFRS 9 | Financial Instruments (2014) | 1 January 2018 | Yes (extensive transitional rules apply) |
| IFRS 15 | Revenue from Contracts with Customers | 1 January 2018* | Yes |
| IFRS for SMEs | Amendments to the International Financial Reporting Standard for Small and Medium Sized Entities | 1 January 2017 | Yes |
| IAS 1 | Disclosure Initiative (Amendments to IAS 1 Presentation of Financial Statements) | 1 January 2016 | Yes |
| IFRS 10, IFRS 12 and IAS 28 | Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) | 1 January 2016 | Yes |
| IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) | Postponed | Yes (was 1 January 2016) |
| Various | Annual Improvements to IFRSs 2012-2014 Cycle | 1 January 2016 | Yes |
| IAS 27 | Equity Method in Separate Financial Statements (Amendments to IAS 27) | 1 January 2016 | Yes |
| IAS 16 and IAS 41 | Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41) | 1 January 2016 | Yes |
| IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) | 1 January 2016 | Yes |
| IFRS 11 | Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) | 1 January 2016 | Yes |
| IFRS 14 | Regulatory Deferral Accounts | 1 January 2016 | Yes |
| IAS 19 | Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) | 1 July 2014 | Yes |
| Various | Annual Improvements to IFRSs 2011-2013 cycle | 1 July 2014 | Yes |
| Various | Annual Improvements to IFRSs 2010-2012 cycle | 1 July 2014 | Yes |

New IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2014

| Title | Full title of Standard or Interpretation | Effective for accounting periods beginning on or after | Early adoption permitted? |
|---|---|---|---|
| IAS 39 | Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) | 1 January 2014 | Yes |
| IAS 36 | Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) | 1 January 2014 | Yes (but only when IFRS 13 is applied) |
| IFRIC 21 | Levies | 1 January 2014 | Yes |
| IFRS 10, 12 and IAS 27 | Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) | 1 January 2014 | Yes |
| IAS 32 | Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) | 1 January 2014 | Yes (but must also make the disclosures required by Disclosures – Offsetting Financial Assets and Financial Liabilities) |

* changed from 1 January 2017 following the publication of 'Effective Date of IFRS 15'

# Open for comment

This table lists the documents that the IASB currently has out to comment and the comment deadline. Grant Thornton International Ltd aims to respond to each of these publications.

Current IASB documents

| Document type | Title | Comment deadline |
| --- | --- | --- |
| Exposure Draft | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts | 8 February 2016 |
| Exposure Draft | Annual Improvements to IFRSs: 2014-2016 Cycle | 17 February 2016 |
| Exposure Draft | IFRS Practice Statement: Application of Materiality to Financial Statements | 26 February 2016 |
| Exposure Draft | Transfers of Investment Property: Proposed amendment to IAS 40 | 18 March 2016 |

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