Grant Thornton
An instinct for growth™

IFRS News

Quarter 2 2016

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 second edition of the year by looking at amendments made by the International Accounting Standards Board (IASB), including changes that have been made to IFRS 15 'Revenue'. We also remind you of a couple of major pronouncements that some companies will be applying for the first time. We then go on to discuss two major Grant Thornton publications that have been issued in the last quarter. The first is designed to get you up to speed with the new expected credit loss model for financial instruments. The second one looks at how to make your financial statements an effective communication tool.

Further on in the newsletter, you will find other 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.

IASB makes amendments to its new revenue standard IFRS 15

The IASB has published 'Clarifications to IFRS 15 Revenue from Contracts with Customers'.

The changes made by the IASB address a number of issues identified by the joint IASB/FASB Transition Resource Group (TRG) on revenue recognition. The TRG was formed by the two Boards after issuing IFRS 15 in 2014 and is responsible for supporting the implementation of the new Standard.

Five topics were identified by the TRG as possibly needing clarification, however the IASB has decided to make changes to just three of these. By doing so it is seeking to strike a balance between being responsive to issues raised while minimising disruption to the implementation process.

The amendments make three changes to IFRS 15 and introduce two additional transition reliefs.

The changes

The amendment to the Standard makes changes to three specific areas in IFRS 15 by:

- clarifying the application of IFRS 15 when identifying performance obligations (by explaining how the concept of a 'distinct' performance obligation should be applied)
- determining whether an entity is acting as principal or agent in a transaction (by clarifying how to apply the control principle)
- determining whether a licence transfers to a customer at a point in time or over time (by clarifying when a company's activities significantly affect the intellectual property to which the customer has rights).

In addition the amendments create two additional practical expedients that are available on transition to IFRS 15:

- for contracts that have been modified before the beginning of the earliest period presented, the amendments allow companies to use hindsight when identifying the performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations
- companies applying the full retrospective method are permitted to ignore contracts already complete at the beginning of the earliest period presented.

Effective Date

The Amendments are effective for annual periods beginning on or after 1 January 2018 (the effective date of the new Standard). Earlier application is permitted.

IASB amends IAS 7

Narrow scope amendments aim to improve disclosures about an entity's financing activities and changes in related liabilities.

The IASB has published 'Disclosure Initiative – Amendments to IAS 7 Statement of Cash Flows' (the Amendments) in response to requests from investors for improved disclosures about an entity's financing activities.

As their name suggests, the Amendments form another part of the IASB's Disclosure Initiative. The Disclosure Initiative itself is in part a reaction to the growing clamour over disclosure overload in financial statements. It consists of a number of projects, both short and medium-term, and on-going activities that explore how presentation and disclosure principles and requirements in existing Standards can be improved.

The Amendments

The Amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes).

The Amendments:

- require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgement when determining the exact form and content of the disclosures needed to satisfy this requirement
- suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including:
  - changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses
  - a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

The Amendments are effective for annual periods beginning on or after 1 January 2017 with earlier application being permitted. Comparative information is not required in the year the Amendments are first applied.

Amendments to IAS 12

The IASB has issued 'Recognition of Deferred Tax Assets for Unrealised Losses' which makes narrow-scope amendments to IAS 12 'Income Taxes'.

The focus of the amendments to IAS 12 is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.

Background

The IFRS Interpretations Committee (IFRIC) was originally asked to clarify a number of issues surrounding the recognition of deferred tax assets related to debt instruments measured at fair value.

The IFRIC referred the issue to the IASB, leading to an Exposure Draft being issued in August 2015 and now the final amendments.

Matters addressed

The amendments add guidance to IAS 12 in the following areas where diversity in practice previously existed:

Matters addressed

Topic	Issue	Clarification
Existence of a deductible temporary difference	Do decreases in the carrying amount of a fixed-rate debt instrument for which the principal is paid on maturity always give rise to a deductible temporary difference if the debt instrument is measured at fair value and if its tax base remains at cost?	The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount. Consequently, decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference.
Recovering an asset for more than its carrying amount	Should an entity assume that it will recover an asset for more than its carrying amount when estimating probable future taxable profit against which deductible temporary differences are assessed for utilisation if such recovery is probable? (relevant when taxable profit from other sources is insufficient for the utilisation of the deductible temporary differences related to debt instruments measured at fair value)	The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

Matters addressed

Topic	Issue	Clarification
Probable future taxable profit against which deductible temporary differences are assessed for utilisation	When an entity assesses whether it can utilise a deductible temporary difference against probable future taxable profit, does that probable future taxable profit include the effects of reversing deductible temporary differences?	Deductible temporary differences are utilised by deduction against taxable profit, excluding deductions arising from reversal of those deductible temporary differences. Consequently, taxable profit used for assessing the utilisation of deductible temporary differences is different from taxable profit on which income taxes are payable. If those deductions were not excluded, then they would be counted twice.
Combined versus separate assessment	Should an entity assess whether a deferred tax asset is recognised for each deductible temporary difference separately, or in combination with other deductible temporary differences?	The Amendments clarify that an entity should consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of the deductible temporary difference. If tax law imposes no such restrictions, an entity assesses a deductible temporary difference in combination with all of its other deductible temporary differences.

Effective date and transition

The amendments to IAS 12 are effective for annual periods beginning on or after 1 January 2017, with earlier application being permitted. The Amendments are to be applied retrospectively. However they allow the change in opening equity of the earliest comparative period presented, that arises from applying the Amendments for the first time, to be recognised in opening retained earnings without the need to allocate the change between opening retained earnings and other components of equity.

A reminder – new standards coming into force

Two important pronouncements by the IASB came into effect for accounting periods beginning on or after 1 January 2014. They are 'Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27' and IFRIC 21 'Levies'.

While many companies with December year ends will already have applied these Standards, others may not. Entities currently preparing financial statements for years ending 30 June or 30 September 2015 for example will be applying them for the first time. With this as background, it is worth a reminder of the main points of the two pronouncements:

Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27

'Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27' (the amendments) creates an exception for investment entities to the well-established principle that a parent entity must consolidate all its subsidiaries.

The Amendments define an investment entity (see box) and provide detailed application guidance on that definition. Private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds are likely to be particularly interested in the Amendments.

Entities that meet the definition are required to measure investments that are controlling interests in another entity (in other words, subsidiaries) at fair value through profit or loss instead of consolidating them.

The Amendments were published in response to concerns that consolidating the financial statements of an investment entity and its investees does not provide the most useful information, namely information on the value of the entity's investments. The table on the next page summarises the key features of the Amendments.

Definition and typical characteristics of an investment entity

Definition

An investment entity is an entity that:

1. obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services (investment services condition)
2. commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both (business purpose condition)
3. measures and evaluates the performance of substantially all of its investments on a fair value basis (fair value condition).

Typical characteristics

In assessing whether it meets the definition an entity shall consider whether it has the following typical characteristics of an investment entity:

1. it has more than one investment
2. it has more than one investor
3. it has investors that are not related parties of the entity
4. it has ownership interests in the form of equity or similar interests.

> Entities currently preparing financial statements for years ending 30 June or 30 September 2015 will be applying these pronouncements for the first time.

The Amendments at a glance

	Summary
Who's affected?	Entities that: • meet the new definition of 'investment entity' • hold one or more investments that are controlling interests in another entity
What is the impact?	Investment entities will: • no longer consolidate investments that are controlling interests in another entity • make additional disclosures about these investments
Other key points	• a non-investment parent entity that controls an investment entity will continue to consolidate its subsidiaries (the consolidation exemption does not 'roll up') • an investment entity's service subsidiaries (subsidiaries that are not investments or investment entities themselves) will continue to be consolidated • if an investment entity has no non-investment subsidiaries it presents separate financial statements as its only financial statements.

IFRIC 21 Levies

IFRIC 21 'Levies' considers how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements.

The Interpretation was issued with the intention of addressing various new levies that were raised following the global financial crisis of 2008/09, particularly on banks. In addition however, IFRIC 21 also applies to several more established types of non-income tax: for example certain property, environmental and payroll taxes (excluding social security contributions or similar taxes within the scope of IAS 19 'Employee Benefits'). As levies and taxes are not based on taxable profits, they fall outside the scope of IAS 12 'Income Taxes' and are therefore accounted for under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

IFRIC 21 addresses the accounting for a liability to pay a levy that is within the scope of IAS 37, in particular when an entity should recognise a liability to pay a levy. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain.

Under IFRIC 21, the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. For example, if the activity that triggers the payment of the levy is the generation of revenue in the current period and the calculation of that levy is based on the revenue that was generated in a previous period, the obligating event for that levy is the generation of revenue in the current period. Where the activity that triggers the payment of the levy occurs over a period of time, the liability to pay a levy is recognised progressively. For example, if the obligating event is the generation of revenue over a period of time, the corresponding liability is recognised as the entity generates that revenue.

IFRIC 21 also clarifies that an entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period. This can lead to accounting outcomes that some find counter-intuitive for levies that are measured by reference to current period activities but are triggered only if the entity continues to operate on a specified date in a future period.

Get ready for IFRS 9 – the impairment requirements

The Grant Thornton International Ltd IFRS Team has published 'Get ready for IFRS 9 – the impairment requirements', the second in a series of publications intended to prepare you for IFRS 9 'Financial Instruments'.

IFRS 9 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.

Following on from our first issue which looked at classifying and measuring financial instruments under the new Standard, Issue 2 aims to get you up to speed with its requirements on impairment. Outlined below is a taster of some of the matters considered in the publication itself.

The big picture

Our guide begins with an overview of the new impairment requirements, which were developed against the backdrop of the financial crisis. Under IFRS 9, recognition of impairment no longer depends on a reporting entity first identifying a credit loss event. This is a major change from the previous Standard, IAS 39.

IFRS 9 instead uses more forward-looking information to recognise expected credit losses for all debt-type financial assets that are not measured at fair value through profit or loss.

Information to consider when identifying a credit loss event

IFRS 9's expected credit loss model means that a reporting entity will need to consider a wider range of information than it did under IFRS 9. Such information includes:

- past events such as experience of historical losses for similar financial instruments
- current conditions
- reasonable and supportable forecasts that affect the collectability of the future cash flows of the financial instrument in concern.

The scope of the new impairment requirements

Section 2 of our guide outlines the scope of the new impairment requirements. In brief, IFRS 9's impairment requirements apply to all debt-type assets that are not measured at fair value through profit or loss. Certain other credit exposures that were outside the scope of IAS 39 are also within the scope of the Standard.

Investments in equity instruments are however outside the scope of the impairment requirements as they are measured at fair value.

The general (or three-stage) impairment approach

IFRS 9's general approach to recognising impairment is based on a three-stage process which is intended to reflect the deterioration in credit quality of a financial instrument.

- **Stage 1** covers instruments that have not deteriorated significantly in credit quality since initial recognition or (where the Standard's optional low credit risk simplification is applied) that have low credit risk
- **Stage 2** covers financial instruments that have deteriorated significantly in credit quality since initial recognition (unless the low credit risk simplification has been applied and is relevant) but that do not have objective evidence of a credit loss event
- **Stage 3** covers financial assets that have objective evidence of impairment at the reporting date.

12-month expected credit losses are recognised in stage 1, while lifetime expected credit losses are recognised in stages 2 and 3.

Section 3 of our guide explains this general approach. In particular this section concentrates on the identification and impact of a significant increase in credit risk, covering:

- the definition of default
- the interaction with the level of credit risk on initial recognition
- the interaction with the length to maturity of an instrument
- what is reasonable and supportable information
- the rebuttable presumption for payments more than 30 days past due
- carrying out a multi-factor analysis
- making the assessment on an individual or collective basis.

The simplified model for trade receivables, contract assets and lease receivables

In developing IFRS 9's impairment requirements, there was concern that the process of determining whether to recognise 12-month or lifetime expected credit losses was not justifiable for instruments such as trade receivables and lease receivables.

The IASB therefore included a number of simplifications to the general model. Section 4 of our guide explains these simplifications which are summarised in the table.

In this part of the guide we also provide an example of an expected credit loss calculation using a provision matrix for trade receivables and also look at the practical issues to consider in building such a matrix.

Simplifications

Situation	Simplification
Trade receivables and contract assets of one year or less or ones which do not contain a significant financing component	Always recognise a loss allowance at an amount equal to lifetime expected credit losses
Trade receivables and contract assets which do contain a significant financing component (in accordance with IFRS 15)	Entities are allowed to choose to always recognise a loss allowance at an amount equal to lifetime expected credit losses
Lease receivables within the scope of IAS 17	An entity is similarly allowed to choose as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses.

The approach for purchased or originated credit-impaired financial assets

IFRS 9 contains a specific approach for assets that are credit impaired at the date of initial recognition. Under this approach, which differs from IFRS 9's general model for impairment, entities:

- apply the credit-adjusted effective interest rate to the asset's amortised cost from initial recognition
- subsequently recognise the cumulative changes in lifetime expected credit losses.

Gains are not limited to the reversal of previously recognised losses as they are for other assets. Section 5 of our guide explains these requirements in more depth.

Presenting and disclosing credit losses

Sections 6 and 7 of the guide consider how the classification of a financial asset impacts on the presentation of loss allowances and discusses the extensive changes that have been made to IFRS 7 'Financial Instruments: Disclosures' as a result of the publication of IFRS 9.

The guide concludes by considering some of the next steps that you will need to take in order to implement the new Standard.

Accessing the publication

You can access 'Get ready for IFRS 9 – the impairment requirements' by going to **http://www.grantthornton.global/en/insights/articles/get-ready-for-ifrs-9-issue-2/**

We hope you find the information it contains helpful in preparing you for IFRS 9. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact or visit **www.grantthornton.global/locations** to find your local member firm.

Telling your story: making your financial statements an effective communication tool

The Grant Thornton International Ltd IFRS Team has published 'Telling your story', which explains and illustrates four key themes you can use to make your financial statements an effective communication tool.

Background to the publication

The average length of financial statements has been growing for many years as the result of disclosure requirements being added into IFRS on a piecemeal basis. In the coming years, new Standards on revenue, financial instruments and leasing will add even more disclosures.

All this increases the burden on you when preparing financial statements. Disclosures are added for good reasons – they enable investors to understand complex transactions within the financial statements. However, the side effect of this is that financial statements are becoming cluttered and truly important information is becoming hard to find.

The Standards are only one issue though – companies are struggling to apply the materiality concept to their disclosures. This lack of clarity on how to apply materiality to financial statements is perceived to be one of the main drivers for overloaded financial statements.

With support from regulators and standard setters, many companies are revising their approach to financial statement preparation and looking for innovative ways to improve the look and feel of their financial statements. Companies are remembering that financial statements are not merely a compliance document but also a critical means of communication with investors.

Four best practices

The four key themes – or best practices – that we identify in our publication are interdependent. Each is a 'tool' that should be used to a greater or lesser extent depending on your circumstances. We set out below a summary of these tools:

1 Comply but communicate

Best practice: Tell your story. Comply with the standards and regulations but also ensure your financial statements are an effective part of your wider communication with your stakeholders.

Your financial statements are just one "piece of the puzzle" when communicating with your stakeholders. Make them more effective using the following tips:

Holistic approach	• in order to ensure overall effective communication, you should have a holistic approach. This means you should consider your annual report as a whole and deliver a consistent and coherent message throughout
Keep it simple	• provide commentary on more complex areas in plain English
Alternative performance measures (APMs)	• if using APMs, do so transparently, so that they do not mislead users but instead provide useful additional information which supports your story
Think digital	• digital reporting is evolving and more companies are addressing the increasing demand for it. When using pdfs, we recommend you ensure they are enhanced to maximize the benefits to your users.

2 Omit the immaterial

Best practice: Make effective use of materiality to enhance the clarity and conciseness of your financial statements.

The lack of clarity in how to apply the concept of materiality is perceived to be one of the main drivers for overloaded financial statements. Information should only be disclosed if it is material. It is material if it could influence users' decisions which are based on the financial statements.

Your materiality assessment is the 'filter' in deciding what information to disclose and what to omit. Once you have determined which specific line items require disclosure, you should assess what to disclose about these items, including how much detail to provide and how best to organise the information. This is done by a filtering process as follows:

Filter #1	• considers if the underlying item (ie the amount recognised or unrecognised, event, risk) is itself material because of its **size** or its **nature**
Filter #2	• if it is, filter #2 determines the specific disclosures (and level of detail) to provide for each item.

3 Re-think the notes

Best practice: Re-evaluate how you organise the notes to your financial statements to improve their effectiveness as a communication tool.

Being the largest section of the financial statements, the notes can have the greatest impact on the effectiveness of your financial statements as a communication tool. Improve the effectiveness of your notes by:

Integrating the notes	• combine your notes to achieve more effective communication • for example, integrate your main note of a line item with its accounting policy and any relevant key estimates and judgements
Re-ordering the notes	• move away from the traditional order of the notes • group notes into categories, place the most critical information more prominently or use a combination of both of these approaches
Using signposting	• assist users in navigating your financial statements through the use of effective signposting, cross-referencing and indexing.

4 Prioritise the policies

Best practice: The financial statements should disclose your significant accounting policies. Your disclosures should be relevant, specific to your company and explain the application of your policies.

The aim of accounting policy disclosures is to help your investors and other stakeholders to properly understand your financial statements. To make accounting policy disclosures effective you should:

Disclose only your significant accounting policies	• use judgement to determine whether your accounting policies are significant • consider not only the materiality of the balances or transactions affected by the policy but also other factors including the nature of the company's operations • remove non-significant disclosures that do not add any value
Make your policies clear and specific	• reduce generic disclosures (for example those that summarise the accounting standards) and focus on company specific disclosures that explain how the company applies the policies
Articulate key estimates and judgements	• effective disclosures about the most important estimates and judgements enable investors to understand your financial statements, so: – for estimates, focus on the most difficult, subjective and complex estimates. Include details of how the estimate was derived, the key assumptions involved, the process for reviewing them, and a sensitivity analysis – for judgements, provide sufficient background information on the judgement, explain how the judgement was made and the conclusion reached.

The publication explains these key tools in more detail and provides illustrative examples and practical tips for implementing them, as well as any relevant IFRS guidance.

Accessing the publication

You can access 'Telling your story: making your financial statements an effective communication tool by going to **http://www.grantthornton.global/en/insights/articles/telling-your-story/**

We hope you find the information it contains helpful when considering the content and presentation of your annual reports. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact or visit **www.grantthornton.global/locations** to find your local member firm.

New example interim IFRS financial statements

The Grant Thornton International Ltd IFRS team has published an updated version of its IFRS 'Example Interim Consolidated Financial Statements'.

The previous version has been reviewed and updated to reflect changes in IAS 34 'Interim Financial Reporting' and in other IFRSs that are effective for the year ending 31 December 2016.

The publication illustrates the interim consolidated financial statements of a company that has been preparing IFRS financial statements for several years and produces half-yearly interim reports in accordance with IAS 34 'Interim Financial Reporting' at 30 June 2016.

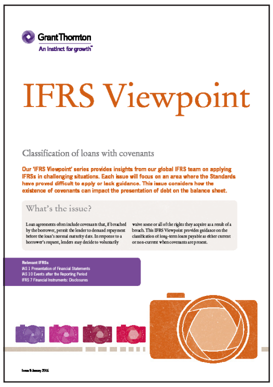
You can access the interim financial statements by going to **http://www.grantthornton.global/en/insights/articles/interim-consolidated-financial-statements-2016/**. If you would like to discuss the subject matter, please speak to your usual Grant Thornton contact or visit **www.grantthornton.global/locations** to find your local member firm.

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. You can access the Viewpoints at **http://www.grantthornton.global/en/insights/viewpoint/ifrs-viewpoints-hub/**. Each edition focuses on an area where the Standards have proved difficult to apply or lack guidance.

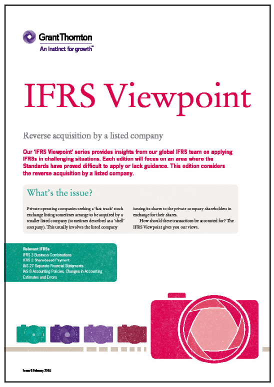
Issue 5: Classification of loans with covenants

Issue 5 looks at loan agreements which include covenants that, if breached by the borrower, permit the lender to demand repayment before the loan's normal maturity date. The Viewpoint provides our views on the classification of long-term loans payable as either current or non-current when covenants are present, paying particular attention to situations where in response to a borrower's request, lenders decide to voluntarily waive some or all of the rights they acquire as a result of a breach.



Issue 6: Reverse acquisition by a listed company

Issue 6 considers a situation where a private operating company seeking a stock exchange listing arranges to be acquired by a smaller listed 'shell' company. This usually involves the listed company issuing its shares to the private company shareholders in exchange for their shares. The Viewpoint sets out our views on how to account for such transactions, distinguishing between situations where the transaction is and is not a business combination.



IFRS News Special Edition on IFRS 16 'Leases'

The Grant Thornton International Ltd IFRS team has published a special edition of IFRS News on the new lease accounting standard – IFRS 16 'Leases'.

IFRS 16 will require lessees to account for leases 'on-balance sheet' by recognising a 'right-of-use' asset and a lease liability. For businesses that lease 'big ticket' assets, such as property and high value equipment, this will be a major change although exemptions for short-term leases and leases of low value assets should reduce the impact for other items.

Our special edition newsletter explains the key features of the new Standard including:

- the background to the Standard
- the definition of a lease
- the new approach for lessee accounting
- lessor accounting
- sale and leasebacks.

We also cover presentation and disclosure, and provide practical insights into its application and impact.

You can access the special edition newsletter by going to **http://www.grantthornton.global/en/insights/articles/ifrs-news-special-edition-on-ifrs-16/**.

Comment letters submitted

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

Transfers of investment property (proposed amendment to IAS 40)

The IASB's Exposure Draft looks to clarify when a property under construction or development that is classified as inventory can be transferred to investment property. In our letter we agree (subject to two points of clarification) with the proposals clarifying that such transfers should occur when there is evidence that there has been a change in use.

IFRS Practice Statement: Application of Materiality to Financial Statements

In our letter, we support the IASB's overall objectives in developing a Practice Statement on materiality. In particular, we agree that applying the materiality concept when preparing financial statements is challenging, especially in relation to disclosures. Practical guidance on applying the materiality concept therefore has the potential to help preparers make the necessary judgements.

We therefore expressed our view that the Exposure Draft is a good starting point towards providing this guidance. We believe it could be even more useful if the guidance focussed on more practical examples which illustrated entities' decisions to disclose or exclude information, particularly in areas involving significant judgement. We provided a number of specific examples of this in an appendix to our letter.

Annual Improvements 2014-2016 cycle

The IASB's Annual Improvements process enables the IASB to make non-urgent, but necessary, minor amendments to IFRSs that will not be included as part of any other project. The 2014-16 cycle includes proposed amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards', IFRS 12 'Disclosure of Interests in other Entities' and IAS 28 'Associates and Joint Ventures'.

In our letter we agree with the proposed amendments, subject to one detailed comment relating to the proposed amendments to IFRS 1. We also made suggestions on the proposed transition provisions for the amendments to IFRS 12 and IAS 28.

Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'

The IASB issued the 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.

In our response to the Exposure Draft, we welcome the IASB's decision to take action in response to insurers' concerns about applying IFRS 9 before the new insurance standard. We therefore supported the proposal to introduce two different approaches (an overlay and a temporary exemption from IFRS 9) subject to comments about the restrictiveness of the proposed eligibility criteria for the latter approach.

Grant Thornton representative appointed to UK technical body

Jake Green, a Director in our UK member firm has been appointed to the UK Financial Reporting Council's UK GAAP Technical Advisory Group.

The group provides advice on accounting (and related company law) issues for all entities applying UK accounting standards which are becoming increasingly based on IFRSs.

US partner appointed to FASB's Emerging Issues Task Force

The US Financial Accounting Standards Board (FASB) have appointed Mark Scoles, partner-in-charge of Grant Thornton LLP's Accounting Principles group, to its Emerging Issues Task Force (EITF).

The EITF assists the FASB in improving financial reporting through the timely identification, discussion, and resolution of financial accounting issues.

Mark is responsible for Grant Thornton LLP's technical matters relating to accounting, auditing, and US Securities and Exchange Commission issues – with emphasis on consolidation, transfers of financial assets, financial instruments and derivatives, and debt and equity arrangements. He often works with financial services clients, addressing accounting issues specific to the industry, including consolidation, securitisation transactions and derivative financial instruments. He has also served for many years on Grant Thornton International Ltd's Financial Instruments IFRS Working Group, and continues to do so today.

UK partner appointed to Transnational Auditors' Committee

Sue Almond, Partner – Head of Assurance, Grant Thornton UK, has been appointed to the prestigious Transnational Auditors' Committee (TAC). She joins Gilles Hengoat (France) in representing Grant Thornton on the Committee.

The TAC brings together representatives of the Forum of Firms, of which Grant Thornton is proud to be one of six founder members. Forum of Firms' membership represents a recognised badge of commitment to audit quality by virtue of its members' support for and use of international standards. Forum of Firms' membership is acknowledged as a pre-requisite for conducting cross border audits, and therefore aligned with our strategy of member firms conducting more international work across all service lines. TAC membership brings relationships with high calibre people in the international profession, and access to thinking about emerging issues which we collectively seek to leverage for the benefit of member firms.

Round-up

IASB

IFRS Taxonomy

The IFRS Foundation has published the IFRS Taxonomy 2016 which is a translation of IFRS as issued at 13 January 2016 into XBRL (eXtensible Business Reporting Language).

The new release includes Standards published but not yet effective such as IFRS 16 'Leases' as well as Standards that are already effective.

XBRL is rapidly becoming the format of choice for the electronic filing of financial information.

By providing the IFRS Taxonomy, the IFRS Foundation is seeking to address the demand for an electronic standard to transmit IFRS financial information.

United States

FASB issues new leases standard

The Financial Accounting Standards Board (FASB) has issued an Accounting Standards Update (ASU) aimed at improving the accounting for lease transactions. The ASU will require lessees to recognise assets and liabilities for the rights and obligations created by leases they enter into.

The ASU follows hot on the heels of the IASB's new Standard on leasing, IFRS 16, which was issued in January (see last quarter's edition of IFRS News). The IASB and the FASB had worked together on the development of the overall project, however the ASU contains a number of differences from the ASU. Most notably under the ASU the recognition, measurement and presentation of expenses and cash flows of a lease will depend primarily on its classification as a finance or an operating lease, although both types of leases will be recognised on the balance sheet as under IFRS 16.

India

Roadmap for banking and insurance companies

The Indian Ministry of Corporate Affairs (MCA) has released a roadmap for the adoption of IFRS in its banking and insurance sectors.

Banking and insurance companies had been exempt from the general roadmap for IFRS convergence which was released in January 2015, but will now apply Indian Accounting Standards (which are largely converged with IFRS) from 1 April 2018. Conversion will be on a phased basis with larger companies being affected from 1 April 2018 and smaller ones following a year later.

Both consolidated and individual financial statements will be affected by the change although some banks (such as urban cooperative banks and regional rural banks) will not be within the scope of the plan.

Europe

ESMA report

The European Securities and Markets Authority (ESMA) has published its annual report on the enforcement and regulatory activities of accounting enforcers within the European Union (EU) in 2015.

The report pays particular attention to the areas identified by the 2014 European Common Enforcement Priorities, noting shortcomings in the disclosure of assumptions and judgements related to the:

- recognition, measurement and disclosures of deferred tax assets arising from tax losses
- assessment of control over an entity in the absence of a majority equity interest or majority shareholding rights
- classification of joint arrangements.

More generally, enforcers found the main deficiencies were related to the presentation of financial statements, impairment of non-financial assets and accounting for financial instruments.

Going forward in 2016, accounting enforcers will review issuers' compliance with IFRS in line with the common enforcement priorities for 2015. This means they will focus in particular on the impact of the financial markets conditions on the financial statements, the statement of cash flows and related disclosures as well as the fair value measurement of non-financial assets and related disclosures.

Europe (cont.)

EFRAG – new investor insights into financial reporting

EFRAG and the Institute of Chartered Accountants of Scotland have published a research study which investigates professional investors' views on the use of financial reporting information. The main findings of the report are:

- the objective of investors (valuation or stewardship) does matter
- investors' attention is strongly focussed on the income statement
- investors have strong reservations about the representational faithfulness of bottom line figures
- regardless of its shortcomings, financial accounting information is a key input for investors' decision making
- the quality of corporate governance, including audit, influences investors' assessment of the representational faithfulness.

EFRAG and ICAS suggest that the research has a number of implications, notably:

- a one size approach does not fit all, suggesting that standard setters need to clearly prioritise the different objectives for financial reporting
- investors' focus on the income statement is at odds with the IASB's balance sheet based approach
- there is a need for development of more standardised performance measures for the income statement
- investors' perceptions of corporate governance significantly affect their views of representational faithfulness. Standard setters therefore need to consider costs of corporate governance and enforcement of accounting standards in developing their pronouncements
- investment in high quality corporate governance, including audit, may well contribute to enhanced investor confidence.

EBA launches impact assessment of IFRS 9

The European Banking Authority (EBA) has launched an impact assessment of the effect of IFRS 9 'Financial Instruments' on a sample of approximately fifty institutions across the European Union (EU).

The exercise, which is not linked to the process for EU endorsement of the Standard, will help the EBA understand the estimated impact of IFRS 9 on regulatory own funds for the financial institutions in concern. In addition, it will support the EBA in assessing the interaction between IFRS 9 and other prudential requirements and the way institutions are preparing for the application of IFRS 9.

Other developments

Corporate Reporting Dialogue releases statement on materiality

The Corporate Reporting Dialogue ('CRD'), an initiative consisting of standard setters and corporate reporting developers including the IASB and the FASB, has published a statement on materiality.

The statement, titled the 'Statement of Common Principles of Materiality of the Corporate Reporting Dialogue' summarises the common principles of materiality the CRD believes are consistent across different forms of corporate reporting. It compares the definitions and approaches of materiality from the members of the CRD. These members include:

- CDP (formerly Carbon Disclosure Project)
- Climate Disclosure Standards Board (CDSB)
- Global Reporting Initiative (GRI)
- International Accounting Standards Board (IASB)
- International Integrated Reporting Council (IIRC)
- International Organization for Standardization (ISO)
- Sustainability Accounting Standards Board (SASB)
- Financial Accounting Standards Board (FASB) (partial participation only)

The overall aim of the statement is to provide assistance to organisations who find it difficult to apply the materiality concept due to the number of different materiality definitions used across varying reporting frameworks.

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
IFRS 9	Financial Instruments (2014)	1 January 2018	Yes (extensive transitional rules apply)
IFRS 15	Revenue from Contracts with Customers (including clarifications to IFRS 15 published in April 2016)	1 January 2018*	Yes
IAS 7	Disclosure Initiative (Amendments to IAS 7)	1 January 2017	Yes
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017	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)	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 (was 1 January 2016)	Yes
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

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 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
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
There were no documents out for comment at the date of going to press.		

Contact

Stephen Murray
Partner, Corporate Audit
E stephen.murray@ie.gt.com
D +353 (0)1 680 5689

Fergus Condon
Partner, Financial Accounting and Advisory Services
E fergus.condon@ie.gt.com
D +353 (0)1 680 5610

Louise Kelly
Partner, Corporate Audit
E louise.kelly@ie.gt.com
D +44 (0)28 9587 1100

Click **here** to subscribe to future thought leadership publications.

Grant Thornton
An instinct for growth™

www.grantthornton.global