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Accounting

News

Discussion

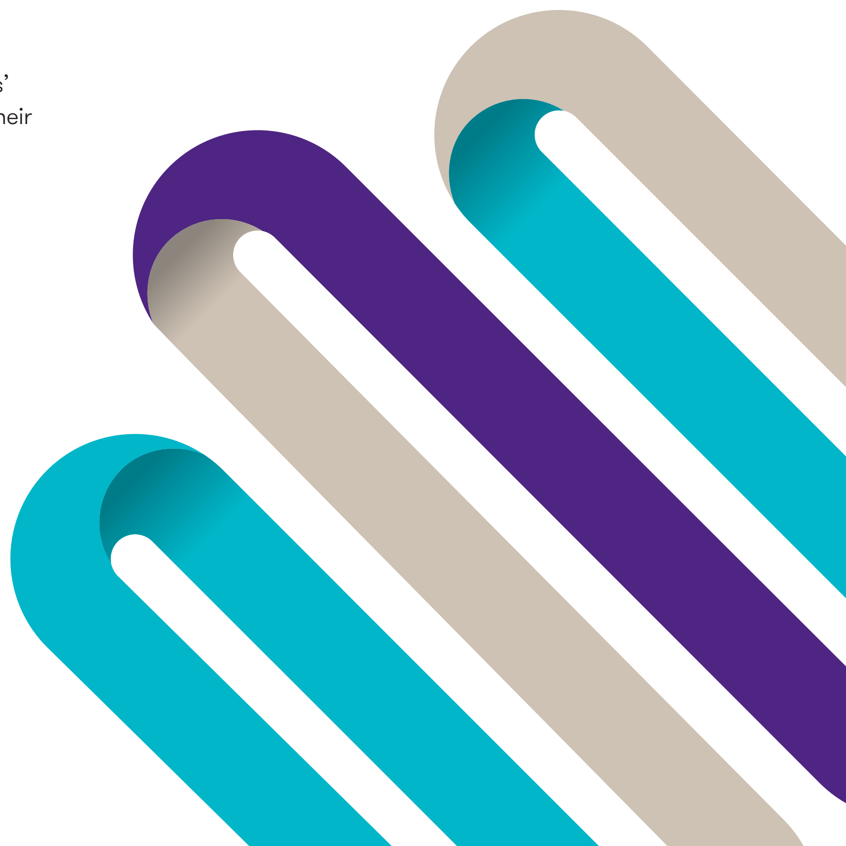
IFRS News

Quarter 3 2017

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 third edition of the year by looking at the publication of IFRS 17 'Insurance Contracts'. Twenty years in the making, this new Standard will have an impact on entities' data, technology solutions and investor relations as well as their financial reporting.

We then move on to look at new proposals published by the IASB, including proposed amendments to IAS 16 'Property, Plant and Equipment'. 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.



IASB issues IFRS 17 'Insurance Contracts'

After twenty years of development, the IASB has published IFRS 17 'Insurance Contracts'. This represents a record in terms of development period, the lengthy completion period reflecting a number of factors including:

- very diverse local practices for insurance accounting
- a huge range of jurisdiction-specific products, tax implications and regulations that had to be captured by a uniform measurement model
- the need for alignment with other Standards that have been recently published by the IASB, such as IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers', and to some degree the work of other standard setters.

The new Standard replaces IFRS 4 'Insurance Contracts' which was published in 2004. IFRS 4 was designed to be an interim Standard and therefore allowed entities issuing insurance contracts to carry on accounting for them using policies that had been developed under their previous local accounting standards. This meant that entities continued to use a multitude of different approaches for accounting for insurance contracts, making it difficult to compare and contrast the financial performance of otherwise similar entities.

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. We briefly discuss some of the areas covered by the new Standard below:

Scope

IFRS 17 applies to all insurance contracts that an entity issues (including those for reinsurance); reinsurance contracts it holds; and investment contracts with a discretionary participation feature, provided the entity also issues insurance contracts.

IFRS 17 defines an insurance contract as one under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

This definition is similar to that in IFRS 4. In addition, IFRS 17 provides guidance on how to assess the significance of insurance risk based on the possibility of a loss on a present value basis (rather than nominal), and how to evaluate changes in the level of insurance risk.

Measurement

IFRS 17 requires an entity that issues insurance contracts to report them on the balance sheet as the total of:

a the fulfilment cash flows – the current estimates of amounts that the insurer expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those cash flows and

b the contractual service margin – the expected profit for providing future insurance coverage (ie unearned profit).

The measurement of the fulfilment cash flows reflects the current value of any interest rate guarantees and financial options included in the insurance contracts.

This is a Standard about insurance contracts, not a Standard for the insurance industry. Its effect will be felt beyond just those entities which are authorised to carry out regulated insurance or reinsurance activities in a jurisdiction.

To better reflect changes in insurance obligations and risks, IFRS 17 requires an entity to update the fulfilment cash flows at each reporting date, using current estimates that are consistent with relevant market information. This means that insurance obligations will be accounted for using current values instead of historical cost, ending the practice of using data from when a policy was taken out.

Current discount rates are also required to be used. These will reflect the characteristics of the cash flows arising from the insurance contract liabilities, a change from the previous situation where many entities used discount rates based on the expected return on assets backing the insurance contract liabilities.

Revenue is no longer equal to written premiums but to the change in the contract liability covered by consideration.

Insurance performance

IFRS 17 requires an entity to provide information that distinguishes two ways insurers earn profits from insurance contracts:

- a the insurance service result, which depicts the profit earned from providing insurance coverage
- b the financial result, which captures:
  - i investment income from managing financial assets
  - ii insurance finance expenses from insurance obligations – the effects of discount rates and other financial variables on the value of insurance obligations.

When applying IFRS 17, changes in the estimates of the expected premiums and payments that relate to future insurance coverage will adjust the expected profit – ie the contractual service margin for a group of insurance contracts will be increased or decreased by the effect of those changes.

The effect of such changes in estimates will then be recognised in profit or loss over the remaining coverage period as the contractual service margin is earned by providing insurance coverage.

Onerous contracts

To make differences in profitability among insurance contracts visible, IFRS 17 requires an entity to distinguish groups of contracts expected to be loss-making from other contracts.

Companies should first identify portfolios of insurance contracts that are subject to similar risks and managed together. Once an entity has identified portfolios of contracts, it divides each portfolio into groups considering differences in the expected profitability of the contracts.

If the amounts that the insurer expects to pay out on a contract in the form of claims, benefits and expenses exceed the amounts that the insurer expects to collect from premiums, either at the inception of the contracts or subsequently, the contracts are loss making and the difference will be recognised immediately in profit or loss.

Reinsurance contracts

A separate measurement model applies to reinsurance contracts held. Modifications are allowed for qualifying short-term contracts and participating contracts.

Presentation

Statement of financial position

The statement of financial position should present in separate captions the assets and liabilities arising under insurance contracts issued and reinsurance contracts held.

In contrast to practices existing under various local GAAPs, entities should adopt a grossed-up presentation where contracts, which are assets, are not netted off against contracts, which are liabilities and vice versa. IFRS 17 does not mandate a layout for the statement of financial position. The reporting entities should follow the general requirements of IAS 1 'Presentation of Financial Statements' but need to ensure that certain captions are presented as a minimum on the face of the statement.

Statement of financial performance – measurement of revenue and expenses

IFRS 17 does not mandate a layout for the statement of financial performance. Reporting entities should follow the principle requirements of IAS 1 and the measurement rules of IFRS 17, which require that revenue and incurred expenses presented in profit or loss exclude any investment components.

Measurement of insurance contract revenue

Revenue recognition is an area where IFRS 17 principles represent a significant change from practices previously followed in various local GAAPs. Previously revenue was reported by reference to premium cash received or receivable.

Under IFRS 17, revenue represents the total change in the liability for remaining coverage that relates to coverage and services during the period for which the entity expects to receive consideration.

Supporting materials issued by the IASB

Following publication of IFRS 17, the IASB has announced various initiatives to support entities with the adoption of the Standard, including a dedicated implementation support page for IFRS 17 and a webinar on the Standard.

The IASB also plans to establish a Transition Resource Group which will discuss questions from stakeholders about the new accounting requirements.

Disclosure

The objective of the disclosure requirements of IFRS 17 is to disclose information which allows the users of financial statements to assess the effect that contracts within the scope of the Standard have on the entity's financial position, financial performance and cash flows. Entities should provide quantitative and qualitative information about amounts recognised in the financial statements, significant judgements (and changes thereof), and the nature and extent of risks arising from contracts within the scope of the Standard.

Reporting entities are required to follow IAS 1's requirements on materiality and aggregation when deciding what aggregation bases are appropriate for disclosure. The type of contract, geographical area or reportable segment as defined in IFRS 8 'Operating Segments' are all examples suggested but not mandated by the Standard.

Effective date and transition

IFRS 17 has an effective date of 1 January 2021 but may be applied earlier provided the entity applies IFRS 9 'Financial Instruments' and IFRS 15 at or before the date of initial application of the Standard (and subject to any considerations imposed by local legislation).

As noted in the 2016 Quarter 4 edition of IFRS News, the IASB made narrow scope amendments to IFRS 4 'Insurance Contracts' in September of last year to provide temporary accounting solutions for the practical challenges of implementing IFRS 9 before IFRS 17.

The Grant Thornton International Ltd IFRS Team has issued a detailed publication entitled 'Get Ready for IFRS 17 – a fundamental change to the reporting for insurance contracts', see page 8 for more details.

IASB issues IFRIC 23 'Uncertainty over Income Tax Treatments'

The IFRS Interpretations Committee (IFRIC) has published a new Interpretation IFRIC 23 'Uncertainty over Income Tax Treatments', specifying how entities should reflect uncertainty in accounting for income taxes.

Background

IFRIC 23 addresses uncertainty over how tax treatments should affect the accounting for income taxes. IFRIC had observed that there was diversity in practice for various issues on the recognition and measurement of a tax liability or asset in circumstances where there is uncertainty in the application of the tax law in concern. The table on the following page illustrates the main issues that are addressed by the Interpretation.

Grant Thornton International Ltd comment

We welcome the publication of this Interpretation. Although it can be argued that IAS 12 already provides sufficient guidance on how to account for income taxes when uncertainty exists over tax treatments, we agree that diversity had arisen in practice in this area and that IFRIC 23 will help to reduce this.

Main issues addressed by IFRIC 23

Issue	Proposal
When and how the effect of uncertainty over income tax treatments should be included in the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates	• an entity is required to consider whether it is probable that a taxation authority will accept an uncertain tax treatment • if it is, the entity would determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings • if the entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it uses either the most likely amount or the expected value in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates (depending on which method is expected to better predict the resolution of the uncertainty).
The assumptions that an entity should make about the examination of tax treatments by taxation authorities	• an entity is required to assume that a tax authority will examine amounts it has a right to examine and will have full knowledge of all relevant information when making those examinations
Changes in facts and circumstances	• entities are also required to reassess their judgements and estimates if facts and circumstances change (eg upon reaching a time limit where the taxation authority is no longer able to challenge an entity's tax treatments) or as a result of new information that affects the judgement or estimate becoming available.
Whether uncertain tax treatments should be considered separately	• entities would be required to use judgement to determine whether each uncertain tax treatment should be considered separately, or whether some uncertain tax treatments should be considered together. In determining the approach to be followed, entities shall consider which approach better predicts the resolution of the uncertainty.
Disclosure	• when addressing uncertainty over income tax treatments, entities are required to disclose judgements, assumptions and estimates made in accordance with the normal requirements of IAS 1 'Presentation of Financial Statements' • in addition, if an entity concludes it is probable that a taxation authority will accept an uncertain tax treatment, it should consider whether to disclose the potential effect of the uncertainty as a tax-related contingency under IAS 12.88.
Transition	• entities shall apply IFRIC 23: – retrospectively by applying IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', if that is possible without the use of hindsight; or – retrospectively with the cumulative effect of initially applying the effect of the changes being recognised in the opening balance of retained earnings (or another component of equity) in the period of first application, without adjusting comparative information.

IASB publishes proposed amendments to IAS 16

Proposed amendments to IAS 16 regarding proceeds before intended use.

The IASB has published the Exposure Draft (ED) 'Property, Plant and Equipment—Proceeds before Intended Use (Proposed amendments to IAS 16)'. The proposals in the ED would prohibit entities from deducting from the cost of an item of property, plant and equipment any sales proceeds during the period before the asset is available for use.

Background

The origin of the ED stems from a submission made to the IFRS Interpretations Committee (IFRIC) on IAS 16 'Property, Plant and Equipment' which asked:

a whether the proceeds (from bringing an asset into its intended condition) that are referred to in paragraph 17(e) of that Standard relate only to items produced from testing

b whether an entity can deduct any proceeds that exceed the costs of testing from the cost of the asset.

From outreach conducted, it was apparent that considerable diversity in practice exists over the interpretation of these questions. Some entities deduct only proceeds from selling items produced from testing while others deduct all sales proceeds until the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management (ie available for use).

This issue appears to mainly be relevant to a few specific industries, in particular the extractive and petrochemical industries.

Furthermore, for some entities, the proceeds deducted from the cost of an item of property, plant and equipment can be significant and can actually exceed the costs of testing, increasing the significance of the issue.

The proposals

After initial deliberations, the IFRIC identified some related questions about the cost of property, plant and equipment and concluded that the issue would be better dealt with by the IASB. Instead of the IFRIC issuing an Interpretation of IAS 16, the IASB is now proposing to amend the Standard itself. The proposed changes would prohibit entities from deducting from the cost of the asset itself any proceeds from items produced while bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management (for example proceeds received from inventories produced during the testing phase of an asset). The ED would also amend IAS 16 to make it clear that those proceeds and any costs incurred to produce those items must be recognised in profit or loss.

Transition

Should IAS 16 be amended in line with the proposals, transition would not be fully retrospective. This is because the IASB believes that the benefits from full retrospective application would be outweighed by the costs of having to go back to the point of initial recognition of each relevant item of property, plant and equipment. The ED therefore proposes retrospective application of the proposed amendments only to items of property, plant and equipment made available for use from the beginning of the earliest period presented when first applying them. The proposed amendments would not be applied to items of property, plant and equipment made available for use before that date.

SME Implementation Group publishes draft Q&A

The SME Implementation Group (SMEIG) has published a draft of a new question and answer document (Q&A) on the accounting for financial guarantees in a parent entity's separate financial statements under the IFRS for Small and Medium-sized Entities (SMEs). It is seeking comments on whether the draft provides useful and sufficient guidance for users of this Standard.

Q&As published by the SMEIG are non-mandatory guidance that will help those who use the IFRS for SMEs to think about specific accounting questions. They are not intended to modify in any way the application of full IFRS. However, the IASB will consider them when they next come to review the IFRS for SMEs. The box sets out the issue and the SMEIG's proposed solution.

Q&A IFRS for SMEs Section 12 (Issue 1): Accounting for financial guarantees in parent's separate financial statements

The issue:

A parent entity prepares separate financial statements applying the IFRS for SMEs Standard. The parent entity guarantees repayment of a loan from a bank to one of its subsidiaries. How does the parent entity account for the financial guarantee issued to the bank in its separate financial statements?

The answer:

The parent entity shall account for the financial guarantee by applying the requirements in Section 12 'Other Financial Instrument Issues' unless the parent entity chooses to apply the recognition and measurement requirements of IAS 39 'Financial Instruments: Recognition and Measurement' (as permitted by paragraphs 11.2(b) and 12.2(b) of the IFRS for SMEs Standard).

Corporate governance

Grant Thornton International Ltd has published its latest corporate governance report 'Beyond compliance – The building blocks of strong corporate culture'.

'Culture' is a concept we are all familiar with. Yet the business community has been playing catch-up in defining corporate culture and the elements that create it. So, as regulators turn their attention to corporate culture as a foundation of good governance, there's an increasing responsibility on boards and non-executives to meet increased regulatory expectations.

Grant Thornton International Ltd's global governance steering group, has developed this report which draws on findings of 2,500 business leaders around the world through IBR, and insights from our global network of governance specialists. It sets out practical recommendations for boards to consider, so they can play an even more effective role in fostering a successful culture today and in the future.

To obtain your copy, please get in touch with the IFRS contact in your local Grant Thornton office or go to https://www.grantthornton.global/globalassets/1.-member-firms/global/insights/article-pdfs/2017/culture_corporate-governance-report-2017.pdf.

Get Ready for IFRS 17

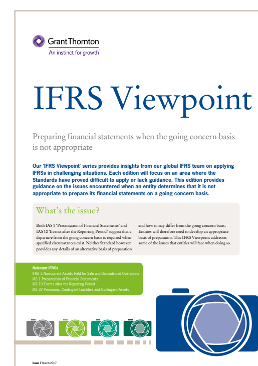
The Grant Thornton International Ltd IFRS team has released a new guide entitled: 'Get Ready for IFRS 17 – a fundamental change to the reporting for insurance contracts'.

The guide follows the publication of IFRS 17 'Insurance Contracts' by the IASB (see our lead article). The IASB's new Standard will have an impact on data, technology solutions and investor relations as well as financial reporting.

This 65 page guide is designed to get you ready for this major new Standard. It explains IFRS 17's key features and provides insights into their application and impact. To obtain your copy, please get in touch with the IFRS contact in your local Grant Thornton office or go to http://www.grant-thornton.gr/insights/article/get-ready-for-ifrs-17/

IFRS Viewpoint 7 released

Issue 7 provides guidance on preparing financial statements when the going concern basis is not appropriate.



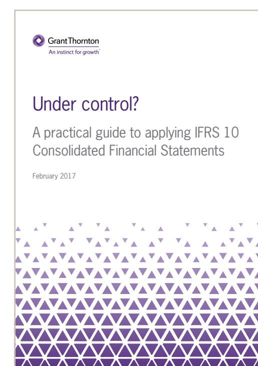
The Grant Thornton International Ltd IFRS Team has released the seventh in its series of IFRS Viewpoints designed for both external and internal use. Each edition focuses on an area where IFRS has proved difficult to apply or lacks guidance.

Issue 7 provides guidance on preparing financial statements when the going concern basis is not appropriate. Both IAS 1 'Presentation of Financial Statements' and IAS 10 'Events after the Reporting Period' suggest that a departure from the going concern basis is required when specified circumstances exist. Neither Standard however provides any details of an alternative basis of preparation and how it may differ from the going concern basis. Issue 7 addresses some of the issues that entities will face when doing so.

You can access the Viewpoint together with earlier editions in the series at www.grantthornton.global/en/insights/viewpoint/ifrs-viewpoints-hub/.

Under Control – Applying IFRS 10

The Grant Thornton International Ltd IFRS Team has published an updated version of its guide 'Under Control? A Practical Guide to Applying IFRS 10 Consolidated Financial Statements' (the Guide).



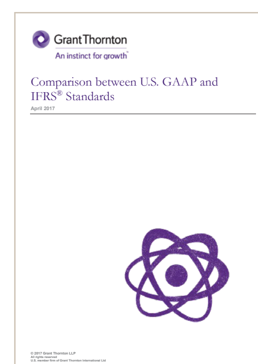
The Guide has been written to assist management in applying IFRS 10. More specifically it aims to assist with:

- understanding IFRS 10's requirements
- identifying situations in which IFRS 10 can impact control assessments
- identifying and addressing the key practical application issues and judgements.

This new version of the Guide now incorporates a new chapter that explains the consolidation exception for investment entities. You can access the guide at www.grantthornton.global/en/insights/articles/under-control-applying-ifrs-10/.

2017 version of US GAAP and IFRS Standards comparison guide updated

April 2017 saw our US member firm, Grant Thornton LLP, release an updated version of its publication 'Comparison between US GAAP and International Financial Reporting Standards'.



The publication is intended to help readers identify the major areas of similarity and difference between current US GAAP and IFRS. It will also assist those new to either US GAAP or IFRS to gain an appreciation of their major requirements.

This new edition of the comparison guide has been updated for standards issued as of 1 April 2017. The guide can be downloaded from Grant Thornton LLP's website (www.grantthornton.com).

Round up

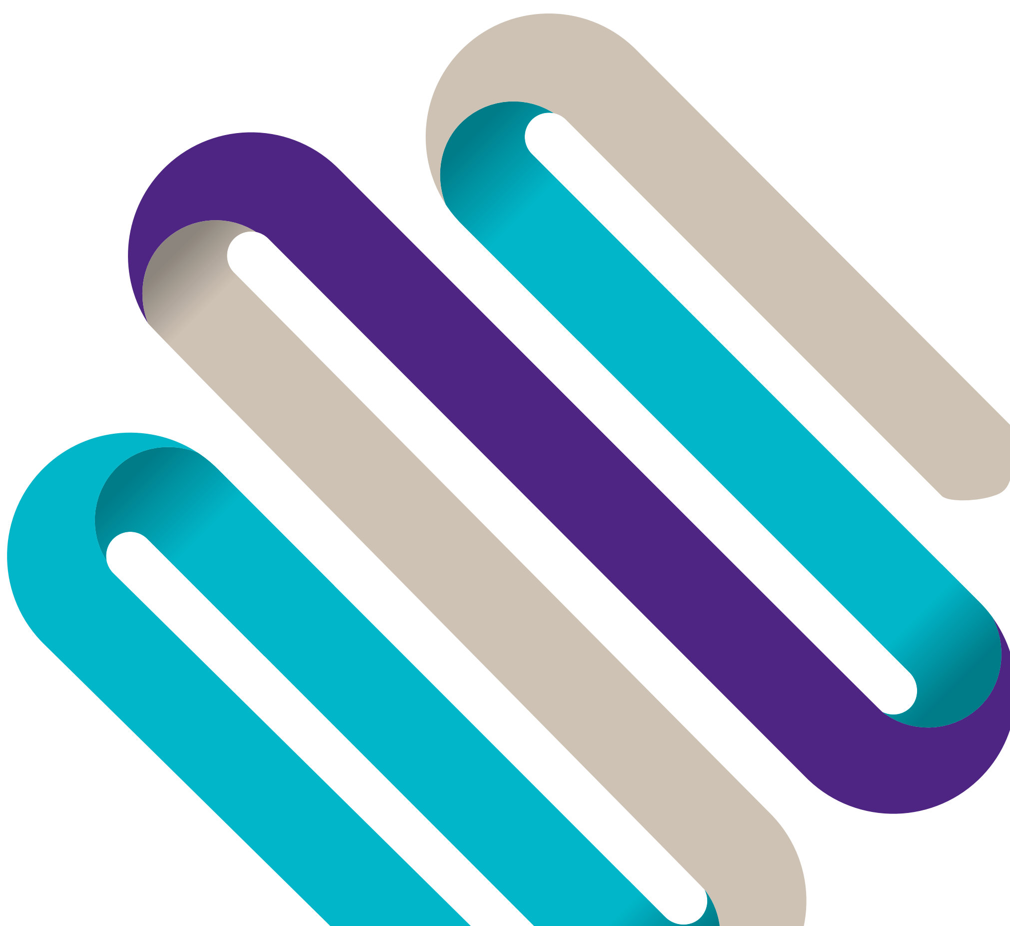
IASB

IASB chair speaks on financial stability, insurance contracts and better communication in financial reporting
At the IFRS Foundation's conference in Amsterdam, IASB Chairman Hans Hoogervorst discussed the role of accounting standards in fostering financial stability, with particular reference to the new Standard on insurance contracts, IFRS 17, and how this contributes to financial stability. Further, he discussed the IASB's work on its Better Communication initiative, a project focussing on how to make financial reports a better communication tool between companies and investors.

Other IASB publications
As featured on pages 5 to 7, the IASB issued IFRIC 23 'Uncertainty over Income Tax Treatments' and the Exposure Draft 'Property, Plant and Equipment—Proceeds before Intended Use (Proposed amendments to IAS 16)'. Further, the IASB published:

- the thirteenth edition of its newsletter **'Investor Update'**
- a **Webcast** on the Discussion Paper 'Principles of Disclosure'
- a **Request for Information** on the post-implementation review of IFRS 13 'Fair Value Measurement'
- a **Summary of Tentative Decisions** reached during the redeliberations on the 'Conceptual Framework'
- a **Webcast** on IFRS 9 'Financial Instruments' discussing the application of the impairment requirements for revolving facilities.

In addition, the IFRS Foundation has updated its **pocket guide** to IFRS which provides an overview of the adoption of IFRS in 150 countries and other jurisdictions around the world.



Asia-Oceania

ASBJ releases two papers on goodwill and impairment

The Accounting Standards Board of Japan (ASBJ) has published Research Paper No. 3 'Analyst Views on Financial Information Regarding Goodwill' and an Agenda Paper 'Possible Approach for Addressing the 'Too Little, Too Late' Issue'.

The research paper aims at contributing to the global discussion on the accounting for goodwill. It summarises the insight the ASBJ gained while interviewing analysts in Japan to better understand their views on goodwill and goodwill impairment. Some of the key findings are:

- analysts assess the importance of cash flow information, accounting profit and net assets differently
- views on the amortisation of goodwill vary with no clear preference for an amortisation and impairment approach or a non-amortisation approach
- information on management's estimate of the period for which expected future cash flows would increase due to the business combination, was deemed helpful
- many analysts believe that impairment losses on goodwill are recognised at a later point than that at which they thought a deterioration in the value of goodwill had occurred.

The related Agenda Paper 'Possible Approach for Addressing the 'Too Little, Too Late' Issue' was submitted for discussion at the Accounting Standards Advisory Forum meeting in July 2017. It suggests an approach to address the concern mentioned above, that impairment losses on goodwill are recognised under IAS 36 'Impairment of Assets' at either too late a stage or in insufficient amounts.

XRB publishes 'Alternative Performance Measures: A New Zealand user-needs survey'

The External Reporting Board (XRB) of New Zealand has published a survey on alternative performance measures (AMPs). The XRB undertook the survey to better understand how AMPs are perceived by users of financial statements in New Zealand and whether AMPs are deemed effective in meeting users' needs.

The survey found for example that APMs are useful as a further source of information in addition to GAAP measures but are not seen as the primary source of information on the company's performance. Respondents to the survey further stated that reconciliations between APMs and GAAP measures are useful to understand the APMs but would prefer clear and standardised definitions of APMs to increase comparability.

Europe

EFRAG issues discussion paper on goodwill impairment testing

The European Financial Reporting Advisory Group (EFRAG) has issued a discussion paper 'Goodwill Impairment: Can it be improved?'. Following the IASB's Post-implementation Review of IFRS 3 'Business Combinations', EFRAG started conducting research on goodwill accounting which led to the publication of a discussion paper in 2014 and a quantitative study in 2016, aiming at improving the guidance in IAS 36 'Impairment of Assets'. This latest discussion paper illustrates potential amendments to the impairment test in IAS 36 to enhance its application and effectiveness and reduce complexity.

EFRAG survey on possible effects of IFRS 9 on equity portfolios

The European Financial Reporting Advisory Group (EFRAG) has published a questionnaire to assess the possible effects of the requirements of IFRS 9 'Financial Instruments' on equity portfolios. This follows a request from the European Commission asking EFRAG for advice on the impact of accounting requirements of investments in equity instruments under IFRS 9, and whether those requirements could affect long-term investing.

IFRS 9 introduces an irrevocable option for an entity to designate at inception equity instruments (other than those held for trading and contingent consideration recognised in a business combination) at fair value through other comprehensive income, with no impairment losses recognised in profit or loss and no reclassification (recycling) of gains or losses into profit or loss upon derecognition.

EFRAG's questionnaire is open for comment until 30 September 2017.

ESMA publishes report on IFRS 13 implementation

The European Securities and Markets Authority (ESMA) has published a report on the implementation of IFRS 13 'Fair Value Measurement' by European preparers of financial statements. Taking a sample of 78 IFRS financial statements for the year 2015 from across different industries, the report assesses the level of compliance of those financial statements in terms of IFRS 13's requirements as well as the degree of comparability between entities.

The report finds that in general, IFRS 13's requirements have been well adopted. It does however, indicate that there is room for improvement on for example fair value disclosures, and the assessment of when transactions or quoted prices do not represent fair value.

ESMA intends to submit this report in due course to the IASB in response to its Post-implementation Review of IFRS 13.

ESMA publishes new Q&As on its APMs Guidelines

The European Securities and Markets Authority (ESMA) has updated its Questions and Answers (Q&A) document on the implementation of its Guidelines on the Alternative Performance Measures (APMs) for listed issuers. Four new questions provide information on:

- the definition of APMs in the context of interim financial statements
- the prominence of APMs compared to IFRS figures outside financial statements
- the use of the 'compliance by reference' principle set out in the Guidelines.

The purpose of the Q&A document is to promote common supervisory approaches and practices in the implementation of the guidelines.

Europe

European Commission adopts guidelines on the disclosure of non-financial information

On 6 December 2014 the EU Directive on disclosure of non-financial and diversity information by large companies and groups (2014/95/EU) came into force with an effective date in 2018. The EU Directive addresses environmental, social, and governance issues and is expected to eventually lead to more robust growth and employment and increased trust among stakeholders.

The European Commission has now adopted guidelines to help companies fulfil the requirement to disclose relevant non-financial information in a consistent and more comparable way. The aim is to increase transparency and performance amongst companies, and encourage them to embrace a more sustainable approach. The proposed guidelines are non-authoritative but reflect best practices, recent developments and 'lessons learnt' from, for example, the United Nations Sustainable Development Goals, the Paris Climate Agreement or the work of the Task Force on Climate-related Financial Disclosures.

Accountancy Europe paper on 'Standard setting in the 21st century'

Accountancy Europe (formerly FEE) has published a paper that takes a look at how standard-setting for financial reporting and auditing is organised now, and what could be improved to keep this process relevant for the needs of the 21st century.

The paper claims that stakeholder's expectations have changed due to technology, globalisation of business and developments in the accountancy profession. According to Accountancy Europe, some stakeholders perceive today's standard-setting process as too complicated, too slow and have concerns over its legitimacy. Therefore, the paper suggests principles and criteria that aim at helping standard-setters to improve the standard-setting process. For example, it suggests that the following key principles should be considered in any debate about future standard-setting:

- legitimacy
- independence
- transparency
- public accountability
- due process
- balanced membership.

Accountancy Europe is seeking feedback on these proposed principles.

South America

GLASS questionnaire on inflationary economies

The Group of Latin American Accounting Standard Setters (GLASS) has published a questionnaire on inflationary economies. The questionnaire aims at getting a better insight on whether the IASB should be asked to broaden the scope of IAS 29 'Financial Reporting in Hyperinflationary Economies' to include countries where inflation is only moderate or high but not hyperinflationary.

Currently, IAS 29 only applies to hyperinflationary countries. However, the effects of moderate or high inflation have caused concern in the past as they are not accounted for in financial statements, potentially providing the reader with a distorted picture of an entity's true situation. The questionnaire looks at the current status of inflation accounting in different countries, and aims to determine the needs of users of financial information of entities operating in inflationary environments. The findings from this project will be submitted to the IASB.

Banking

ECB comments on IFRS 9 transition arrangements

The European Central Bank (ECB) has written a letter to the European Parliament on the impact of the transition requirements of IFRS 9 'Financial Instruments' on capital ratios. In that letter, the ECB Banking Supervisor expresses a view that transition requirements should not be at the discretion of credit institutions, but should either be mandatory or at the discretion of the competent authorities. Further, they express the view that only the impact on financial statements calculated on the date of first-time application of IFRS 9 should be subject to phase-in (a 'static' approach), rather than the impact being recalculated at every reporting date during the transition period (a 'dynamic' approach).

EBA stress test to include IFRS 9

The European Banking Authority (EBA) has published a draft of its 2018 EU-wide stress test methodology and templates. The stress test will cover 70% of the EU banking sector and will assess the banks' ability to meet relevant supervisory capital ratios during an adverse economic shock. The methodology will, for the first time, incorporate IFRS 9 'Financial Instruments'. IFRS 9 will be mandatory for reporting periods beginning on or after 1 January 2018 and will be taken into account when assessing the methodology.

The EU-wide stress test will include 49 EU banks and will be carried out at the highest level of consolidation. No individual capital thresholds will be defined as banks will be assessed against relevant supervisory capital ratios under a static balance sheet. The results will be used as an input for the 'Supervisory Review and Evaluation Process', under which decisions are made on appropriate capital resources and forward looking capital plans.

The EBA plans to publish the final methodology at the beginning of 2018 and the results in mid-2018.

EBA publishes results of the second impact assessment of IFRS 9 and public consultation on IFRS 9 transitional arrangements

The European Banking Authority (EBA) has published the results of its second impact assessment of IFRS 9 'Financial Instruments'. The report includes qualitative as well as quantitative observations made on a sample of approximately 50 financial institutions across the European Economic Area.

The results of the recent impact assessment confirm the initial observations that the EBA had made during its first impact assessment (published in November 2016) on the implementation of IFRS 9 and the estimated impact of IFRS 9 on regulatory own funds.

The report indicates that larger banks have progressed further on the implementation of IFRS 9, with smaller banks lagging behind. The report also finds that banks now have less intention to run IFRS 9 and IAS 39 'Financial Instruments: Recognition and Measurement' in parallel. The main impact of IFRS 9 is reported to be driven by the impairment requirements of the new Standard with an estimated increase of 13% in provisions compared to the current reporting under IAS 39.

In addition, the EBA is seeking views by 13 September 2017 on its guidelines on the uniform disclosure of IFRS 9's transitional arrangements to ensure consistency in financial institutions' Pillar 3 disclosures on capital and leverage ratios.

EBA publishes final guidance on accounting for expected credit losses

As part of its work on the implementation of IFRS 9 'Financial Instruments', the European Banking Authority has published its final Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses. Under IFRS 9, which becomes mandatory for accounting periods beginning on or after 1 January 2018, impairment losses will need to be accounted for on an expected credit loss model rather than on an incurred loss model. The final Guidelines address this change and set out credit risk management practices for credit institutions associated with the implementation and on-going application of accounting for expected credit losses.

Corporate Reporting

TCFD publishes final recommendations on climate-related financial disclosures

The Task Force on Climate-related Financial Disclosures (TCFD) has released recommendations on climate-related financial disclosure in its 'Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures' which provides context, background, and a general framework for climate-related financial disclosures. Further, the TCFD has published:

- an 'Annex: Implementing the Recommendations of the TCFD' aimed at facilitating implementation
- a 'Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities' providing details that can be helpful to companies in considering scenario analysis.

The TCFD was established by the Financial Stability Board (FSB) to help identify the information required on climate-related risks for lenders, investors and insurance underwriters. They were given the task to develop voluntary, consistent, climate-related financial disclosures that would be useful in understanding these risks (see IFRS News Quarter 1 2017).

ICAEW report on corporate reporting and new technologies

The Institute of Chartered Accountants in England and Wales (ICAEW) has published the report 'What next for corporate reporting: time to decide?' that sets out different stakeholder views on the future of corporate reporting. For example, it discusses whether companies are reporting the right information to the right stakeholders in the right way or whether there are ways of improving corporate reports to ensure that those reports meet the user's needs. Further, the report discusses how technology can improve reporting and highlights some key obstacles that can prevent change.

IVSC consults on future agenda

The International Valuation Standards Council (IVSC) has opened its annual consultation on its future agenda. The IVSC is seeking input on which areas it should focus on to further improve International Valuation Standards which often interact with the IASB's financial reporting requirements. The IVSC's Standards Board is leading on this process; it has identified the following potential topics which it is seeking feedback on:

1. Non-financial liabilities
2. Discount rates
3. Early stage valuation
4. Biological assets
5. Extractive industries
6. Inventory

Also, the IVSC plans to make targeted improvements to:

1. Control premiums and discounts for lack of control
2. Capital structure considerations
3. Development value.

The consultation will close on 15 August 2017.

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 2016. 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 2016

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
IFRS 17	Insurance Contracts	1 January 2021	Yes
IFRS 16	Leases	1 January 2019	Yes
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019	Yes
IAS 40	Transfers of Investment Property (Amendments to IAS 40)	1 January 2018	Yes
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	Yes
IFRS 1/ IFRS 12/ IAS 28	Annual Improvements to IFRSs 2014-2016	1 January 2018 However, the amendments to IFRS 12 are effective from 1 January 2017	IAS 28 – Yes
IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	• a temporary exemption from IFRS 9 is applied for accounting periods on or after 1 January 2018 • the overlay approach is applied when entities first apply IFRS 9	N/A
IFRS 9	Financial Instruments (2014)	1 January 2018	Yes (extensive transitional rules apply)
IFRS 2	Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018	Yes
IFRS 15	Revenue from Contracts with Customers	1 January 2018*	Yes

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

New IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2016

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
IAS 7	Disclosure Initiative (Amendments to IAS 7 Statement of Cash Flows)	1 January 2017	Yes
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	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 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 (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

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
Exposure draft	Improvements to IFRS 8 Operating Segments (Proposed amendments to IFRS 8 and IAS 34)	31 July 2017
Discussion Paper	Disclosure Initiative – Principles of Disclosure	2 October 2017
Exposure draft	Property, Plant and Equipment – Proceeds before Intended Use (Proposed amendments to IAS 16)	19 October 2017

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