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Accounting

News

Discussion

IFRS News

Quarter 4 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 final edition of the year by looking at a GPPC paper which aims to promote the application of expected credit losses under IFRS 9 'Financial Instruments' to a high standard. We then go on to consider two amendments to IFRS Standards, including an important one on IFRS 9, and a further two recent Exposure Drafts.

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.

GPPC publishes 'The auditor's response to the risks of material misstatement posed by estimates of expected credit losses under IFRS 9'

The Global Public Policy Committee (GPPC) have issued the paper 'The auditor's response to the risks of material misstatement posed by estimates of expected credit losses under IFRS 9', which aims to promote the implementation of accounting for expected credit losses (ECL) to a high standard.

For many banks and financial institutions, the introduction of accounting for ECL under IFRS 9 'Financial Instruments' will be a significant change and challenge when the new Standard becomes mandatory in 2018. The GPPC's paper is addressed primarily to the audit committees of systemically-important banks (SIBs) to help them with their oversight of the bank's auditors, in particular with regards to the audit of ECL and the related risk of material misstatement. Although the paper is aimed mainly at SIBs, it may also be relevant to the audit committees of other banks and financial institutions.

For the implementation of IFRS 9, banks are expected to design and implement high-quality policies, procedures, internal controls, systems and models to enable bank management to exercise appropriate judgements when estimating ECL. Estimating ECL can lead to material misstatement in an entity's financial statements due to:

- the complexity of estimating ECL
- a high number of inputs and assumptions, which are subject to judgement
- increased estimation uncertainty
- the potential magnitude of the ECL estimate for SIBs.

The GPPC is a global forum of representatives from the six largest international accounting networks – BDO, Deloitte, EY, Grant Thornton, KPMG and PwC. Its objective is to enhance the quality in auditing and financial reporting.

Crucial in a bank's ability to support its estimates of ECL will be its internal control system to assess sources of information, processes and models on which the ECL estimates are based. Due to the subjectivity of such information, the bank's internal control system should address:

- the completeness, accuracy, relevance and reliability of historical information; including information from outside of the finance function or obtained from third party sources
- the appropriateness of accounting policies, especially those requiring judgement
- the development, maintenance and validation of models
- the development and selection of economic and other assumptions
- the bank's overall view of the estimate and identifying and mitigating potential management bias
- the clarity and reasonableness of related ECL disclosures.

The paper also sets out various questions that the audit committee may wish to discuss with its auditor, for example how the auditor has identified the key sources of complexity, judgement and uncertainty in the bank's estimate of ECL or how the auditor has exercised professional scepticism in testing the bank's key judgements and assumptions.

The paper suggests that audit committees should, in assessing the auditor's audit approach and findings, consider:

- **skills** – the auditor may need (for example, the need to engage an economic forecasting expert)
- **knowledge** – the auditor should be knowledgeable and experienced in the banking industry
- **resources** – the auditor should have access to appropriate tools and staff with relevant knowledge and skills.

All of these questions are further contemplated in the respective chapters of the paper:

1. Fundamental concepts regarding audit responses to estimates of expected credit losses
2. Accounting policies
3. Procedures and internal control
4. Information systems
5. Models
6. Reasonable and supportable judgements
7. Financial statement disclosures.

You can download the full report at https://www.grantthornton.global/en/insights/articles/GPPC-releases-considerations-for-the-Audit-of-Expected-Credit-Losses/.

IASB publishes 'Prepayment Features with Negative Compensation (Amendments to IFRS 9)'

The International Accounting Standards Board (IASB) has published 'Prepayment Features with Negative Compensation – Amendments to IFRS 9' (the Amendments) that allow companies to measure particular prepayable financial assets with negative compensation at amortised cost or at fair value through other comprehensive income – instead of measuring those assets at fair value through profit or loss.

The Amendments also include clarifications to the accounting for a modification or exchange of a financial liability that does not result in derecognition.

After IFRS 9 'Financial Instruments' was issued, the IFRS Interpretations Committee received a request on how to apply the IFRS 9 requirements for recognising and measuring financial instruments to certain debt instruments where the borrower is permitted to prepay the instrument at an amount that could be less than the unpaid principal and interest owed. Such a prepayment feature is often referred to as including potential 'negative compensation' and is relatively common in a number of jurisdictions.

Under the then existing requirements of IFRS 9, a company would have measured a financial asset with such a prepayment option at fair value through profit or loss as the 'negative compensation' feature would have been viewed as introducing potential cash flows that were not solely payments of principal and interest.

However, to improve the usefulness of the information provided to users, in particular on the instrument's effective interest rate and expected credit losses for what most people would regard as debt-type assets, the IASB has issued the Amendments so that entities will now be able to measure some prepayable financial assets with negative compensation at amortised cost.

Another issue – modification or exchange of a financial liability that does not result in derecognition

Concurrent with the amendment to IFRS 9 for prepayment features with negative compensation, the IASB discussed the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. Specifically, the IASB considered whether, when applying IFRS 9, an entity should recognise any adjustment to the amortised cost of the financial liability arising from such a modification or exchange in profit or loss at the date of the modification or exchange.

The IASB concluded that no change needed to be made to the Standard itself but has clarified the existing position by adding text to the Basis for Conclusions on IFRS 9 in the Amendments.

The change to the accounting for a modification or exchange of a financial liability that does not result in derecognition is effective from 1 January 2018 as this text merely clarifies the existing Standard as opposed to amending it.

To summarise, the IASB believes that IFRS 9 already provides an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition. The text which has been added in the Amendments highlights that the requirements in IFRS 9 for adjusting the amortised cost of a financial liability when a modification (or exchange) does not result in the derecognition of the financial liability are consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset. Those requirements state that when contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, an entity shall recalculate the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss.

Ironically, the 'other issue' clarifying the accounting for a modification or exchange of a financial liability that does not result in derecognition may well result in the most significant change in accounting as modification gains and losses will now be recognised immediately in profit or loss in such situations.

'Prepayment Features with Negative Compensation (Amendments to IFRS 9)' is effective for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted. However, the text which has been added to clarify the accounting for a modification or exchange of a financial liability that does not result in derecognition is effective for annual reporting periods beginning on or after 1 January 2018 (ie the effective date of IFRS 9 itself) as this text merely clarifies the existing Standard rather than amending it.

IASB publishes 'Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)'

The International Accounting Standards Board (IASB) has published amendments to IAS 28 'Investments in Associates and Joint Ventures' clarifying that companies account for long-term interests in an associate or joint venture – to which the equity method is not applied – using IFRS 9 'Financial Instruments'. This includes long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

Background

IFRS 9 excludes interests in associates and joint ventures accounted for in accordance with IAS 28. However, some stakeholders expressed an opinion that it was not clear whether that exclusion applies only to interests in associates and joint ventures to which the equity method is applied or whether it applies to all interests in associates and joint ventures.

Main issues addressed by the amendments to IAS 28

In the amendments to IAS 28, the IASB clarifies that the exclusion in IFRS 9 applies only to interests accounted for using the equity method. Therefore, a company applies IFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and which, in substance, form part of the net investment in those associates and joint ventures.

The IASB has also published an example that illustrates how entities apply the requirements in IFRS 9 and IAS 28 to long-term interests in an associate or joint venture.

The amendments are effective for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted.

The amendment is significant as it means holdings in debt-type instruments issued by an associate or joint venture and which form part of the holder's net investment in the associate or joint venture, will be subject to IFRS 9's impairment requirements.

IASB publishes IFRS Practice Statement 2: 'Making Material Judgements'

The IASB has published IFRS Practice Statement 2: 'Making Materiality Judgements' ('Practice Statement'). This non-authoritative guidance, which can be applied immediately, marks the next step in the IASB's ongoing 'Disclosure Initiative'.

The concept of materiality is important in the preparation of financial statements, because it helps companies determine what information to include in and exclude from their reports. The 'Conceptual Framework for Financial Reporting' discusses materiality as follows[1]:

Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

However, management is often faced with uncertainty in applying that concept. Such uncertainty is encountered when making decisions about recognition and measurement but most of all when deciding what information to disclose in the notes and how to present that information.

This uncertainty has led to some entities using the disclosure requirements in IFRS Standards as a checklist rather than judging which information would be most useful to investors and other stakeholders.

With the publication of the Practice Statement, the IASB is providing support to companies in making materiality judgements and hopes to encourage behavioural change.

The Practice Statement gathers all the materiality requirements in IFRS Standards and adds practical guidance and examples entities may find helpful in deciding whether information is material. It sets out a four-step process to making decisions on materiality:

Steps	Action
Step 1 – Identify	• identify information that has the potential to be material
Step 2 – Assess	• assess whether the information identified in Step 1 is, in fact, material
Step 3 – Organise	• organise the information within the draft financial statements in a way that communicates the information clearly and concisely to primary users
Step 4 – Review	• review the draft financial statements to determine whether all material information has been identified and materiality considered from a wide perspective and in aggregate, on the basis of the complete set of financial statements.

The Practice Statement also gives guidance on specific topics such as:

- prior-period information
- errors
- information about covenants
- materiality judgements for interim reporting.

The Practice Statement is not a Standard and its application is not mandatory or required in order to state compliance with IFRS. It does not change existing requirements or introduce new ones. Instead, it aims at providing guidance to assist management in applying the concept of materiality when preparing financial statements. The guidance in the Practice Statement can be applied from its date of publication, 14 September 2017.

[1] IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' provide definitions which are similar in nature to this.

IASB publishes proposed amendments to the definition of 'material'

The IASB has published the Exposure Draft 'Definition of Material – Proposed Amendments to IAS 1 and IAS 8' (the 'Exposure Draft'). The proposed amendments look to refine the definition of 'material' and clarify its application.

In addition to publishing the IFRS Practice Statement 2: 'Making Materiality Judgements' (see page 7), the IASB is also proposing amendments to the definition of material contained in both IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

The definition of material has been discussed by the IASB in several projects, including the Conceptual Framework project, the Principles of Disclosure project and the Materiality Practice Statement project. The proposed amendments are aimed at aligning the wording of the definition of 'material' in IFRS Standards with the definition in the 'Conceptual Framework for Financial Reporting' (the 'Conceptual Framework'). In addition to making the currently similar wording identical, the IASB is also proposing to make some minor improvements to that wording.

Further, the proposed amendments suggest incorporating some of IAS 1's existing supporting requirements into the definition of 'material' so as to give them additional prominence and to improve the clarity of the explanation accompanying the definition of 'material'.

If any changes are made to the definition of material in IAS 1 and IAS 8 as a result of the proposals in the Exposure Draft, the IASB will also make amendments to the Materiality Practice Statement mentioned above and the forthcoming revised Conceptual Framework.

The IASB does not expect the amendments to change significantly how materiality judgements are made in practice or to significantly affect entities' financial statements. Rather, the IASB expects the proposed amendments to improve the understanding of the existing requirements.

Transition

Should the definitions of materiality in IAS 1 and IAS 8 be amended in line with the proposals, the definitions would be applied prospectively with early application permitted.

The IASB does not expect significant changes from the proposals other than to clarify and facilitate the application of the concept of materiality.

IASB publishes proposed narrow-scope amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'

The IASB has published the Exposure Draft 'Accounting Policies and Accounting Estimates – Proposed Amendments to IAS 8' (the 'Exposure Draft'). The proposed amendments are intended to help entities in distinguishing accounting policies from accounting estimates.

The Exposure Draft came about as a result of the IFRS Interpretations Committee informing the IASB about diversity in the way entities distinguish accounting policies from accounting estimates. This diversity in practice had arisen partly because the definitions in IAS 8 of accounting policies and of a change in accounting estimate are not sufficiently clear, and partly because the two definitions also appear to overlap.

This is important as the distinction between the two has great practical significance – while changes in accounting estimates are accounted for prospectively, changes in an accounting policy are accounted for retrospectively.

To help entities in distinguishing an accounting policy from an accounting estimate, the Exposure Draft clarifies how accounting policies and accounting estimates relate to each other by:

- explaining that accounting estimates are used in applying accounting policies
- making the definition of accounting policies clearer and more precise.

Further, the Exposure Draft clarifies that selecting an estimation or valuation technique when an item cannot be measured precisely constitutes an accounting estimate. However, selecting the first-in-first-out cost formula (FIFO) or the weighted average cost formula when applying IAS 2 'Inventories', constitutes selecting an accounting policy.

Transition

Should the proposals in the Exposure Draft be implemented as currently drafted, they would need to be applied prospectively with early application permitted.

This issue is relevant across all industries to all entities that apply IFRS Standards.

Disclosure Initiative – Principles of Disclosure

The Grant Thornton International Ltd IFRS Team has commented on the IASB's Discussion Paper DP/2017/1 'Disclosure Initiative – Principles of Disclosure'.

In our letter, we fully support the objectives of the Principles of Disclosure project and its suggestions for introducing principles to make disclosures in financial statements more effective. Going forward, however, we question whether the introduction of such principles will be sufficient to address the burden of disclosure overload.

We therefore note in our letter that it may be necessary to undertake a more comprehensive Standard by Standard review of disclosure requirements to identify those that are no longer needed or where the benefits from producing the information are outweighed by the associated preparation costs. We are pleased then to see the IASB is exploring potential ways of how such a review might be undertaken in section 8 of its Discussion Paper.

Improvements to IFRS 8 Operating Segments

The Grant Thornton International Ltd IFRS Team has commented on the IASB's Exposure Draft ED/2017/2 'Improvements to IFRS 8 Operating Segments – Proposed amendments to IFRS 8 and IAS 34'.

In our letter, we welcomed the Board's attempt to address the issues identified following the Post-implementation Review of IFRS 8 (see the Q2 2017 edition of IFRS News) and supported most of the proposals in the Exposure Draft.

However, while we agreed with the proposal to clarify that the chief operating decision maker (CODM) may be an individual or a group, we cautioned the IASB against referring to the 'board of directors' in this context. We said this as the board of directors may review a lower number of business segments than the actual CODM, providing entities with an opportunity to reduce the number of reported segments in contravention of the intention behind the Standard.

We also expressed concern about the proposal to require entities to explain why segments identified in their financial statements differ from those identified elsewhere in the annual report. We believe that this information, although useful, is better placed outside the financial statements.

Proceeds before intended use Property, Plant and Equipment

The Grant Thornton International Ltd IFRS Team has commented on the IASB's Exposure Draft ED/2017/4 'Property, Plant and Equipment – Proceeds before Intended Use – Proposed amendments to IAS 16'.

In our letter, we express support for the proposed amendments as we believe they represent an efficient means of reducing or eliminating the identified diversity in practice in this area.

In particular, we agreed with the IASB's proposal to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that item is capable of operating in the manner intended by management. Further, we share the IASB's concern that netting these proceeds against the cost of an item of property, plant and equipment distorts the cost of those assets.

We appreciate the fact that entities will need to exercise their professional judgement in determining whether a particular expenditure is a cost related to the production of inventory under IAS 2; a cost of testing to be capitalised under IAS 16; or a cost required to be recognised in profit or loss (such as staff training costs or abnormal amounts of wasted material). However, we agree with the IASB's assessment that the proposed amendments would require little more judgement beyond that already required when applying IFRS.

Post-implementation Review of IFRS 13 'Fair Value Measurement'

The Grant Thornton International Ltd IFRS Team has commented on the IASB's Request for Information: 'Post-implementation Review – IFRS 13 Fair Value Measurement'.

In our letter, we express our general support for post-implementation reviews as a way of assessing how the requirements of recent Standards are being applied in practice and whether there are opportunities to clarify areas where there is diversity in practice or to amend requirements where the benefits from applying a Standard have been outweighed by the costs of implementing it.

In relation to IFRS 13 'Fair Value Measurement', we note that our experience is that the Standard has worked well in general and has led to improvements in financial reporting through greater consistency. We therefore see no need for a major overhaul of the Standard although there are of course some areas where applying the Standard presents some challenges. We note that a particularly problematic area that we have come across is the fair value of derivative instruments on initial recognition from the perspective of a corporate entity.

Grant Thornton's Siva Sivanantham puts 'Perspective' to IFRS 15 application issues

The new IFRS Standard IFRS 15 'Revenue from Contracts with Customers' will mark a significant change in the accounting for revenue. Grant Thornton Australia's Siva Sivanantham discusses three potential application issues in a new edition of 'Perspective', the Chartered Accountants Australia and New Zealand's series of articles where experts in assurance, reporting and regulatory matters discuss recent technical and policy developments in their respective areas. You can download the article on https://www.charteredaccountantsanz.com/member-services/technical/audit-and-assurance/perspective-articles.

Watch this space: 2017 IFRS Consolidated Financial Statements

The Grant Thornton International Ltd IFRS Team has published the 2017 version of its IFRS Example Consolidated Financial Statements.

The publication has been reviewed and updated to reflect changes in IFRS that are effective for the year ending 31 December 2017. Furthermore, they feature the early adoption of IFRS 15 'Revenue from Contracts with Customers' and 'Clarifications to IFRS 15 Revenue from Contracts with Customers'. No account has been taken of any new developments after 31 August 2017.

You are able to access the publication by going to http://www.grantthornton.global.

Alternatively, please get in touch with the IFRS contact in your local Grant Thornton office.

Round up

Brexit

ICAEW publication on the financial reporting implications of Brexit
The Institute of Chartered Accountants in England and Wales (ICAEW) has published the report 'Brexit: Implications for Financial Reporting'. In that report, the ICAEW expresses the opinion that the consequences that Brexit will have on financial reporting in the UK have not been sufficiently discussed.

To stimulate conversation about the long-term impact that Brexit will have on the UK's financial reporting, and to illustrate the challenges of using international standards, the report discusses key financial reporting issues and sets out sixteen policy recommendations. For example, it considers the principal options for IFRS adoption available to the UK as an IFRS jurisdiction outside of the EU, and recommends that, as a major global financial centre, the UK should continue to adhere to IFRS Standards.

Corporate Reporting

ICAEW report on non-comparable disclosure under IFRS
The Institute of Chartered Accountants in England and Wales (ICAEW) has published a report 'Disclosure quality and international comparability under IFRS: Evidence from pension discount rates, impairment and capitalisation of development costs' for which it collected data from 527 firms across 15 countries. The report is addressed to parties such as financial analysts, finance directors, audit partners and IFRS technical departments in audit firms, and reports on the difficulties encountered when collecting and comparing data internationally.

In particular, the report focusses on the areas of pension discount rates, impairment charges and capitalisation of development costs. Problems highlighted in the report include:

- pension discount rates not distinguished by country
- discount rates disclosed only as a range
- duration of the pension obligation not disclosed
- impairment charges mixed in with depreciation/amortisation expense
- impairment of property, plant and equipment mixed in with that of other types of asset
- impairments netted against reversals
- capitalised development costs mixed with other intangible assets
- lack of disclosure of the research and development expense for the reporting year.

The report concludes that while the non-comparability of disclosure under IFRS may be due in part to immateriality, it presumably stems mainly from some non-compliance with IFRS disclosure requirements.

Banking

Report on the financial stability implications of IFRS 9

Following a request from the European Parliament in January 2016, the European Systemic Risk Board has published a report on the financial stability implications of IFRS 9 'Financial Instruments'. The report provides a high-level analysis of the financial stability implications of IFRS 9 for the financial system of the European Union (EU), with a particular focus on banks.

It focusses on:

- whether the introduction of IFRS 9 means that the fair value measurement of financial assets is being extended, with potential macro-prudential implications
- whether the new approach to accounting for expected credit losses might have pro-cyclical effects and be detrimental to financial stability.

Further, the report identifies challenges and problems relating to the implementation of IFRS 9 and assesses whether authorities have the instruments needed to address them.

The report concludes that classification of financial assets under IFRS 9 will generally be clearer than under IAS 39 'Financial Instruments: Recognition and Measurement' and is not expected to lead to a significant increase in the use of fair value by EU banks, at least at the aggregate level.

However, it identifies three areas of significant changes compared to IAS 39 which could lead to relevant differences:

- debt instruments including embedded derivatives will no longer qualify to have their pure debt component separated and thus measured at amortised cost
- except for dividend income, none of the gains or losses from equity instruments measured at fair value through other comprehensive income will be reported in profit or loss
- highly liquid assets eligible for inclusion in the regulatory liquidity buffer but which, on the basis of their management during normal times, belong to a hold-to-collect business model may be measured at amortised cost, raising concerns about the emergence of unrealised fair value gains or losses if they need to be sold in times of acute stress.

The report notes that the aggregate quantitative importance of the assets affected by the first two changes is very small, while the importance of the third will depend on business model choices that are hard to foresee.

The report is accompanied by the paper 'Assessing the cyclical implications of IFRS 9 – a recursive model' which discusses how different approaches to measuring credit impairment losses affect the average levels and dynamics of the impairment allowances associated with a bank's loan portfolio.

AAOIFI publishes exposure draft on impairment and credit losses

The Accounting Board (AAB) of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) has published an exposure draft of AAOIFI's accounting standard on 'Impairment and Credit Losses'. AAOIFI is an Islamic international non-for-profit organisation that develops Shari'ah compliant accounting, auditing, governance, and ethical thought.

The exposure draft sets out the classification of assets, exposures in consideration of the credit risk and other risks, and the accounting rules and principles for impairment and credit losses. The exposure draft looks to reflect both global best practices and the genuine requirements of the Islamic finance industry across the globe. The proposed forward looking approach to determining expected credit losses for the assets and instruments that are classified as financial instruments from a Shari'ah perspective reflects the approach taken by other standard setters such as the IASB. It also discusses other globally acceptable impairment, write-down and provisioning approaches for other assets and exposures, without compromising on Shari'ah rules and principles.

IFRS Foundation and BCBS enter Memorandum of Understanding

The IFRS Foundation and the Basel Committee on Banking Supervision (BCBS) have decided to deepen their cooperation by issuing a Memorandum of Understanding. The agreement looks to foster long-term financial stability, enhance market discipline, and further develop the sharing of information between the two organisations.

Europe

Accountancy Europe publishes follow-up report on 'Core & More' concept

Accountancy Europe has published a follow-up report on the 2015 paper 'The Future of Corporate Reporting – creating the dynamics for change' that put forward the idea of a 'Core & More' concept.

The Core & More concept aims at presenting corporate reporting in a smarter way by organising financial and non-financial information based on the interests of users. Therefore, information that is deemed relevant for a wide range of stakeholders would be in the Core report, whereas supplementary details for a more limited audience would feature in the More reports.

The new report follows-up and develops the concept further by providing ideas on what information could be presented in which part. Furthermore, the report examines how technology could help developing this concept, for example in the context of an online report. The report also touches on the relationship between the Core & More concept and the Integrated Reporting initiative.

IASB

Other IASB publications

As featured on pages 4-9, the IASB has issued a Practice Statement, amendments to Standards and several Exposure Drafts. In addition, the IASB has published:

- a **webcast** on lessee disclosure requirements in IFRS 16 'Leases' and on lease term requirements
- a **webcast** on the key disclosure requirements in IFRS 9 'Financial Instruments'
- several **webinars** on IFRS 17 'Insurance Contracts' discussing simplified accounting for contracts with short coverage periods and reinsurance contracts
- **illustrative tagging** for the proposed IFRS Taxonomy 2017–IFRS 17 'Insurance Contracts'
- a **newsletter** 'The Essentials – Busting insurance jargon' explaining and translating existing terminology and metrics into the language of IFRS 17
- the fourteenth edition of its newsletter **Investor Update**
- a **case study** 'Better Communication in Financial Reporting – Making disclosures more meaningful'.

Public sector

IPSASB publishes exposure draft on financial instruments based on IFRS 9

The International Public Sector Accounting Standards Board (IPSASB) has published exposure draft 62 'Financial Instruments'. The IPSASB's exposure draft is based on IFRS 9 'Financial Instruments' and aims at replacing IPSAS 29 'Financial Instruments: Recognition and Measurement'. Similar to the improvements of IFRS 9, the exposure draft introduces:

- simplified classification and measurement requirements for financial assets
- a forward looking impairment model
- a flexible hedge accounting model.

The IPSASB applied its Process for Reviewing and Modifying IASB Documents to align the exposure draft with IFRS 9 and to include appropriate public sector specific modifications. The approach builds on public and private sector best-practice while addressing unique public sector features. For example, the exposure draft includes public sector specific guidance on financial guarantees issued through non-exchange transactions and concessionary loans, and examples illustrating how to apply the principles in the exposure draft to transactions that are unique to the public sector.

United States

Hyperinflationary economies – updated IPTF watch list available

The International Practices Task Force (IPTF) of the Centre for Audit Quality in the US has updated its watch list of countries that might be hyperinflationary.

Under US GAAP, a highly inflationary economy is one that has cumulative inflation of approximately 100% or more over a three-year period. While the requirements of US GAAP differ from IFRS (IAS 29 does not establish an absolute rate at which hyperinflation is deemed to arise but provides a list of characteristics that might indicate hyperinflation), the IPTF's findings are nevertheless considered relevant as a cumulative three-year inflation rate that is approaching, or exceeds 100% is viewed as a strong indicator of hyper-inflation under IFRS.

In the notes from its May 2017 meeting (available at http://www.thecaq.org/may-2017-iptf-joint-meeting-highlights), the IPTF lists countries under the following headings:

- countries with three-year cumulative inflation rates exceeding 100%
- countries where the three-year cumulative inflation rates had exceeded 100% in recent years
- countries, other than those countries already included in the other categories,
  a with projected three-year cumulative inflation rates greater than 100%
  b with projected three-year cumulative inflation rates between 70% and 100%
  c where the last known three-year cumulative inflation rates previously exceeded 100% and current actual inflation data has not been obtained
  d with a significant increase (25% or more) in inflation during the last calendar year or a significant increase in projected inflation in the current year:
  The IPTF notes that their list is not exhaustive and there may be additional countries with three-year cumulative inflation rates exceeding 100% or countries that should be monitored. This is for example because the sources used to compile the list do not include inflation data for all countries or current inflation data (for example Syria). Further, countries that are not members of the International Monetary Fund (IMF) have not been considered.

Report on benefits of structured format information

The CFA Institute has published the report 'The Cost of Structured Data: Myth vs. Reality' examining companies' perceptions about the costs associated with their eXtensible Business Reporting Language (XBRL) filings. XBRL is a common, electronic format for structuring business reporting. The report contains several case studies to demonstrate how, with proper implementation, both listed and not-for-profit entities can benefit from structured data.

The report follow on from a report published in 2016 that examined the financial reporting process and assessed its inefficiencies. The 2016 report concluded that structured data and the use of data analytics and technology, may improve or even transform the financial reporting process so that financial information can be more effectively used by investors, regulators, and other users and reduce costs.

However, those potential benefits have not been realised yet, primarily because companies have not yet fully appreciated the benefits of structured data/reporting and implemented them correctly.

The current report concludes that those benefits would be available if companies focused on how to implement structured reporting by:

- filing regulatory reports in-house instead of using external parties
- implementing a form of XBRL that is both human and machine readable (iXBRL)
- curtailing the use of company-specific tags.

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
IFRS 9	Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019	Yes
IAS 28	Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	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

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 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
n/a	Practice Statement 2: Making Materiality Judgements	14 September 2017	No
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

* 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
Exposure draft	Definition of Material (Amendments to IAS 1 and IAS 8)	15 January 2018
Exposure draft	Accounting Policies and Accounting Estimates (Amendments to IAS 8)	15 January 2018

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