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IFRS News

Quarter 3 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 third edition of the year by looking at some of the potential financial reporting implications of the UK's decision to leave the European Union. We then look at the amendments and proposed amendments the IASB has recently made to its Standards before looking at IFRS-related news at Grant Thornton.

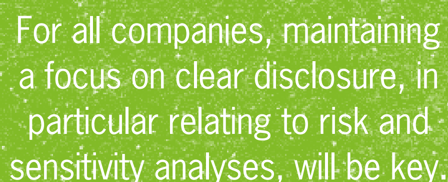
Further on in the newsletter, you will find a general round-up of financial reporting developments and a summary of the implementation dates of newer Standards that are not yet mandatory, and a list of IASB publications that are out for comment.

Potential financial reporting implications of 'Brexit'

On 23 June 2016, the United Kingdom (UK) voted to leave the European Union (EU). The immediate reaction to this decision has been negative in terms of global growth, raising a number of potential financial reporting implications which we discuss below. While these issues are likely to be particularly significant for entities operating in the UK and the rest of Europe, they are potentially relevant to all entities given the interconnected nature of the world's economies.

Background

The UK held a referendum on 23 June 2016 to decide whether the UK should leave or remain in the EU. Leave won by 52% to 48%. Once the UK delivers formal notice of its intention to leave the EU under Article 50 of the Lisbon Treaty, it will have two years to negotiate its withdrawal.



Financial reporting implications

It is difficult to predict the long term implications of the UK's decision as this will depend on the specific results of the withdrawal negotiations and the reactions of policy makers, investors and central banks around the world. What we do know is that the outcome of the referendum has already contributed to considerable currency and stock market volatility with the pound touching a 30-year low against the dollar in the immediate aftermath (retreating slightly from this low at the time of writing).

In addition to recent market volatility, the Governor of the Bank of England has made it clear that, in his view, the UK's economic outlook has deteriorated as a result of the vote and some economic intervention is likely to be required in the near term. The International Monetary Fund (IMF) has also commented in July on the 'substantial' increase in economic, political, and institutional uncertainty caused by Brexit. The IMF has cut its global forecast for 2017 by 0.1%, to 3.4% noting that its global forecast would have been slightly higher had it not been for Brexit.

How these events might impact a company will depend on key factors including the number of transactions with EU-based customers and suppliers and the degree to which any downturn might impact demand for a company's products. The table on page 3 highlights some of the possible financial reporting implications arising from recent events.

Possible financial reporting implications

Standard	Issues
IAS 1 Presentation of Financial Statements	• disclosure of key judgements and sources of estimation uncertainty (impairment may be an area of specific focus) • compliance with debt covenants (potential reclassification of liabilities from non-current to current) • potential impact on going concern for companies with significant foreign exchange exposure (such as EU entities exporting to the UK or UK entities with a high level of imports from the EU) who do not have adequate risk management processes in place.
IAS 2 Inventories	• consider potential impacts on: – net realisable value of inventories – ability to qualify for volume rebates – capacity utilisation and overhead allocation rate.
IAS 10 Events After the Reporting Period	• for companies with fiscal years ending on or before 23 June 2016, any impacts from the vote will be non-adjusting events (ie disclosure only) • possible increased disclosure for items such as post-balance sheet: – restructuring – discontinuance of an operation.
IAS 12 Income Taxes	• possibility for reduced recoverability of deferred tax assets should an economic downturn materialise and lead to reduced expectations of future profitability.
IAS 21 The Effects of Changes in Foreign Exchange Rates	• potential effects of exchange rate swings will need to be considered including: – whether it is appropriate to use an average rate as an approximation of the exchange rate when translating income and expenses.
IAS 36 Impairment of Assets	• indicators of impairment may result from: – significant declines in market value – changes in markets – increases in discount rates stemming from increased instability and downgrades of credit ratings • possible impairments due to a decline in recoverable amounts (reduced fair values of assets and/or reduced cash flows associated with value-in-use).
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	• should there be an economic downturn as a result of the UK's decision to leave the EU, then consideration may need to be given to: – contracts becoming onerous – litigation as a result of contract terms being changed – possible reorganisations and redundancies – the effect on discount rates
IAS 38 Intangible Assets	• whether development projects have become less feasible (possible need for an impairment review).
IAS 32 Financial Instruments: Presentation	• consideration may need to be given to the guidance on amending terms relating to convertible bonds.
IAS 39 Financial Instruments: Recognition and Measurement	• increased difficulty in reliably measuring fair value of equity instruments without a quoted price in an active market • possible impairment of financial assets arising from increased credit risk • potential impacts on hedge accounting, arising for example from: – probable forecast transactions no longer happening – a deterioration in the credit risk of a counterparty.
IFRS 2 Share-based Payment	• there may be potential effects on share-based payment accounting as a result of: – redundancies (cancellation or failure to meet service conditions) – vesting conditions – market or performance conditions not being met – replacement and re-pricing of options.
IFRS 3 Business Combinations	• subsequent changes to the fair value of contingent consideration promised in a pre-vote business combination will impact profit or loss in the period of change but not the original purchase price allocation.

IASB publishes amendments to IFRS 2 Share-based payment

The IASB has published 'Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)'.

The Amendments bring together three changes to IFRS 2 'Share-based Payment' covering the following matters that had originally been referred to the IFRS Interpretations Committee (IFRIC):

- the accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment
- the classification of share-based payment transactions with a net settlement feature for withholding tax obligations
- the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

We describe each of these changes in more detail below.

Effects of vesting conditions on the measurement of a cash-settled share-based payment

IFRS does not specifically address the impact of vesting and non-vesting conditions on the measurement of the fair value of the liability incurred in a cash-settled share-based payment transaction. The Amendments address this lack of guidance by clarifying that accounting for these conditions should be accounted for consistently with equity-settled share-based payments in IFRS 2.

This means that the fair value of cash-settled awards is measured ignoring service and non-market performance conditions, but taking into account market and non-vesting conditions (this applies when estimating the fair value of the cash-settled share-based payment granted and when remeasuring the fair value at the end of each reporting period and at the date of settlement). The cumulative expense recognised is adjusted based on the number of awards that is ultimately expected to vest (the so-called 'true-up' mechanism).

Classification of share-based payment transactions with a net settlement feature for withholding tax obligations

The second amendment addresses the accounting for a particular type of share-based payment scheme. Many jurisdictions require entities to withhold an amount for an employee's tax obligation associated with share-based payments and transfer the amount (normally in cash) to the taxation authorities. As a result, the terms of some schemes require the entity to deduct the number of equity instruments needed to equal the monetary value of the employee's tax obligation from the number of equity instruments that would otherwise be issued to the employee (referred to as a 'net settlement' feature).

The amendment stems from a request for guidance on whether the portion of the share-based payment that is withheld should be classified as cash-settled or equity-settled, where the entire share-based payment would otherwise have been classified as an equity-settled share-based payment transaction.

The amendment adds guidance to IFRS 2 to the effect that a scheme with this type of compulsory net-settlement feature would be classified as equity-settled in its entirety (assuming it would be so classified without the net settlement feature).

Where necessary, an entity shall disclose an estimate of the amount that it expects to transfer to the tax authority to settle the employee's tax obligation.

Accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled

The third amendment addresses the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Such situations were not previously addressed by IFRS 2, so the IASB has amended the Standard so that:

- the share-based payment transaction is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification
- the liability recognised in respect of the original cash-settled share-based payment is derecognised upon the modification, and the equity-settled share-based payment is recognised (in equity) to the extent that the services have been rendered up to the modification date
- the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately.

This guidance also applies to a situation in which the modification changes the vesting period of the share-based payment transaction.

The Amendments also provide guidance for a grant of equity instruments that has been identified as a replacement for a cancelled cash-settled share-based payment.

Effective date

Companies are required to apply the Amendments for annual periods beginning on or after 1 January 2018, with early adoption being permitted.

Grant Thornton International Ltd comment

We agree with the Amendments to IFRS 2 which we believe are pragmatic and will provide clarity in three areas that are not specifically addressed in IFRS 2 at present.

We do note however that IFRS 2 has been amended a number of times since its publication and appears to generate a disproportionate number of interpretation requests. We therefore welcome the fact that the IASB has initiated a research project that may lead to a broader review in due course.

IASB looks to clarify the definition of a business

The IASB has published proposed amendments to IFRS 3 'Business Combinations' and IFRS 11 'Joint Arrangements'. The Exposure Draft 'Definition of a Business and Accounting for Previously Held Interests' looks to provide:

- clearer application guidance to help distinguish between a business and a group of assets when applying IFRS 3
- clarification on how a company should account for a previously held interest in a business, if acquiring control, or joint control, of that business.

We discuss the proposed changes in more depth below:

Definition of a business

The IASB's post-implementation review of IFRS 3, conducted in 2014 and 2015, identified that people find it difficult to apply the definition of a business. This is an important issue because the IFRS accounting requirements for a business combination are very different from asset purchases (eg the effects on recognition of goodwill, transaction costs, deferred tax, etc).

The proposed amendments are therefore intended to provide entities with clearer application guidance to help distinguish between a business and a group of assets when applying IFRS 3. In summary, the IASB proposes:

- to clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together have the ability to contribute to the creation of outputs
- to remove the statement in IFRS 3 that a set of activities and assets is a business if market participants can replace the missing elements and continue to produce outputs (The Board proposed this change, because it believes that the assessment should be based on what has been acquired, rather than on how a market participant could potentially integrate the acquired activities and assets)
- to revise the definition of outputs to focus on goods and services provided to customers and to remove the reference in the Standard to the ability to reduce costs
- to consider a set of activities and assets not to be a business if, at the transaction date, substantially all of the fair value of the gross assets acquired (that is, the identifiable assets and unidentifiable assets acquired) is concentrated in a single identifiable asset or group of similar identifiable assets
- to add guidance to help determine whether a substantive process has been acquired (including clarification that an acquired outsourcing agreement may be considered to provide access to an organised workforce that performs a substantive process)
- to add examples to help with the interpretation of what is considered a business
- that an entity would not be required to apply the proposed amendments to transactions that occur before the effective date of the amendments. This is because the IASB feels that the retrospective application of these proposals may be costly and impracticable.

Accounting for previously held interests in a business

This change is being proposed because the IASB was informed that there is diversity in practice in accounting for previously held interests in the assets and liabilities of a joint operation in two types of transactions:

- those in which an entity obtains control of a business that is a joint operation and
- those in which it obtains joint control of a business that is a joint operation.

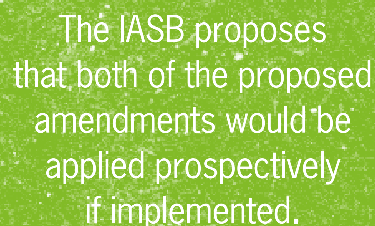
The proposed amendments to IFRS 3 and IFRS 11 are intended to clarify the accounting for each of these types of transactions.

On the first type of transaction, the IASB proposes to amend IFRS 3 to clarify that where an entity obtains control of a business that is a joint operation, it should be accounted for as a business combination achieved in stages. Accordingly, the acquirer shall apply the requirements for a business combination achieved in stages, including remeasuring previously held interests in the joint operation. The IASB believes that this is appropriate as the transaction results in a significant change in the nature of, and economic circumstances surrounding, any interests in the joint operation.

On the second type of transaction, the IASB was made aware through the IFRS Interpretations Committee that there was diversity in practice in accounting for previously held interests in the assets and liabilities of the joint operation. In particular differing views exist about whether an entity applies the principles on accounting for a business combination achieved in stages to those previously held interests when the investor obtains joint control.

The IASB's proposal is that an entity should not remeasure previously held interests in the assets and liabilities of the joint operation. The IASB's view is that while the transaction changes the nature of any interests in the assets and liabilities of the joint operation, the transaction does not result in a change in the group's boundaries or the method of accounting for the previously held interests in the joint operation.

The IASB proposes that both of the proposed amendments would be applied prospectively if implemented.



Implementation of IFRS 9's impairment requirements

In June, the Global Public Policy Committee (GPPC), a global forum of representatives of the six largest international accounting networks, which includes Grant Thornton, released 'the implementation of IFRS 9 impairment requirement by banks' (the paper).

The paper is addressed to the audit committees of systemically important financial institutions and represents the consensus views of the GPPC members regarding key matters for the implementation of the impairment requirements of IFRS 9 'Financial Instruments'. Although it is focussed on systemically important banks, the guidance it contains will be of use to financial institutions generally.

Summary of the paper

The introduction of new requirements for the accounting of expected credit losses (ECL) in IFRS 9 will be a significant change to the financial reporting of banks when they come into force in 2018. Given the importance of banks in the global capital markets and the wider economy, the effective implementation of the new Standard has the potential to benefit many. Conversely, a low-quality implementation based on approaches that are not fit for purpose has the risk of undermining confidence. Accordingly, the paper is designed to help audit committees evaluate management's progress toward a high quality implementation of the impairment requirements of IFRS 9. To this end, the paper is organised into two main sections:

Section 1: Areas of focus for those charged with governance

The first section of the paper addresses the following key areas:

The importance of strong governance and controls surrounding ECL models and processes	• the paper highlights that areas of the finance function will provide key inputs to the ECL estimation process (such as forecasts of future macroeconomic conditions) and will be subject to auditor scrutiny in a new way.
Considerations regarding sophistication and proportionality	• the paper notes that the GPPC networks believe that there is no one size fits all approach and do not expect the same level of sophistication of implementation across all institutions and all portfolios. However, the GPPC networks do expect the sophistication of implementation to be proportionate to the complexity and materiality of the portfolio, and material and complex portfolios will require a sophisticated approach.
Key issues on transition	• the paper acknowledges that IFRS 9 builds upon existing credit practices, but may also require the development of new processes specifically for the estimation of ECLs pursuant to IFRS 9.
Ten questions those charged with governance may wish to discuss	• the paper provides questions that audit committees may wish to discuss with their management team to help assess the quality of management's implementation of IFRS 9's impairment requirements.

Section 2: Modelling principles

The second section of the paper addresses and discusses the following key areas:

ECL methodologies	• the overall framework for estimating 12-month and lifetime ECLs under IFRS 9.
Default	• there may be different definitions of default currently used by financial institutions – legal definitions, internally used credit definitions, and regulatory definitions, amongst others. This area discusses how banks might define default for purposes of IFRS 9 and deal with these divergent definitions.
Probability of default	• both 12-month probabilities of default (PDs) and lifetime PDs may be calculated for IFRS 9 and their relationship to regulatory definitions.
Exposure	• how exposure at default (EAD) and the period of exposure may be calculated for IFRS 9 and their relationship to regulatory definitions.
Loss Given Default (LGD)	• how LGD may be calculated for IFRS 9, specifically focusing on the incorporation of forward-looking information, and its relationship to regulatory definitions.
Discounting	• the interaction of the use of the effective interest rate (EIR) and discounting under IFRS 9, in particular questioning whether the current use of approximations of the EIR under IAS 39 will remain appropriate for IFRS 9 ECL estimation purposes.
Staging assessment	• techniques and approaches institutions may use in approaching the staging assessment for IFRS 9.
Forward-looking information	• how banks may incorporate different forward-looking information into its IFRS 9 ECL estimates, including the consideration of multiple forward looking scenarios.

Each of the above areas within the modelling principles section present the discussion in terms of:

- a sophisticated approach that may be appropriate for more complex or material institutions or portfolios
- a simpler approach that may be appropriate for less complex or material institutions or portfolios
- approaches that would be inconsistent with a high-quality implementation of IFRS 9.

Additional considerations

We expect views of regulators, auditors and preparers to evolve over time, and this paper is by no means the last word on what will constitute a high quality IFRS 9 ECL estimation process. The paper is not authoritative and its primary audience is systemically important banks. However, we believe the paper is an important document that should be considered by other financial institutions as they endeavour to implement IFRS 9. Similarly, banks should also consider the guidance in the Basel Committee on Banking Supervision's guidance on credit risk and accounting for expected credit losses.

EU endorsement of IFRS 9

EU endorsement of IFRS 9 looks set for the fourth quarter of 2016 following a vote held in June by the EU's Accounting Regulatory Committee in favour of endorsement.

Although it is focussed on systemically important banks, the guidance will be of use to financial institutions generally.

ESMA issues public statement on IFRS 15

The European Securities and Markets Authority (ESMA) has published a Public Statement entitled 'Issues for consideration in implementing IFRS 15: Revenue from Contracts with Customers'.

The statement is intended to promote the consistent application of IFRS 15 by listed companies in Europe. ESMA's recommendations will however also be of interest to companies outside Europe as the 2018 implementation date of IFRS 15 draws closer.

The Statement is divided into four separate parts which we discuss below.

Transparency on implementation and effects of IFRS 15

ESMA notes the need to provide both qualitative and quantitative information to fulfil the requirements in IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' regarding Standards yet to come into effect, noting that as the implementation of IFRS 15 progresses, information about its impact should become more reasonably estimable and issuers should be able to provide progressively more entity-specific qualitative and quantitative information about the application of the Standard.

ESMA's view is that in most cases it would not be appropriate to just provide disclosures in the 2017 annual financial reports. Where the impact is expected to be significant, ESMA expects issuers to:

- provide information about the accounting policy choices that are to be taken upon first application of IFRS 15 (such as the accounting policy to apply a full retrospective approach, the cumulative catch-up transition method or the use of practical expedients)
- disaggregate the expected impact depending on its nature (i.e. whether the impact will modify the amount of revenue to be recognised, the timing or both) and by revenue streams
- explain the nature of the impacts so that users of financial statements understand the changes to current practices and their key drivers when compared with the existing principles on recognition and measurement in IAS 11 'Construction Contracts', IAS 18 'Revenue' and related interpretations.

Moreover, ESMA encourages issuers to explain the impact, if any, to risk management and/or to alternative performance measures (APMs) that the issuer may use in any regulated information (financial communication of the issuer and/or in other parts of the annual financial report) to which the ESMA Guidelines on APMs apply.

Finally, ESMA highlights the need to verify that IFRS 15 is understood and implemented consistently within a group during the period over which the Standard is being implemented.

Specific considerations

The Statement further discusses specific considerations, noting that changes stemming from the new Standard are expected to be more significant for issuers whose revenue arises from long-term contracts and/or from contracts with multiple-element arrangements (eg telecommunication, construction of real estate, aerospace and defence sectors or software companies, etc).

It also sets out an illustrative timeline and good practices of disclosures to be provided in an issuer's 2016 IFRS annual financial statements when an issuer expects the application of IFRS 15 to have a significant impact on its financial statements. This includes providing:

- a detailed description and explanation of how key IFRS 15 concepts will be implemented for an issuer's different revenue streams
- an explanation of the timeline for implementing IFRS 15, including expected use of any of the transition practical expedients, i.e. the cumulative catch-up transition method or the full retrospective application and, for example, the practical expedient for completed contracts
- if known or reasonably estimable, quantification of the possible impact of the application of IFRS 15
- when the quantitative information is not disclosed because it is unknown or not reasonably estimable, additional qualitative information enabling users to understand the magnitude of the expected impact on the financial statements of the issuer.

Next steps

A discussion of the impact on 2017 interim financial statements is also included.

The Statement concludes by discussing next steps once IFRS 15 is applied, referencing the disclosures related to the initial application of IFRS 15.

UK representative appointed to EFRAG's Financial Instruments Working Group

Alan Chapman, Head of Financial Instruments Reporting at Grant Thornton UK LLP, has been appointed to the European Financial Reporting Advisory Group (EFRAG) Financial Instruments Working Group (FIWG).

The EFRAG FIWG provides support to the EFRAG Technical Expert Group on financial instrument reporting issues. Members of the Group have considerable expertise in financial instruments reporting matters and more generally in IFRS issues and practice.

Alan is a financial reporting specialist on both UK GAAP and IFRS. He has significant experience in financial instruments accounting, dealing with a large number of complex issues such as financial liability versus equity classification, accounting implications of complex financing structures, debt restructuring and hedge accounting.

The FIWG includes representatives from audit firms and major banks within Europe. Alan is one of eight individuals appointed from the audit firms, the others coming from PwC, KPMG, EY, Deloitte and Mazars.

Commenting on his appointment, Alan Chapman said "It is a privilege to be appointed to the EFRAG Financial Instruments Working Group. Financial instruments reporting can be a diverse and high risk area and the specialist knowledge provided by the Group on this, and on other IFRS issues and practices, is vital. I look forward to working with them and sharing my expertise in this complex, high profile space."

Grant Thornton representative appointed to French technical body

Emmanuelle Guyomard, head of technical department in our French member firm, has been appointed to the French Public Sector Accounting Standards Council's International Accounting Standards Commission.

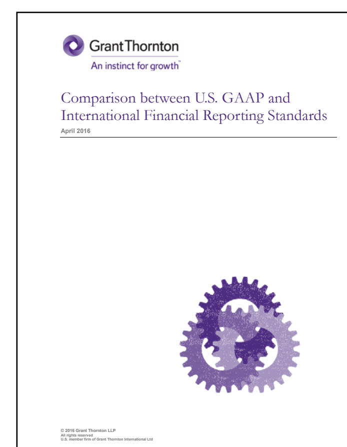
The Council is in charge of setting the accounting standards for all entities with a non-market activity which are primarily funded by public funding, including contributions.

The Council is managed by a President appointed by the Minister of Budget and Public Accounts and any decisions are taken consensually by a Board "le College" made up of eighteen members of whom nine are statutory and nine are external experts. The President and the "College" are supported by three standing commissions and a steering committee. The four permanent commissions are: "the Central Government and government-controlled organisations", "Territorial authorities and local public agencies", "Social security Organisations" and "International Accounting Standards".

The Council responds to IPSAS Board Discussion Papers, Consultation Papers and Exposure Drafts.

US GAAP IFRS Comparison guide update

Our US member firm, Grant Thornton LLP, has updated its publication 'Comparison between US GAAP and International Financial Reporting Standards'.



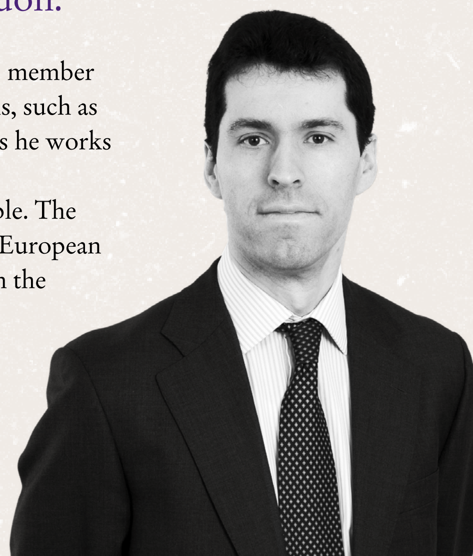
The publication is intended to help readers identify the major areas of similarity and difference between current US GAAP and IFRS. It will also assist those new to either US GAAP or IFRS to gain an appreciation of their major requirements.

The 2016 edition of the publication has been updated and revised for standards issued as of April 2016.

The guide can be downloaded from Grant Thornton LLP's website (**www.grantthornton.com**).

Edward Haygarth appointed as president of the London Society of Chartered Accountants

Edward Haygarth, senior manager, IFRS, Grant Thornton International Ltd (GTIL) has been appointed as President of the London Society of Chartered Accountants, which provides support to over 37,000 members of the Institute of Chartered Accountants in England and Wales (ICAEW) and Association of Chartered Accountants' (ACA) students in London.



As part of the global IFRS team, Edward provides support to the network's member firms in over 130 countries. The skills that that he has gained from doing this, such as collaborating with people across different cultures, will certainly be of use as he works to develop the profile of London ICAEW Chartered Accountants.

As one of his first responsibilities, Edward chaired a debate for 290 people. The debate, held a week before the referendum on the UK's membership of the European Union, considered the potential impact of a 'yes' or a 'no' vote, focussing on the specific question 'Is London better off in or out of the European Union (EU)?'. Interestingly out of the 290 people who attended (primarily accountants), 228 voted with 59 voting to leave and 169 to remain. The real results of the UK's referendum were of course quite different (see our lead article on the financial reporting implications of Brexit).

Congratulations to Edward who will bring his international experience from Grant Thornton International Ltd to the role.

Round-up

IASB makes "better communication" central to its work for the next five years

Hans Hoogervorst has stated that the IASB will prioritise improvements to the communication effectiveness of financial statements during his second term as Chairman of the IASB, which commenced on 1 July 2016.

Speaking at the IFRS Foundation's annual European Conference that was held in Zurich, Mr Hoogervorst said better communication will be a central theme of their work over the next five years. The IASB will "take a fresh look at how financial information is presented, how it is grouped together, and in what form it is made available". In doing so it will consider alternative performance measures and non-financial information, the overall aim being to ensure that financial statements communicate matters as clearly as possible.

The following table demonstrates how the IASB plans to achieve these objectives through its planned workstreams.

Work streams	Main focus
Primary financial statements project	• improve the organisation and structure of the statements of financial performance, position and cash flows • consider to what extent the IASB should provide more structure to the statements of profit or loss, potentially looking at defining some non-IFRS measures eg EBIT (Earnings Before Interest and Tax).
Disclosure Initiative	• improve the quality and reduce the volume of disclosures • finalise the materiality practice statement.
Financial Instruments with the characteristics of Equity (FICE)	• make a clearer distinction between liabilities and equity • improve communication by focussing on the recognition and presentation requirement for complex financial instruments.
Digital reporting	• take a closer look at the IFRS Taxonomy • consider to what extent the Standards can and should meet a broader range of economic reporting needs.
Non-financial reporting (eg. Sustainability issues)	• decide the extent of the IASB's involvement in this area.

Mr Hoogervorst also mentioned that the IASB will have a more active role in supporting jurisdictions implement new and current IFRS Standards.

IOSCO issues Statement on Non-GAAP Financial Measures

The International Organisation of Securities Commissions (IOSCO) has finalised its guidance on non-GAAP financial measures.

IOSCO's 'Statement on Non-GAAP Financial Measures' identities 12 elements that compose a frame of reference for the disclosure of non-GAAP financial measures, based on the collective experience of its members with the reporting of non-GAAP financial measures by issuers:

Defining the non-GAAP financial measure

- define each non-GAAP financial measure presented and provide a clear explanation of the basis of calculation
- non-GAAP financial measures should be clearly labelled in a way such that they are distinguished from GAAP measures
- explain the reason for presenting the non-GAAP financial measure
- explicitly state that the non-GAAP financial measure does not have a standardised meaning prescribed by the issuer's GAAP and therefore may not be comparable to similar measures presented by other issuers.

Unbiased purpose

- non-GAAP financial measures should not be used to avoid presenting adverse information to the market.

Prominence of presentation of GAAP measures versus non-GAAP financial measures

- when an issuer presents non-GAAP financial measures, those measures should not be presented with more prominence than the most directly comparable measure calculated and presented in accordance with GAAP.

Reconciliation to comparable GAAP measures

- provide a clear and concise quantitative reconciliation from the non-GAAP financial measure to the most directly comparable GAAP measure presented in the financial statements, explaining any adjustments
- when a reconciling item cannot be extracted directly from the financial statements, the reconciliation should show how this figure is calculated.

Presentation of non-GAAP financial measures consistently over time

- if an issuer chooses to present non-GAAP financial measures, it should provide the measure for comparative periods
- the non-GAAP financial measures presented by an issuer should generally be presented consistently from period to period.

Recurring items

- items such as restructuring costs or impairment losses should not be described as non-recurring, infrequent or unusual without sufficient explanation.

Access to associated information

- the information that issuers provide regarding non-GAAP financial measures should be readily and easily accessible to investors and other users of financial information.

IASB confirms amendments to IFRS 4

The IASB has confirmed that it will amend IFRS 4 'Insurance Contracts' to address issues that may arise from implementing the new financial instruments Standard, IFRS 9.

A new insurance Standard which will replace IFRS 4 is expected to be released around the end of the year with an effective date of no earlier than 2020. This means the mandatory effective date of the new insurance Standard will be after the 2018 effective date of IFRS 9. As companies that issue insurance contracts will be affected by both IFRS 9 and the new insurance Standard, there was considerable concern over the practical challenges of implementing these two significant accounting changes on different dates.

To address these concerns, it seems likely the IASB will make the following two amendments to IFRS 4:

The 'overlay approach'

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

The 'deferral approach'

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

IFRS Foundation concludes review of its structure and effectiveness

The Trustees of the IFRS Foundation, responsible for the governance and oversight of the IASB have concluded their review of its structure and effectiveness, the fifth such review undertaken by them.

The results of the review will see the Trustees implement changes to enhance transparency; promote better geographical balance; and reduce the size of the Board. Changes will also be made to strengthen the relevance of IFRS, concentrating in particular on changes to technological changes in financial reporting.

EFRAG TEG Chairman addresses European Parliament

Grant Thornton International Ltd's former global head of IFRS, Andrew Watchman, addressed the European Parliament in July 2016 on the impact of IFRS 9 'Financial Instruments'. Speaking alongside IASB Chairman Hans Hoogervorst, Watchman discussed issues such as whether IFRS 9 would introduce more fair value measurement and what effect the Standard would have on the complexity of financial reporting.

ICAEW paper on 'Incentives and institutions in accounting'

The Institute of Chartered Accountants of England and Wales (ICAEW) has published 'Incentives and institutions in accounting: thinking beyond standards'. The paper finds that as the incentives and institutions that influence accounting outcomes vary among firms and among jurisdictions, the goal of international financial reporting should be to increase comparability rather than attempt to achieve complete comparability.

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 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
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 (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
Exposure draft	Definition of a Business and Accounting for Previously Held Interests (Proposed Amendments to IFRS 3 and IFRS 11)	31 October 2016

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