

Financial Reporting on the Horizon: Recent and Upcoming Changes to IFRS® Standards

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- Recently completed IFRS Standards
 - IFRS 9 *Financial Instruments*;
 - IFRS 15 *Revenue from Contracts with Customers*; and
 - IFRS 16 *Leases*.
- “In the pipeline”
 - Insurance Contracts; and
 - *Conceptual Framework*
- Ongoing
 - Disclosure Initiative
- Agenda Consultation and future focus.

Recent IFRS Standards

Recent IFRS Standards

Major Projects	Effective date
IFRS 9 <i>Financial Instruments</i>	1 January 2018
IFRS 15 <i>Revenue from Contracts with Customers</i> (*)	1 January 2018
IFRS 16 <i>Leases</i> (*)	1 January 2019

(*) These standards have been developed jointly with US FASB and the US equivalent standard will become effective at the same time

- Final version of IFRS 9 *Financial Instruments* issued July 2014
 - Final element of a **comprehensive response to the 2008 financial crisis**.
 - Replaces previous versions of IFRS 9.
 - Brings together classification & measurement, impairment and hedge accounting phases of the International Accounting Standards Board's project to replace IAS 39.
- Mandatory effective date - **1 January 2018** with early application permitted.
- There remains in the pipeline a research project on Dynamic Macro hedging for financial institutions.

- Classification and measurement
 - A **logical, single classification approach** for financial assets driven by cash flow characteristics and business model.
 - Improvements to accounting for own credit risk fair value changes.
- Hedge accounting
 - An improved and widely welcomed model that better **aligns accounting with risk management.**
- Impairment for credit risk
 - Moves from incurred losses to a **forward-looking 'expected loss' model.**
 - Represents a significant change in accounting.
 - Transition Resource Group has provided support on implementation of new requirements (as well as Basel Committee)

- *IFRS 15 Revenue from Contracts with Customers* issued concurrently with the FASB in May 2014.
- Replaces IAS 11 and IAS 18.
- Revenue Transition Resource Group has supported implementation.
- Effective date deferred to 1 January 2018 in Sept 2015.
- Targeted amendments to IFRS 15 issued in April 2016, clarifying some requirements and providing additional transitional reliefs.

Revenue model

- Establishes a **single, comprehensive framework** for recognising revenue from contracts with customers.
- Provides clearer guidance on recognising revenue than was previously available (how much, and in which period).
- Means that revenue reporting will be **consistent across transactions, industries and capital markets**.
- Improves comparability in the ‘top line’ of financial statements.

- **IFRS 16 Leases** issued in January 2016.
- Effective date 1 January 2019.
- Replaces IAS 17.
- Main features:
 - Lessee: **All leases on balance sheet** (except for short-term leases and leases of low-value assets), **interest and depreciation presented separately** in income statement.
 - Lessor: little change to existing accounting, improved disclosures about residual risks.

- Better reflects **economic reality**.
- Significantly improves the transparency of information about leases that are **currently off balance sheet** (operating leases)
- Benefits for **investors**: allows a more accurate comparison between companies that lease assets and companies that buy similar assets.
- Benefits for **managers**: allows a more accurate picture of liabilities.

Current projects

- **Project objective:** to address the need for comparable, transparent and relevant information about insurance contracts
- New Standard will **replace IFRS 4 (version 2005)**, which:
 - **does not provide transparent information** about the effect of long duration insurance contracts on financial statements;
 - **makes comparisons difficult** between products, companies and across jurisdictions; and
 - includes a '**temporary exemption**' from the general requirement that accounting policies should be relevant and reliable, and uniform within a group.
- **Status:**
 - Technical discussions completed in February 2016.
 - Effective date to be decided in next few months (2021?).
 - Publication targeted for late 2016 or early 2017.

Insurance Contracts: How will accounting improve?

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Existing issues

Variety of accounting treatments



Estimates not updated



Discount rate based on investment



Lack of discounting



Little information about options and guarantees



New Standard

Comparable accounting

Estimates reflect current information

Discount rate reflects cash flows of the contract

Measurement reflects discounting where significant

Measurement reflects full range of possible outcomes

The new Insurance Contracts Standard

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Improved
quality
(relevance and
transparency)

- Information about the effect of insurance contracts on financial performance
- Information about sources of profits or losses through underwriting activity and investing premiums from customers
- Information about the nature and extent of risks from insurance contracts

Improved
comparability

- Easier to make comparisons between insurance contracts and other types of contracts
- Replaces huge variety of accounting treatments that depend on type of contract and type of company that issues the contracts

Addressing the mismatch with IFRS 9

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- IFRS 9 applicable to all entities on **1 January 2018**, but new Insurance Contracts Standard applicable at a later date.
- Some held the view that this could introduce a temporary **measurement mismatch** (certain assets at current value vs insurance liabilities usually discounted at historical rate).
- The Board is working on a proposal to resolve it:
 - **Temporary exemption** from applying IFRS 9 for entities that are predominantly “**insurers**” (liabilities are predominantly insurance liabilities or related)
 - **Overlay adjustment for other entities** (e.g, bank and insurance conglomerates) to reclassify from P/L to OCI the additional volatility created by the new IFRS 9 requirements

- It is a practical tool that assists:
 - the Board to develop Standards;
 - preparers to develop **consistent accounting policies**; and
 - others to **understand and interpret** IFRS Standards.
- It underpins the decisions made by the Board when setting Standards.
 - It will affect future Standards developed by the Board.
- Exposure Draft published May 2015
 - The Board is currently discussing feedback.
- The revised *Conceptual Framework* is expected to be published in **early 2017**.

- It addresses fundamental issues:
 - What is the objective of financial reporting?
 - What makes financial information useful?
 - What are assets, liabilities, equity, income and expenses, when should they be recognised and how should they be measured, presented and disclosed?
- It is **not a Standard and does not override Standards.**
 - Not directly an element of EU legislation

Why are we revising the *Conceptual Framework*?

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The existing *Conceptual Framework* has proved useful but some improvements are needed

Gaps

For example, it provides very little guidance on measurement or presentation and disclosure.

Unclear

For example, it is unclear what role measurement uncertainty should play in decisions about recognition and measurement.

Out of date

For example, the existing guidance on when assets and liabilities should be recognised is out of date.

Identified as a priority project by respondents to the IASB's 2011 Agenda Consultation

Disclosure Initiative

- The Disclosure Initiative is a portfolio of projects designed to improve **how information is presented and disclosed** in financial reports.
- Financial statements can currently be seen as ‘overloaded’, not having enough relevant information or hard to understand.
- There are challenges in communicating useful information clearly and concisely. Improper application of the concept of materiality is one of the factors.
- Through the Disclosure Initiative, the Board aims to:
 - improve IFRS Standards;
 - influence the behaviours of those who prepare financial reports; and
 - shift the view of the notes to the financial statements from a compliance document to **a form of communication**.

- One part of the broader Disclosure Initiative.
- Response to requests for presentation and disclosure principles that apply across IFRS Standards.
 - Some call this a ‘disclosure framework’.
- Aim is to develop principles that will result in **improved disclosures** because they will help:
 - the Board set better disclosure requirements; and
 - entities make better judgements about what to disclose and how to disclose it.
- **Discussion Paper** expected later in 2016.

POD project: Relationship with other projects

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*Conceptual
Framework ED*

Objective of financial
statements

Materiality

Disclosure Initiative

*Principles of Disclosure—Discussion
Paper*

Aligning and clarifying the
definition of materiality

Nature and role of 'primary' statements

Nature and role of the notes

Primary Financial Statements—Purpose, structure and
contents of each statement of:

- Financial position
- Profit or loss and other comprehensive income
- Changes in equity
- Cash flows

Disclosure requirements in
individual Standards

Agenda Consultation

- The Board is required to consult on its agenda every three years.
- First consultation was completed in 2012.
- Second consultation was announced in 2015, requesting stakeholders' input on the Board's focus and priorities. Deadline for response was November 2015.
- Responses are currently being analysed.
- Important topics identified so far include:
 - the **completion, implementation and maintenance** of upcoming and recently issued major Standards; and
 - improving how effective financial reports are in **communicating information to investors**.
- Conclusions will be communicated later this year.

Thank you

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