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IFRS News

Quarter 4 2016

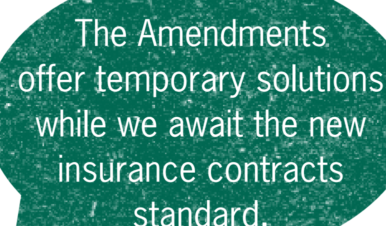
IFRS News is your quarterly update on all things relating to International Financial Reporting Standards. We'll bring you up to speed on topical issues, provide comment and points of view and give you a summary of any significant developments.

We begin this final edition of the year by looking at amendments that have been made by the IASB to IFRS 4 'Insurance Contracts'. We then look at the European and Securities Market Authority's (ESMA) common enforcement priorities for 2016 financial statements, which contain information that will be of interest to companies all around the world.

Further on in the newsletter, you will find IFRS-related news at Grant Thornton; a general round-up of financial reporting developments; 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.

Applying IFRS 9 with IFRS 4 (Amendments to IFRS 4)

The IASB has published 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' which makes narrow scope amendments to IFRS 4 'Insurance Contracts' ('the Amendments').



The IASB has issued the Amendments to address the temporary accounting consequences of the different effective dates of IFRS 9 'Financial Instruments' and the anticipated new insurance contracts Standard. The new insurance contracts Standard is yet to be finalised and will have an effective date no earlier than 2020. This means its mandatory effective date will be after the 2018 effective date of IFRS 9. The Amendments therefore provide entities that issue insurance contracts with temporary accounting solutions for the practical challenges of implementing IFRS 9 before the forthcoming insurance contracts Standard.

As companies that issue insurance contracts will be affected by both IFRS 9 and the new insurance contracts Standard, there was considerable concern over the practical challenges of implementing these two significant accounting changes on different dates. Further concerns were raised over the potential for increased volatility in profit or loss if IFRS 9's new requirements for financial instruments come into force before the new insurance accounting rules.

To address these concerns while still fulfilling the needs of users of financial statements, the IASB has responded by amending IFRS 4 and introducing:

The 'overlay approach'

- an option for all entities that issue insurance contracts to adjust profit or loss for eligible financial assets by removing any additional accounting volatility that may arise as a result of IFRS 9.

Temporary exemption

- an optional temporary exemption from applying IFRS 9 for entities whose activities are predominantly connected with insurance. These entities will be permitted to continue to apply the existing financial instrument requirements of IAS 39.

These two amendments are discussed in further detail below.

The overlay approach

The overlay approach aims to remove from profit or loss any additional volatility that may arise if IFRS 9 is applied together with IFRS 4. All entities would be permitted to apply it but only to certain assets (see below). Furthermore, the approach must be chosen on the initial adoption of IFRS 9.

Entities applying the overlay approach are required to apply IFRS 9 from its 1 January 2018 effective date. They are however permitted to reclassify from profit or loss to other comprehensive income an amount equal to the difference between:

- the amount reported in profit or loss when IFRS 9 is applied to the qualifying financial assets (see below); and
- the amount that would have been reported in profit or loss if IAS 39 were applied to those assets.

The Amendments require the reclassification to be shown as a separate line item on the face of the statement of both profit or loss and other comprehensive income, with additional disclosures being given in order to enable users to understand it.

Only financial assets that meet both of the following criteria would qualify for the overlay approach:

- the financial assets are measured at fair value through profit or loss when applying IFRS 9 but would not have been so measured in their entirety when applying IAS 39
- the financial assets are designated by the entity as relating to insurance activities for the purposes of the overlay approach.

Temporary exemption

The temporary exemption is an option for entities whose activities are predominantly connected with insurance to defer the application of IFRS 9 until the earlier of:

- the application of the new insurance contracts standard
- 1 January 2021.

If an entity elects to use this temporary exemption, it will continue to apply IAS 39 during this period and will be required to provide some key disclosures to assist users of financial statements to make comparisons with entities applying IFRS 9.

Entities are eligible for this deferral approach only if they have activities that are predominantly connected with insurance when considering their activities as a whole. This should be considered at the reporting entity level and they must not have previously applied IFRS 9.

As eligibility is assessed at a reporting entity level, a separate assessment should be made for separate financial statements and consolidated groups. It is therefore possible for a group still to be eligible for the exemption even if there is a non-qualifying subsidiary (for its individual financial statements) within the group, or vice versa.

Predominance should be assessed by comparing the amount of an entity's insurance contract liabilities with the total amount of its liabilities.

Unlike the overlay approach, the temporary exemption will be applied to all, rather than some, financial assets of the limited population of entities that qualify for and elect to apply this approach.

Effective date

The Amendments are effective as follows:

- the overlay approach is applied when entities first apply IFRS 9
- a temporary exemption from IFRS 9 is applied for accounting periods on or after 1 January 2018.

ESMA sets out regulatory priorities for 2016

The European and Securities Market Authority (ESMA) recently issued its annual statement setting out common enforcement priorities for European regulators when looking at 2016 financial statements.

Although the statement is written with a European audience in mind, the priorities mentioned in it will nevertheless be of interest to preparers of IFRS financial statements around the world. We discuss some of the major points below:

Regulatory priorities for 2016

Enforcement priority	Advice
Presentation of information not specifically required by IFRS	ESMA urges issuers to ensure that additional information included in the financial statements is compliant with IFRS. Eg when including measures of performance not defined in IFRS Standards, issuers should ensure they are calculated and presented in an unbiased fashion.
Line items, headings and subtotals	ESMA reminds issuers that additional line items, headings and subtotals should be 1. comprised of line items made up of amounts recognised and measured in accordance with IFRS 2. presented and labelled in a clear and understandable way 3. consistently presented from period to period 4. not displayed with more prominence than subtotals and totals required by IFRS. Furthermore, ESMA notes that: • measures such as operating profit, should be clear, understandable and reflect their content • it is misleading if items of an operating nature (e.g. business combination impacts, depreciation of assets or inventory write-downs) are excluded from the results of operating activities even if that has been industry practice • where significant judgement is required in the presentation of material items (e.g. service costs and net interest on the net defined benefit liability/asset, impairment of equity-accounted investments), issuers are encouraged to disclose these judgements • issuers shall not present any items of income or expense as extraordinary items.
Segment information	ESMA reminds preparers that • segmental information should be presented "through the eyes of the management" • segmental information should be consistent with those included in the press releases, management reports or analysts' presentations • where applicable, entity-wide disclosures should be provided • disclosure is required of management's judgements made in applying the aggregation criteria for operating segments.

Regulatory priorities for 2016

Enforcement priority	Advice
Movements in Other Comprehensive Income	ESMA reminds issuers of the • distinction to be made between items in OCI that will be reclassified to profit or loss and others which will not • requirement for issuers to present, either in the statement of changes in equity or in the notes, an analysis of OCI by item for each component of equity Finally, ESMA draws issuers' attention to the International Financial Reporting Standards Interpretation Committee (IFRIC) discussions on the application of IAS 12 'Income Taxes' on the presentation of income tax relating to tax payments on financial instruments classified as equity (i.e. whether these tax effects should be presented directly in equity or in profit or loss). ESMA notes the possibility of changes being made by the IASB in this area and encouragers preparers who are potentially affected to make appropriate disclosures of the amounts involved.
Earnings per share	ESMA draws preparers' attention to the fact that under IAS 33: • basic and diluted EPS shall be presented with equal prominence • details of the EPS calculation should be presented clearly in the notes together with reconciliations, where applicable • disclosure is required on instruments that are anti-dilutive in the period presented but which could potentially dilute basic EPS in the future.
ESMA guidelines on APMs	ESMA reminds issuers that they should make every effort to comply with the principles in its guidelines on Alternative Performance Measures (APMs).
Financial instruments: distinction between equity instruments and financial liabilities	ESMA reminds issuers that the general principle in IAS 32 'Financial Instruments: Presentation' for distinguishing liabilities from equity issued by an entity is whether the entity has an unconditional right to avoid delivering cash or another financial asset to settle the contractual obligation. In relation to this, ESMA notes that • contingent settlement provisions give rise to a liability unless one of the conditions mentioned in IAS 32.25 is fulfilled • economic compulsion does not in itself create a financial liability • where particular debt/equity issues have been rejected by the IFRIC due to lack of guidance and/or clarity in IAS 32, issuers should ensure that the accounting policy applied when assessing whether an instrument qualifies as debt or equity is selected and used consistently for similar transactions.
Disclosure of the impact of IFRS 9, 15 and 16	ESMA draws issuers' attention to the impact that IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases' will have, encouraging issuers to work as soon as possible on the implementation of these Standards and to provide relevant disclosures on their expected impacts. In relation to IFRS 9 and IFRS 15, ESMA notes that it has published a separate statement on the implementation of IFRS 15 and expects to publish a statement on the implementation of IFRS 9 soon. Issuers are urged to take those statements into account when preparing their 2016 annual and 2017 interim financial statements. For entities preparing interim financial statements, ESMA expects that, for most issuers, the impacts of the initial application of IFRS 15 and/or IFRS 9 will be known or reasonably estimable at the time of the preparation of their 2017 interim financial statements. In relation to IFRS 16, ESMA reminds issuers of the importance of providing high quality disclosures under IAS 17 in relation to 1. the future minimum lease payments under non-cancellable operating leases by periods 2. the general description of leasing arrangements 3. the lease payments recognised as an expense in the period. These disclosures may enable users to estimate the potential magnitude of the impacts of IFRS 16.
Other considerations	Finally, ESMA notes the result of the UK's referendum on leaving the European Union, advising entities that may be affected directly or indirectly to provide disclosures on 1. the exposure to risks (e.g. financial, operational and/or strategic risks), their expected impacts and the uncertainties that might affect issuers' activities 2. how management manages and plans to mitigate those risks.

Consultation into improvements to cash flow statements

The UK Financial Reporting Council has launched a discussion paper entitled 'Improving the Statement of Cash Flows'.

The paper suggests several ideas for improving the transparency and consistency of the statement, while providing the company's own perspective on the management of liquid resources. The paper is intended to stimulate debate on what is one of the IASB's older Standards, IAS 7 'Statement of Cash Flows' having originally been issued in 1992. Feedback from respondents will no doubt be of interest to the IASB given it is currently examining the purpose, structure and content of the primary financial statements.

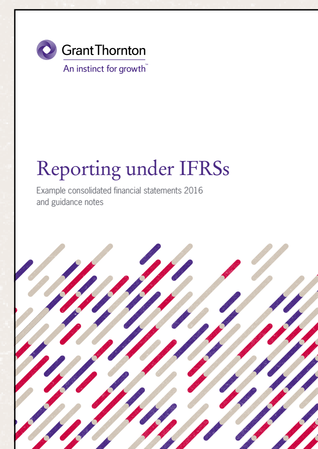
Some of the major suggestions in the paper include:

Suggested improvements to the cash flow statement

Topic	Suggestion
The usefulness of information about cash flows	• notional cash flows should not be reported in the statement of cash flows, but transparent disclosure of non-cash transactions should be required.
The classification of cash flows	• operating activities should be positively defined or described, rather than being a residual or default classification. Items should not be excluded from operating activities merely because they are unusual or non-recurring. Items that do not relate to operating activities should be reported in a separate section of the statement of cash flows • cash flows from operating activities should include capital expenditure, with a sub-total drawn before capital expenditure, and disclosure of the extent to which capital expenditure represents 'replacement' or 'expansion' should be encouraged • all cash flows in respect of interest on financing liabilities should be reported in the financing category of the cash flow statement • cash flows relating to tax should be reported in a separate section of the statement of cash flows.
Cash equivalents and the management of liquid resources	• the statement of cash flows should be required to report inflows and outflows of cash, rather than cash and cash equivalents • the statement of cash flows should contain a separate section that reports cash flows relating to the management of liquid resources • the net presentation of cash flows (other than those relating to operating activities) should be permitted only for instruments of the same class.
Reconciliation of operating activities	• suggests that a reconciliation of cash flows from operating activities and operating profit should be required in all cases, and not only where an indirect method cash flow statement is presented.
Direct or indirect method	• suggests that the direct method cash flow statement should neither be prohibited nor required • an accounting standard should however identify particularly significant components of cash flows from operating activities and require disclosure either of the amounts of such components or of changes in related working capital items.

2016 Example IFRS Financial Statements released

The Grant Thornton International Ltd IFRS Team has published the 2016 version of its IFRS 'Example Consolidated Financial Statements'.



The publication has been reviewed and updated to reflect changes in IFRSs that are effective for the year ending 31 December 2016. No account has been taken of any new developments published after 31 July 2016.

You can access the publication by going to **http://www.grantthornton.global/en/insights/articles/example-financial-statements-2016/**. Alternatively, please get in touch with the IFRS contact in your local Grant Thornton office.

Comment letters submitted

Grant Thornton International Ltd has responded to the following consultations:

- 'Definition of a Business and Accounting for Previously Held Interests'
- 'Trustees' Review of Structure and Effectiveness: Proposed Amendments to the IFRS Foundation Constitution'.

Definition of a Business and Accounting for Previously Held Interests

The Grant Thornton International Ltd IFRS Team has submitted its comments on the IASB's Exposure Draft ED/2016/1 'Definition of a Business and Accounting for Previously Held Interests (Proposed Amendments to IFRS 3 and IFRS 11)'.

The IASB's proposed amendments look 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.

In our response, we strongly supported the need for simplified guidance in this area but expressed some concern regarding the proposed asset concentration test (the IASB had proposed that if substantially all the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, then the set of activities and assets is not a business), questioning whether it is possible to apply a "one size fits all" rule to the complex determination of whether an acquired set of assets and activities represents a business.

Trustees' Review of Structure and Effectiveness: Proposed Amendments to the IFRS Foundation Constitution

The Grant Thornton International Ltd IFRS Team has submitted its comments on the IFRS Foundation's Exposure Draft 'Trustees' Review of Structure and Effectiveness: Proposed Amendments to the IFRS Foundation Constitution'.

The Exposure Draft raised a number of issues, covering areas such as:

- the Trustees' geographical distribution, how to ensure an appropriate balance of professional backgrounds, and their terms of appointment
- the focus and the frequency of the reviews specified in the Constitution
- the provisions in the Constitution that relate to the IASB, including the optimum size of the Board and its geographical distribution, the professional background and experience of Board Members, and their terms of appointment.

In our response, we are broadly supportive of the proposed amendments. A particular point we emphasised is our belief that the overriding criteria for both Trustee appointments and IASB Board appointments should be relevant skills, experience and commitment.

New IFRS 15 publication released

The Grant Thornton International Ltd IFRS Team has published 'Get ready for IFRS 15 – Recognising Revenue in the Real Estate and Construction Industries', our first more detailed look at the issues facing companies as they get ready to adopt IFRS 15.

For companies with real estate development, property management or construction activities, IFRS 15 replaces several familiar standards and provides significant new guidance in a number of key areas.

Companies are required to apply the new Standard to their annual reporting periods beginning on or after 1 January 2018 although early application is permitted. With the potential to significantly impact the timing and amount of revenue recognised, entities in the real estate and construction industries will want to invest time up front to ensure all critical impacts are identified and understood well in advance of implementation.

Filled with practical insights and examples, this new publication offers companies operating in the real estate and construction industries helpful guidance in identifying and responding to the most significant impacts of the new Standard.

You can access the publication by going to **http://www.grantthornton.global/en/insights/articles/get-ready-for-ifrs-15-rec/**. Alternatively, please get in touch with the IFRS contact in your local Grant Thornton office.

Grant Thornton New Zealand participate in New Zealand's Annual IFRS Masterclass

Mark Hucklesby, National Technical Director presented at the 15th Annual IFRS Masterclass in Auckland.

The event, which was held in October and organised by Conferenz with the support of the Chartered Institute of Management Accountants, saw Mark present alongside a number of other professionals including IASB Board Member and Deputy Chair Sue Lloyd. In his session Mark covered a number of topics including:

- creating an annual report that delivers exceptional value to stakeholders
- bringing sustainability into the picture, covering integrated reporting and the Sanford story
- determining complex transactions involving associate enterprises and joint ventures
- latest developments under NZX listing requirements.

New Zealand partner appointed to IVSC Business Valuation Board

Jay Shaw, Financial Advisory Services partner in our New Zealand member firm, has been appointed to the Business Valuation Board of the International Valuation Standards Council (IVSC).

The Business Valuation Board is a specialist subject matter sub-board of the IVSC Standards Board, the body responsible for setting International Valuation Standards. The IVSC itself is a key body in setting valuation standards globally and is supported by the main accounting/valuation bodies. Valuations are a feature of many IFRSs and the IVSC's requirements are therefore often highly relevant to preparers of IFRS financial statements.

Congratulations to Jay on his appointment which will start on 1 January 2017 following the release of updated IVS 2017 Valuation Standards.

IFRS 15 Special Edition News updated

The Grant Thornton International Ltd IFRS Team has published a revised version of its Special Edition of IFRS News on IFRS 15 'Revenue from Contracts with Customers'. The amended version of this newsletter incorporates the changes made to IFRS 15 when the IASB issued 'Clarifications to IFRS 15' earlier this year.

Those amendments focussed on clarifying:
- the application of IFRS 15 when identifying performance obligations
- determining whether an entity is acting as principal or agent in a transaction
- assessing whether a licence transfers to a customer over time or at a point in time.

The amendments also introduced additional practical expedients available for use by entities implementing the new Standard.

In addition, the newsletter has been revised to reflect the new effective date of 1 January 2018, which one year later than originally planned.

You can access the revised newsletter by going to **http://www.grantthornton.global/en/insights/articles/ifrs-news-special-edition-on-ifrs-15/**. Alternatively, please get in touch with the IFRS contact in your local Grant Thornton office.

Special Edition on Revenue

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IFRS News

Revised **October 2016**

IASB and FASB release major new standard on revenue recognition

"IFRS 15 'Revenue from Contracts with Customers' represents the culmination of more than five years of cooperation between the IASB and FASB, and will affect almost every revenue-generating business that applies IFRSs. While achieving convergence has been challenging and sometimes controversial, we believe the new Standard will provide a major boost for investors looking to compare company performance across borders.

IFRS 15 will apply to most revenue arrangements, including constructions contracts. Among other things, it changes the criteria for determining whether revenue is recognised at a point in time or over time. IFRS 15 also has more guidance in areas where current IFRSs are lacking – such as multiple element arrangements, variable pricing, rights of return, warranties and licensing.

The actual impact on each company's top line will depend on their specific customer contracts and how they have applied existing Standards. For some it will be a significant shift, and systems changes will be required, while others may see only minor changes. With IFRS 15 taking effect in 2018, management should begin their impact assessment now."

Global IFRS Team
Grant Thornton International Ltd.

A shift in the top line – the new global revenue standard is here at last

The IASB has published IFRS 15 'Revenue from Contracts with Customers'. IFRS 15:
- replaces IAS 18 'Revenue', IAS 11 'Construction Contracts' and some revenue-related Interpretations
- establishes a new control-based revenue recognition model
- changes the basis for deciding whether revenue is recognised at a point in time or over time
- provides new and more detailed guidance on specific topics
- expands and improves disclosures about revenue.

This special edition of IFRS News explains the key features of the new Standard and provides practical insights into its application and impact.

Round-up

Europe

EU endorsement of IFRS 9 progresses

A proposed resolution regarding IFRS 9 'Financial Instruments' has been carried in the European Parliament. The resolution is not legally binding but will serve as guidance and reference in future EU law-making processes.

The resolution was developed by the Parliament's Committee on Economic and Monetary Affairs and makes several calls to action to address questions raised with the Commission.

In making these calls to action, the resolution acknowledges that IFRS 9 constitutes an improvement on IAS 39 insofar as the move from an 'incurred loss' to an 'expected loss' impairment model addresses the problem of 'too little, too late' in the loan loss recognition procedure but notes that IFRS 9 calls for a great deal of judgement in the accounting process. In relation to this observation, it underlines that there are huge differences of opinion in this area and calls, therefore, for guidance to be developed by the European Supervisory Authorities in cooperation with the Commission and EFRAG in order to prevent any abuse of management discretion.

Among other points, the resolution:

- underlines the importance of long-term investment for economic growth and calls on the Commission to evaluate how IFRS 9 serves the EU's long-term investment strategy and reduces pro-cyclicality and incentives for excessive risk-taking. Concerns here centre on the potential negative effects of fair value accounting on long-term investment. The resolution therefore calls on the Commission to come forward with an evaluation no later than December 2017
- notes the misalignment of the effective dates of IFRS 9 and the new upcoming insurance standard (the yet to be issued IFRS 17), calling on the Commission to address the concerns caused by this
- calls on the Commission, together with the European Supervisory Agencies, the European Central Bank, the European Systemic Risk Board and the European Financial Reporting Advisory Group (EFRAG), to:
  - closely monitor the implementation of IFRS 9 in the EU
  - prepare an ex-post impact assessment no later than June 2019 and
  - present this assessment to the European Parliament and act in accordance with its views
- calls on the IASB to conduct a post-implementation review of IFRS 9 in order to identify and assess unintended effects of the Standard, in particular on long-term investment.

ESMA and IASB strengthen ties

The European Securities and Markets Authority (ESMA) and the IFRS Foundation have announced an updated set of protocols under which the two organisations will deepen their cooperation on the development of IFRS Standards and support for their consistent application across the European Union.

The Statement of Protocols updates an agreement from 2014 and outlines how the two organisations will continue working together.

EFRAG publishes a quantitative study on goodwill and goodwill impairment

EFRAG has published 'What do we really know about goodwill and impairment? A quantitative study'.

The study, which presents a quantitative analysis of a sample of 328 European companies from 2005 to 2014, aims to facilitate the debate related to the accounting for goodwill by providing evidence on how goodwill and goodwill impairment have evolved over time.

Among its main findings are that, in Europe:

- from 2005 to 2014 the total amount of goodwill recognised increased from 935 billion euros to 1.341 billion euros, representing an increase of 43%
- a small number of companies account for a large share of the carrying amount of goodwill
- the ratio of goodwill to total assets has remained fairly stable over the years at approximately 3.7%. The ratio is significantly higher when financial entities are excluded but has been gradually decreasing since 2009
- the ratio of goodwill to net assets has been decreasing since 2008, but at 29% was still significant in 2014
- the amount of impairment losses recognised peaked in 2008 and 2011, years when the performance of the financial markets was negative. On average, impairment losses represented 2.7% of the opening balance of goodwill
- impairment losses are significantly concentrated in a small number of companies, particularly in the telecommunications and financial industries
- absolute and relative levels of goodwill and impairment losses vary significantly across industries.

The study also compares the European data to other samples of US, Australian and Japanese companies.

ESMA enforcement decisions

The European Securities and Markets Authority (ESMA) has published a new batch of extracts (the 19th such batch) from the European Enforcers' Coordination Sessions (EECS) confidential database of enforcement decisions on financial statements.

European enforcers monitor and review IFRS financial statements and consider whether they comply with IFRS and other applicable reporting requirements, including relevant national law. ESMA publishes these extracts with the aim of providing issuers and users of financial statements with relevant information on the appropriate application of IFRS. Publication of the enforcement decisions informs market participants about European national enforcers' views on compliance with IFRS. Cases submitted to the enforcement database are considered to be appropriate for publication if they fulfil one or more of the following criteria:

- the decision refers to a complex accounting issue or an issue that could lead to different applications of IFRS
- the decision relates to a relatively widespread issue among issuers or within a certain type of business and, thereby, may be of interest to other enforcers or third parties
- the decision addresses an issue on which there is no experience or on which enforcers have inconsistent experiences
- the decision has been taken on the basis of a provision not covered by an accounting standard.

Together with the rationale behind these decisions, the publication helps contribute towards a consistent application of IFRS in the EEA. Topics covered in this latest batch of extracts include:

1. Inflation-related index derivative embedded in a host lease contract
2. Classification of a separate vehicle as joint operation based on 'other facts and circumstances'
3. Selection of the appropriate exchange rate when multiple exchange rates are available
4. Presentation of gains arising from the sale of an intangible asset
5. Identification of unobservable inputs
6. Reverse acquisition of a listed shell company
7. Disclosure of the amounts of significant categories of revenue
8. Determination of whether a dealer network acquired in a business combination is an intangible asset with indefinite useful life
9. Exchange of a business for an interest in a subsidiary and subsequent distribution of the acquired subsidiary to owners
10. The determination of the maximum economic benefits available from a pension plan and the measurement of the defined benefit asset
11. Measurement of a deferred tax liability relating to biological assets when income tax rates are changing over the assets' useful lives
12. Accounting for contributions to a deposit guarantee fund in the interim financial report

Asia

Japanese Accounting Standards Board

The Accounting Standards Board of Japan has also recently completed research on goodwill and goodwill impairment that was initiated following the IASB's post-implementation review of IFRS 3 'Business Combinations'.

This research covers similar ground to the EFRAG study mentioned above. The two studies were originally unconnected but at a relatively late stage data and findings were exchanged between the two bodies. The Japanese study observes that the stock market indices of the United States and Europe have consistently shown higher ratios of goodwill to net assets and of goodwill to market capitalisation. This can be explained in part by the fact that goodwill is required to be amortised under Japanese GAAP.

United States

FASB issues insurance contracts proposals

The US Financial Accounting Standards Board (FASB) has issued a proposed Accounting Standards Update (ASU) intended to improve financial reporting for insurance companies that issue long-duration contracts, such as life insurance, disability income, long-term care, and annuities.

The Exposure Draft contains proposals for improving insurance accounting by:

- improving the timeliness of recognising changes in the liability for future policy benefits by requiring that updated assumptions be used to measure the liability
- eliminating the usage of an asset rate (that is, an insurance company's expected investment yield) to discount liability cash flows, and instead requiring that cash flows be discounted at a high-quality fixed-income instrument yield
- simplifying and improving the accounting for certain options or guarantees in variable products (such as guaranteed minimum death, accumulation, income, and withdrawal benefits) by requiring those benefits to be measured at fair value instead of using two different measurement models
- simplifying the amortisation of deferred acquisition costs
- increasing transparency by improving the effectiveness of disclosures.

Although separate from the IASB's project on insurance contracts (a new Standard is expected to be issued in March 2017 according to the IASB's work plan), many of the objectives are similar to the IASB's.

FASB proposes corrections to its revenue standard

FASB has also issued a proposed ASU 'Technical Corrections and Improvements to Update 2014-09, 'Revenue from Contracts with Customers' (Topic 606) – Additional Corrections'. The proposals would make minor changes to the US equivalent of IFRS 15 in the following four areas:

Loan guarantee fees	• clarifies that guarantees (other than product or service warranties), including guarantee fees within the scope of ASC 460 'Guarantees', are not within the scope of ASC 606 'Revenue from Contracts with Customers'.
Contract asset versus receivable	• amendments would provide a better link between the analysis in Example 38 to the Standard and the Standard's guidance on the presentation of receivables. Concern had been expressed that currently an entity cannot record a receivable before its due date.
Refund liability	• would remove the reference to the term 'contract liability' in Example 40 to the Standard in response to concerns that the example indicates that a refund liability should be characterised as a contract liability.
Advertising costs	• would reinstate the guidance on the accrual of advertising costs.

Basel Committee consults on interaction of expected credit losses and bank capital

The Basel Committee on Banking Supervision (the primary global standard-setter for the prudential regulation of banks) has released a consultative document and a discussion paper on the policy considerations related to the regulatory treatment of accounting provisions under the Basel III regulatory capital framework.

The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) are both moving to standards on the impairment of financial instruments that require use of expected credit loss (ECL) models rather than incurred loss models.

The Basel Committee's consultative document sets out the Committee's proposal to retain, for an interim period, the current regulatory treatment of provisions under the standardised and the internal ratings-based approaches. In addition, the Committee is seeking comments on whether any transitional arrangement is warranted to allow banks time to adjust to the new ECL accounting standards.

In addition to the consultative document, the Committee has issued a discussion paper on the policy options for the long-term regulatory treatment of provisions under the new ECL standards.

These documents have been published following concerns that banks who have already seen steep increases in the amount of regulatory capital they are required to hold, will be forced to raise yet more capital as a result of the move to the more forward looking ECL models.

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 July 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 July 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 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	• a temporary exemption from IFRS 9 is applied for accounting periods on or after 1 January 2018 • the overlay approach is applied when entities first apply IFRS 9	N/A
IFRS 9	Financial Instruments (2014)	1 January 2018	Yes (extensive transitional rules apply)
IFRS 2	Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018	Yes
IFRS 15	Revenue from Contracts with Customers	1 January 2018*	Yes
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

New IFRS Standards and IFRIC Interpretations with an effective date on or after 1 July 2014

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
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
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

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

Open for comment

This table lists the documents that the IASB currently has out to comment and the comment deadline. Grant Thornton International Ltd aims to respond to each of these publications.

Current IASB documents

Document type	Title	Comment deadline
There were no documents out for comment at the date of going to press.		

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