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Accounting

News

Discussion

IFRS Newsletter

June 2019

IFRS Newsletter is your quarterly update on all things relating to International Financial Reporting Standards (IFRS). We will 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 second edition of 2019 by considering the International Accounting Standards Board (IASB) Exposure Draft *Interest Rate Benchmark Reform*. We then look at the implications of the IASB's statement that an entity should be entitled to "sufficient time" in determining whether it needs to change an accounting policy as a result of an IFRIC agenda decision and in implementing any such change.

Continuing on an IFRIC theme, we then look at the agenda decisions that were issued in March and the tentative issues that are currently out for comment. Further on in the newsletter, you will find IFRS-related news at Grant Thornton and a general round-up of financial reporting developments.

We finish with a summary of the implementation dates of recently issued standards and a list of IASB publications that are out for comment.

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IBOR reform – IASB proposes relief for hedging relationships

The IASB has published *Interest Rate Benchmark Reform (Proposed Amendments to IFRS 9 and IAS 39)* in response to the ongoing reform of interest rate benchmarks around the world.

As reported in the December 2018 edition of *IFRS Newsletter*, many interbank offer rates (IBORs) are expected to be replaced by new benchmark risk-free rates in the next few years. One of the biggest issues presented by the replacement of IBORs is the potential effect on hedge accounting given the extensive use of interest rate benchmarks in global financial markets, and it is this subject that is addressed by the IASB's Exposure Draft.

The main proposed amendments can be summarized as follows:

Topic	Summary
Highly probable requirement and prospective assessments of hedge effectiveness	Where an entity currently designates IBOR cash flows, the replacement of IBORs with new interest rate benchmarks raises questions over whether it will be possible to make the assertion that those cash flows will still occur in a hedge of highly probable future cash flows, and whether the hedging relationship meets the requirements to be viewed as effective on a prospective basis. The Exposure Draft therefore proposes exceptions for determining whether a forecast transaction is highly probable or whether it is no longer expected to occur. Specifically, the Exposure Draft proposes that an entity would apply those requirements assuming that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of interest rate benchmark reform. It also proposes exceptions to the hedge accounting requirements in IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*, so that an entity would assume that the interest rate benchmark on which the hedged cash flows are based, and/or the interest rate benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of interest rate benchmark reform when the entity determines whether: a) there is an economic relationship between the hedged item and the hedging instrument applying IFRS 9; or b) the hedge is expected to be highly effective in achieving offsetting applying IAS 39.
Designating a component of an item as the hedged item	The Exposure Draft proposes amendments to the hedge accounting requirements in IFRS 9 and IAS 39 for hedges of the benchmark component of interest rate risk that is not contractually specified and that is affected by interest rate benchmark reform. Specifically it proposes that an entity applies the requirement (that the designated risk component or designated portion is separately identifiable) only at the inception of the hedging relationship.

Without the proposed amendments, the uncertainty surrounding the replacement of IBORs and the form this will take could result in entities having to discontinue hedge accounting solely because of the reform's effect on their ability to make forward-looking assessments.

Disclosures about the extent to which an entity's hedging relationships are affected by the proposed amendments would also be required.

The IASB is proposing that the exceptions above would be mandatory. It also proposes that the exceptions would apply for a limited period. Specifically, an entity would prospectively cease applying the proposed amendments at the earlier of:

a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows; and
b) when the hedging relationship is discontinued, or when a forecast transaction is no longer expected to occur, the entire amount accumulated in the cash flow hedge reserve with respect to that hedging relationship is reclassified to profit or loss.

The Board is not however proposing an end to the application of the proposed exception relating to the separate identification requirement outlined above.

In acknowledgement of the speed with which interest rate benchmark reform is progressing, the Exposure Draft is only open for comment for 45 days (the consultation period closes on June 17, 2019). If approved, the amendments would be effective for annual periods beginning on or after January 1, 2020, with earlier application permitted. They would be applied retrospectively, with no specific transition provisions proposed.

In addition to the proposed amendments contained in the Exposure Draft, the IASB will look to separately address issues that affect financial reporting when IBOR reform is enacted later in the year.

In acknowledgement of the speed with which interest rate benchmark reform is progressing, the Exposure Draft is only open for comment for 45 days (the consultation period closes on June 17, 2019).

The meaning of “sufficient time” to adopt an IFRIC agenda decision

The IFRS Interpretations Committee (IFRIC or the “Committee”) publishes brief details of why issues submitted to them are not added to their work agenda. These agenda decisions provide useful insight into the interpretation of IFRS.

As IFRIC agenda decisions do not change existing IFRS requirements, some regulators have seen them as being immediately effective. This view has created practical problems for some preparers. For example, if the Committee was to publish a final agenda decision in March 2019, would the entity’s financial statements for a period ending March 31, 2019 have to reflect that agenda decision a matter of weeks later? This has been a particular issue for entities who report quarterly and who had previously followed accounting that was not in line with an agenda decision.

In an attempt to address such practical problems, the IASB decided to include the following wording in its March 2019 IFRIC Update:

> **“The process for publishing an agenda decision might often result in explanatory material that provides new information that was not otherwise available and could not otherwise reasonably have been expected to be obtained. Because of this, an entity might determine that it needs to change an accounting policy as a result of an agenda decision. The Board expects that an entity would be entitled to “sufficient time” to make that determination and implement any change (for example, an entity may need to obtain new information or adapt its systems to implement a change).”**

This important statement of course raises its own questions in terms of what can be considered a sufficient amount of time to make a change arising from an agenda decision.

The IASB’s thinking (as set out in an article on its website by IASB Vice-chair, Sue Lloyd) is that this will depend on the particular facts and circumstances (for example, reflecting the nature of the accounting policy change and the reporting entity) and that preparers, auditors and regulators will need to apply judgement to determine what is sufficient. But as she notes in her article, the IASB very much had in mind “a matter of months rather than years”.

With this guidance in mind, we now turn to look at the agenda decisions that were issued in March 2019 and some tentative agenda decisions that may be issued in the future.

IFRIC agenda decisions

We set out below a summary of the agenda decisions issued in March by the IFRS Interpretations Committee. For a more detailed discussion of these issues, reference should be made to the IASB's website.

We look below at the following agenda decisions, which were issued in March 2019:

Agenda decision	Related standard
Sale of Output by a Joint Operator	IFRS 11 *Joint Arrangements*
Liabilities in Relation to a Joint Operator's Interest in a Joint Operation	IFRS 11 *Joint Arrangements*
Over Time Transfer of Constructed Good	IAS 23 *Borrowing Costs*
Customer's Right to Receive Access to the Supplier's Software Hosted on the Cloud	IFRS 16 *Leases*; IAS 38 *Intangible Assets*
Physical Settlement of Contracts to Buy or Sell a Non-financial Item	IFRS 9 *Financial Instruments*
Application of the Highly Probable Requirement when a Specific Derivative is Designated as a Hedging Instrument	IFRS 9 *Financial Instruments*; IAS 39 *Financial Instruments: Recognition and Measurement*
Credit Enhancement in the Measurement of Expected Credit Losses under IFRS 9	IFRS 9 *Financial Instruments*
Curing of a Credit-impaired Financial Asset	IFRS 9 *Financial Instruments*

Sale of Output by a Joint Operator

The Committee received a request about the recognition of revenue by a joint operator for output arising from a joint operation (as defined in IFRS 11) when the output it receives in a reporting period is different from the output to which it is entitled.

The request asked whether the joint operator should recognize revenue to depict the transfer of output to its customers in the reporting period or, instead, to depict its entitlement to a fixed proportion of the output produced from the joint operation's activities in that period.

In relation to its interest in a joint operation, IFRS 11 requires a joint operator to recognize "its revenue from the sale of its share of the output arising from the joint operation".

In light of this, the Committee concluded that, in the fact pattern described in the request, the joint operator recognizes revenue that depicts only the transfer of output to its customers in each reporting period, i.e. revenue recognized applying IFRS 15 *Revenue from contracts with customers*. This means, for example, the joint operator does not recognize revenue for the output to which it is entitled but which it has not received from the joint operation and sold.

Given that the principles and requirements in IFRS provide an adequate basis in this area, the Committee decided not to add this matter to its standard-setting agenda.

Liabilities in Relation to a Joint Operator's Interest in a Joint Operation

The Committee received a request about the recognition of liabilities in a joint operation, which is not structured through a separate vehicle.

In the fact pattern submitted, one of the joint operators, as the sole signatory, enters into a lease contract with a third-party lessor for an item of property, plant and equipment that will be operated jointly as part of the joint operation's activities. In accordance with the contractual arrangement governing the joint operation, the joint operator has the right to recover a share of the lease costs from the other joint operators. The request asked what liability should be recognized.

IFRS 11 requires a joint operator to recognize "its liabilities, including its share of any liabilities incurred jointly". Accordingly, a joint operator identifies and recognizes both (a) liabilities it incurs in relation to its interest in the joint operation; and (b) its share of any liabilities incurred jointly with other parties to the joint arrangement.

In applying these requirements to the fact pattern, the Committee observed that the liabilities a joint operator recognizes include those for which it has primary responsibility. The Committee therefore concluded that IFRS provides an adequate basis for the operator to identify and recognize its liabilities. Consequently, the Committee decided not to add this matter to its standard-setting agenda. It did however emphasize the importance of disclosing information about a joint operation that is sufficient to understand both its activities and a joint operator's interest in the joint operation.

Over Time Transfer of Constructed Good

This request concerned the capitalisation of borrowing costs in relation to the construction of a residential multi-unit real estate development (building) where properties can be sold before they are constructed or completed.

The request asked whether the entity constructing the properties has a qualifying asset as defined in IAS 23 and, therefore, should capitalize any directly attributable borrowing costs.

The Committee concluded that inventory (work in progress) for unsold units under construction that the entity recognizes is not a qualifying asset. Under the fact pattern that had been submitted, the asset was ready for its intended sale in its current condition – i.e. the entity intends to sell the part-constructed units as soon as it finds suitable customers, and on signing a contract with a customer will transfer control of any work in progress relating to that unit to the customer. Capitalisation of borrowing costs would therefore be inappropriate.

The Committee concluded that IAS 23 provides an adequate basis for an entity to determine whether to capitalize borrowing costs and that there was no need to add this matter to its standard-setting agenda.

The IFRS Interpretations Committee publishes brief details of why issues submitted to them are not added to their work agenda. These agenda decisions provide useful insight into the interpretation of IFRS.

Customer's Right to Receive Access to the Supplier's Software Hosted on the Cloud

The Committee received a request about how a customer accounts for a "Software as a Service" cloud computing arrangement in which the customer contracts to pay a fee in exchange for a right to receive access to the supplier's application software for a specified term.

Under the arrangement in the fact pattern, the supplier's software runs on cloud infrastructure managed and controlled by the supplier and the customer accesses the software on an as-needed basis over the Internet or via a dedicated line. The submission asked whether the customer receives a software asset at the contract commencement date or a service over the contract term.

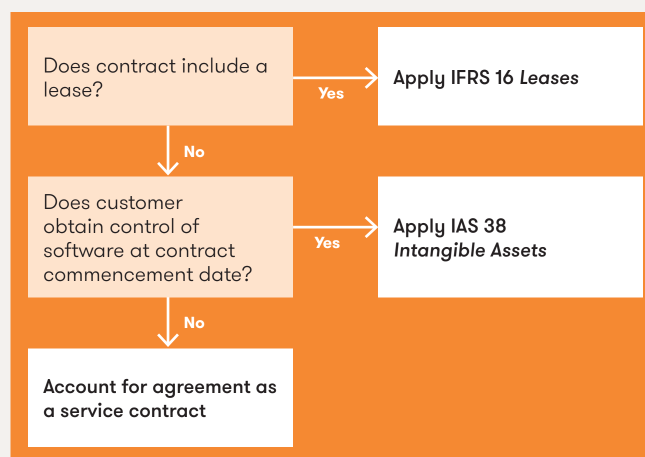
In response to this question, the Committee noted that a customer receives a software asset at the contract commencement date if either:

a) the contract contains a software lease; or
b) the customer otherwise obtains control of software at the contract commencement date.

In relation to whether the contract contains a software lease, the Committee noted that IFRS 16's application guidance specifies that a customer generally has the right to direct the use of an asset by having decision-making rights to change how and for what purpose the asset is used throughout the period of use. The Committee observed however that a right to receive future access to the supplier's software running on the supplier's cloud infrastructure does not in itself give the customer any decision-making rights about how and for what purpose the software is used. Accordingly, if a contract conveys to the customer only the right to receive access to the supplier's application software over the contract term, the contract does not contain a software lease.

In relation to the second question of whether the customer otherwise obtains control of software at the contract commencement date, the Committee noted that a right to receive future access to the supplier's software does not, at the contract commencement date, give the customer the power to obtain the future economic benefits flowing from the software itself and to restrict others' access to them. Accordingly, the Committee observed that, if a contract conveys to the customer only the right to receive access to the supplier's application software over the contract term, the customer does not receive a software intangible asset at the contract commencement date.

Such an agreement would be a service contract. If the customer pays the supplier before it receives the service, that prepayment gives the customer a right to future service and is an asset for the customer.



The Committee therefore concluded that IFRS provides an adequate basis for analysing such arrangements and decided not to add this matter to its standard-setting agenda.

Physical Settlement of Contracts to Buy or Sell a Non-financial Item

This request described two fact patterns in which an entity accounts for contracts to buy or sell a non-financial item as derivatives at fair value through profit or loss because they do not meet the own use scope exception, but where the entity nonetheless physically settles the contracts.

The request asked whether, in accounting for the physical settlement of these contracts, the entity is permitted or required to make a journal entry that would:

- reverse the accumulated gain or loss previously recognized in profit or loss on the derivative; and
- recognize a corresponding adjustment to either revenue (in the case of a sale contract) or inventory (in the case of a purchase contract).

The Committee observed that making such a journal entry would effectively negate the requirement in IFRS 9 to account for the contract as a derivative because it would reverse the accumulated fair value gain or loss on the derivative without any basis to do so. It would also result in the recognition of income or expenses on the derivative that do not exist. The Committee therefore decided not to add the matter to its standard-setting agenda.

Application of the Highly Probable Requirement when a Specific Derivative is Designated as a Hedging Instrument

The Committee received a request about how an entity applies the requirement in IFRS 9 and IAS 39 that a forecast transaction must be "highly probable" to qualify as a hedged item in a cash flow hedge relationship, in a situation where the notional amount of the derivative designated as a hedging instrument (a "load following swap") varies depending on the outcome of the hedged item (forecast energy sales).

In reaching their agenda decision to not add this matter to the standard-setting agenda, the Committee observed that, for hedge accounting purposes, the entity must document the forecast energy sales with sufficient specificity in terms of timing and magnitude so that when such transactions occur, the entity can identify whether the transaction is the hedged transaction. Consequently, the forecast energy sales cannot be specified solely as a percentage of sales during a period because that would lack the specificity required by the standard. The Committee also observed that the terms of the hedging instrument do not affect the highly probable assessment because the highly probable requirement is applicable to the hedged item.

Credit Enhancement in the Measurement of Expected Credit Losses under IFRS 9

This request asked whether the cash flows expected from a financial guarantee contract or any other credit enhancement can be included in the measurement of expected credit losses if the credit enhancement is required to be recognized separately applying IFRS.

The Committee noted that in measuring expected credit losses, IFRS 9 requires the estimate of expected cash shortfalls to "reflect the cash flows expected from collateral and other credit enhancements that are part of the contractual terms and are not recognized separately by the entity."

Accordingly, the Committee concluded that, if a credit enhancement is required to be recognized separately by IFRS, an entity cannot include the cash flows expected from it in the measurement of expected credit losses. They therefore declined to take this request onto their standard-setting agenda.

Curing of a Credit-impaired Financial Asset

The Committee received a request about the presentation of amounts relating to a credit-impaired financial asset when that asset is subsequently cured (i.e. paid in full or no longer credit-impaired).

When a financial asset becomes credit-impaired under IFRS 9, interest is required to be calculated based on its amortized cost net of the loss provision (as opposed to being calculated on the gross carrying value for assets that are not credit-impaired). This results in a difference between (a) the interest that would be calculated by applying the effective interest rate to the gross carrying amount of the credit-impaired financial asset; and (b) the interest revenue recognized for that asset.

The request asked whether, following the curing of the financial asset, an entity can present this difference as interest revenue or, instead, is required to present it as a reversal of impairment losses.

The Committee observed that under IFRS 9 an entity recognizes in profit or loss as a reversal of expected credit losses the adjustment required to bring the loss allowance to the amount required by IFRS 9. Furthermore, the amount of this adjustment includes the effect of the unwinding of the discount on the loss allowance during the period that the financial asset was credit-impaired, which means the reversal of impairment losses may actually exceed the impairment losses that were recognized in profit or loss over the life of the asset.

Accordingly, the Committee concluded that an entity is required to present the difference described as a reversal of impairment losses. The Committee therefore decided not to add this matter to its standard-setting agenda.

Tentative IFRIC agenda decisions

In addition to the actual agenda decisions discussed in the previous article, the IFRS Interpretations Committee also reached four tentative decisions in its March 2019 meeting. These tentative decisions are open for comment until 15 May 2019 and may be subject to significant change.

Holdings of Cryptocurrencies

This tentative agenda decision discusses the nature of cryptocurrencies before considering which IFRS applies to them.

The Committee's tentative conclusion is that IAS 2 *Inventories* applies to cryptocurrencies when they are held for sale in the ordinary course of business. If IAS 2 is not applicable, an entity applies IAS 38 to holdings of cryptocurrencies.

Comment
The tentative agenda is in line with the May 2018 IFRS Viewpoint *Accounting for cryptocurrencies – the basics*, which can be viewed at: https://www.grantthornton.global/en/insights/viewpoint/accounting-for-cryptocurrencies--the-basics/.

Costs to Fulfil a Contract (IFRS 15)

The Committee received a request about the recognition of costs incurred to fulfil a contract as an entity satisfies a performance obligation in the contract over time. In the fact pattern described in the request, the entity (a) transfers control of a good over time and therefore recognizes revenue over time; and (b) measures progress towards complete satisfaction of the performance obligation using an output method. The entity incurs costs in constructing the good. At the reporting date, the costs incurred relate to construction work performed on the good that is transferring to the customer as the good is being constructed.

In reaching a tentative decision not to add this item to its standard setting agenda, the Committee observed that the costs of construction described in the request are costs that relate to the partially satisfied performance obligation in the contract (i.e. they relate to past performance) and do not meet IFRS 15's criteria for recognition as an asset.

Subsurface Rights (IFRS 16)

The Committee received a request about a particular contract for subsurface rights. In the contract described in the request, a pipeline operator (customer) obtains the right to place an oil pipeline in underground space for 20 years in exchange for consideration. The request asked whether IFRS 16, IAS 38 or another standard applies in accounting for the contract.

In analysing the specific fact pattern submitted, the Committee noted that the land owner does not have the right to substitute the underground space throughout the period of use and that the specified underground space is consequently an identified asset.

The Committee also noted that the customer has exclusive use of the specified underground space throughout the 20-year period of use and the right to direct the use of the specified underground space throughout the period. The Committee therefore concluded that the contract described in the request contains a lease as defined in IFRS 16.

Comment
The tentative agenda decision is limited to sub-surface rights but if finalized will raise questions over air rights – the right to use and develop space above land.

Effect of a Potential Discount on Plan Classification (IAS 19 *Employee Benefits*)

The Committee received a request about the classification of a post-employment benefit plan applying IAS 19. In the fact pattern described in the request, an entity sponsors a post-employment benefit plan (the "plan") into which it pays fixed annual contributions. The entity is however entitled to a potential discount on its annual contributions if the ratio of plan assets to plan liabilities exceeds a set level.

The request asked whether the existence of the potential discount would result in a defined benefit plan classification applying IAS 19. The tentative view reached by the Committee was that the existence of the potential discount would not in itself result in classifying the plan as a defined benefit plan but as with all tentative decisions this may be subject to change as the result of further feedback.

Grant Thornton news

New Grant Thornton International Ltd *Example IFRS Financial Statements* released

The global IFRS Team of Grant Thornton International Ltd (GTIL) has released the 2019 version of its *IFRS Example Interim Consolidated Financial Statements* and *IFRS Example Annual Consolidated Financial Statement.*

These publications have been reviewed and updated to reflect changes in IFRS that are effective for the year ending December 31, 2019. In particular, they reflect the adoption of IFRS 16, which is effective for annual accounting periods beginning on or after January 1, 2019.

To obtain a copy of the 2019 IFRS Example Interim Consolidated Financial Statements, please refer to our Adviser Alert on the subject.

To obtain a copy of the 2019 IFRS Example Annual Consolidated Financial Statements, please refer to our Adviser Alert on the subject.

Insights into IFRS 16

IFRS 16, which is effective from January 1, 2019, brings fundamental changes to lease accounting. It requires lessees to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability.

GTIL's new *Insights into IFRS 16* series summaries key areas of the standard and aims to assist you in preparing for the changes that you will need to make. Three issues have been released in the last quarter, which are described below. You can access these at https://www.grantthornton.global/en/insights/ifrs-16.

Transition choices
Many recent accounting standards include transition reliefs to assist in adoption in order to make first time application simpler, and IFRS 16 is no exception. This article sets out the choices that are available and discusses some of their practical implications.

Sale and leaseback accounting
A sale and leaseback transaction is a popular way for entities to secure long-term financing from substantial property, plant and equipment assets such as land and buildings. It is a transaction where an entity (the seller-lessee) transfers an asset to another entity (the buyer-lessor) for consideration and leases that asset back from the buyer-lessor.

IAS 17 *Leases* covered the accounting for a sale and leaseback transaction in considerable detail but only from the perspective of the seller-lessee. As IFRS 16 has withdrawn the concepts of operating leases and finance leases from lessee accounting, the accounting requirements that the seller-lessee must apply to a sale and leaseback are more straight forward. In addition, IFRS 16 provides an overview of the accounting requirements for buyer-lessors too. The article explains the new concepts and provides a simplified example of the requirements.

Lease payments
At the commencement of a lease, IFRS 16 requires a lessee to measure the lease liability at the present value of the lease payments that are not paid at that date. This liability includes both fixed payments (including in-substance fixed payments) and variable lease payments that depend on an index or rate and represents the starting point for the measurement of the related right-of-use asset. Deciding which payments need be recognized in the measurement of the liability and how changes in those payments are recognized often involve considerable judgement. The article clarifies areas of the standard to assist you when making these judgements.

GTIL responds to IASB's Exposure Draft on onerous contracts

Grant Thornton International Ltd has responded to the IASB's Exposure Draft *Onerous contracts – Cost of Fulfilling a Contract (Proposed amendments to IAS 37).*

The Exposure Draft looks at how entities identify onerous contracts under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and aims to provide guidance on the meaning of "cost of fulfilling a contract". For construction companies, guidance was previously provided in IAS 11 *Construction Contracts* which has since been withdrawn following the introduction of IFRS 15. These entities now apply IAS 37 to determine whether a contract is onerous however the standard does not currently specify which costs to include in determining the cost of fulfilling a contract, creating the need for these proposals.

GTIL is generally supportive of the proposed amendments, subject to certain comments, which are detailed in the letter.

Grant Thornton's Trisha LeBlanc appointed to the IASB's Transition Resource Group for IFRS 17

Trisha LeBlanc has been appointed as a member of the IASB's Transition Resource Group for IFRS 17 *Insurance Contracts* (TRG).

Trisha is the National Leader – Financial Reporting and Advisory Services ("FRAAS") at Grant Thornton LLP in Canada where she is responsible for leading the strategy, growth and development of accounting advisory services which includes advising on the implementation of new accounting standards such as IFRS 17, IFRS 15 and IFRS 9.

Trisha is also a Practice Support Director in Grant Thornton LLP's Professional Practice Group where she is responsible for consultations from engagement teams regarding complex accounting and/or auditing issues. In that role, Trisha leads the IFRS 17 initiatives both internally and externally for Grant Thornton Canada. She also represents Grant Thornton on the Global Public Policy Committee's Insurance Working Group.

The TRG is one of the ways the IASB is supporting implementation of the new standard. The purpose of the group is to provide a public forum for stakeholders to follow the discussion of questions raised on implementation and inform the IASB in order to help them determine what, if any, action will be needed to address those questions.

Congratulations to Trisha on her appointment!

Round-up

IASB

IFRS Foundation proposes amendments to its *Due Process Handbook*

The Trustees of the IFRS Foundation have issued an Exposure Draft containing proposed amendments to its *Due Process Handbook*.

The *Due Process Handbook* contains the procedural requirements, which are followed by the IASB and the IFRS Interpretations Committee. The main proposed changes in the Exposure Draft are to:

- update the procedures relating to the use of effects analysis – assessing the likely effects of a new or amended IFRS – to ensure that they are consistent with current activities and to make it clear that such analyses take place at all stages of the standard-setting process;
- clarify the role and status of agenda decisions published by the IFRS Interpretations Committee and amend the Handbook to make agenda decisions a tool for the Board.

IASB Chair discusses primary financial statements project

IASB Chair, Hans Hoogervorst, recently gave a speech on the IASB's primary financial statements project.

The project, which is part of the IASB's *Better Communication* initiative looks to provide better formatting and structure in IFRS financial statements, especially in the income statement, which is currently relatively form-free apart from the definitions of revenue and profit or loss.

Providing more structure to the financial statements is seen as becoming increasingly important as more financial information is produced and consumed digitally, and the IASB is therefore looking at introducing new defined subtotals.

The first such subtotal they have considered is Operating Profit which is commonly used but currently lacks an IFRS definition. The IASB is moving towards proposing a definition of Operating Profit as profit excluding financing, tax and income/expenses from investments. The IASB recognizes that this definition will not work for financial entities and is therefore looking to require financial entities to include expenses from financing activities relating to the provision of financing to customers in operating profit. Similar solutions will be proposed for insurers and investment entities.

Below Operating Profit, the IASB intends to create what can loosely be called an Investment Category. This category includes income and expenses from investments, financial investments to associates and joint ventures.

Another important subtotal that the IASB intends to define is Profit before Financing and Tax. This subtotal will exclude expenses from financing activities and tax and will enable comparison of entities with different capital structures by creating better comparability of entities' performance independent of their degree of leverage.

The IASB also intends to require entities to disclose in the notes which components of income or expense they judge to be "unusual", either in size or in frequency, in order to address entities practice of "cherry picking". Current indications are that the IASB will define unusual items as items which have limited predictive value because it is reasonable to expect that similar items will not arise for several future annual reporting periods.

IASB concludes its research project on principles of disclosure

The IASB has published a document summarizing work undertaken on its Disclosure Initiative – Principles of Disclosure research project. The document summarizes:

- research performed by the Board, including feedback received on the Disclosure Initiative – Principles of Disclosure Discussion Paper published in March 2017;
- conclusions reached in light of that research, including the IASB's decision to undertake a Targeted Standards-level Review of Disclosures project.

The Disclosure Initiative is part of the IASB's wider work under the theme *Better Communication in Financial Reporting*.

IFRS Advisory Council meets

The IFRS Advisory Council met in March 2019, discussing:

- global economic trends and their challenges and threats for the IFRS Foundation and for regulatory bodies;
- balancing the needs of investors and other users of financial statements with those of preparers in the disclosure of corporate sensitive information;
- the strategic alliances of the IFRS Foundation;
- the scope of the IFRS for SMEs standard;
- the self-review of the IFRS Advisory Council.

Grant Thornton was represented at the meeting by Daniel Civit from our French member firm.

IASB Chair gives his view on sustainability reporting

At the start of April 2019, IASB Chair, Hans Hoogervorst, spoke at the Climate-Related Financial Reporting Conference in Cambridge in the UK on the topic of sustainability reporting.

During his speech, he noted that the IASB does not have the expertise to enter the field of sustainability reporting directly but that sustainability issues can nevertheless have an impact that needs to be reflected in financial reporting as it currently is.

On this point, Mr Hoogervorst noted that the IASB had published its Management Commentary Practice Statement back in 2010 and that a lot of developments had taken place since then. These include the International Integrated Reporting Council's <IR> Framework and numerous advances in the environmental, sustainability and governance (ESG) reporting space.

The IASB has therefore started working on a major overhaul of its Practice Statement. The IASB's intention is that the updated Practice Statement will remain primarily focused on the broader financial information needs of investors. Companies will be expected to report on what is strategically important to them, including how remuneration policies align with their long-term objectives. There will however be an increased focus on intangibles and companies will also have to tell how sustainability issues, including climate changes, may impact their business if that impact is material.

Europe

European Financial Reporting Advisory Group (EFRAG) launches consultation on measurement of equity instruments

EFRAG has launched a public consultation to gather views on whether alternative accounting treatments to those set out in IFRS 9 are needed to portray the performance and risks of equity and equity-type instruments held in long-term investment business models.

The consultation forms part of EFRAG's response to the European Commission's (EC) initiatives on sustainable growth, and is in part influenced by concerns that:

- accounting for changes in the fair value of equity instruments through profit or loss might not reflect the business model of long-term investors;
- the election to account for equity instruments at fair value through other comprehensive income may not be attractive to long-term investors because the prohibition on recycling gains and losses to profit or loss may mean they are not able to properly reflect their performance.

The consultation illustrates the accounting requirements currently contained in IFRS 9 and explores some possible alternative measurement approaches. Respondents may also suggest other measurement approaches that they consider appropriate.

Comments on the consultation, which takes the form of a questionnaire, are due by July 5, 2019.

ESMA publishes report on enforcement and regulatory activities of European accounting enforcers in 2018

The European Securities Markets Authority (ESMA) has published the report *Enforcement and Regulatory Activities of Accounting Enforcers in 2018*. The report provides an overview of the activities of ESMA and the accounting enforcers in the European Economic Area (EEA) when examining compliance of financial information provided by issuers during the past year. It also provides an overview of ESMA's contribution to the development of the single rulebook (see below) for corporate reporting purposes.

As in previous years, ESMA together with European enforcers identified, and will include in its supervisory practices, a set of common enforcement priorities for European issuers' 2018 IFRS financial statements. The 2018 priorities focus on:

- specific issues related to the application of IFRS 15;
- specific issues related to the application of IFRS 9;
- disclosure of the expected impact of implementation of IFRS 16.

The 2018 European Common Enforcement Priorities Statement also includes a section addressing non-financial statements, where ESMA identified the following areas of particular focus for the 2018 non-financial statements:

- disclosures relating to environmental and climate change-related matters;
- the requirements to disclose a reasoned explanation in case an issuer has not pursued a policy relating to a certain non-financial matter;
- the importance of disclosing complete information regarding non-financial key-performance indicators.

EC consults on updating its non-binding guidelines on non-financial reporting for climate change

The EC has published a draft supplement to its non-binding guidelines on non-financial reporting. The consultation proposes ways to assess how climate change can impact the financial performance of companies as well as how companies can have positive and negative impacts on the climate. It builds on the report published in January by the Technical Expert Group on Sustainable Finance and stakeholders' responses to the call for feedback on that report.

Once finalized, the new guidelines on climate reporting will supplement the existing guidelines on non-financial reporting that the Commission published in 2017. They are intended for use by companies that fall under the scope of the Non-Financial Reporting Directive, which means large listed companies, banks and insurance companies with more than 500 employees. The Commission intends to publish the final version of the guidelines by the end of June.

United Kingdom

FRC launches consultation into improvements to the reporting of intangibles

The UK's Financial Reporting Council (FRC) has launched a consultation on possible improvements that could be made to the reporting of factors that are important to a business' generation of value.

Against a move to a more knowledge-based economy in the UK and calls to reform the accounting for intangible assets, the consultation paper considers the case for radical change to the accounting for intangible assets and the likelihood of such change being made in the near future. It suggests that:

- relevant and useful information could be provided without the need to recognize more intangible assets in companies' balance sheets;
- such information could cover a range of factors, broader than the definition of intangible assets in accounting standards, that are relevant to the generation of value;
- improvements could be made on a voluntary basis within current reporting frameworks (such as the strategic report);
- participants in the reporting supply chain could collaborate to bring about improvements.

Australia

AASB research paper calls for reform of IAS 36

The Australian Accounting Standards Board (AASB) has published Research Report No. 9 *Perspectives on IAS 36: A case for standard setting activity*. The paper notes that application of the existing version of IAS 36 *Impairment of Assets* has been problematic in practice and, therefore, makes the following recommendations:

1) review IAS 36 in its entirety with a view to issuing a new standard that provides principles that enable users, preparers, auditors and regulators to develop a common understanding of the practical aspects of undertaking the procedures applied to ensure that assets are carried at no more than their recoverable amount;

2) clarify the purpose of the impairment testing requirements and develop guidance explaining what the test is (and is not) intended to achieve;

3) develop a modified single model approach, including specific amendments to:
   a) remove the existing restrictions on Value in Use regarding future restructurings and asset enhancements, and replace those restrictions with guidance on when it would be reasonable to include such cash flows in an impairment model;
   b) reserve the use of a Fair Value Less Costs of Disposal type model for assets expected to be disposed of within the following financial reporting period;
   c) allow the use of a post-tax discount rate;
   d) specifically permit the use of market-based assumptions within the cash flow model such as a forward curve for commodity prices and foreign exchange rates;

4) redraft the guidance as to what constitutes a Cash Generating Unit (CGU) or group of CGUs to strengthen the linkage with how an entity's results are viewed and decisions are made internally;

5) implement the following enhanced disclosure proposals:
   a) provide further guidance on the definition of a key assumption, being those to which the impairment model is most sensitive, to encourage more informative disclosure;
   b) revise the disclosure requirements of IAS 36 to provide more coherent disclosure principles regardless of the method chosen to determine recoverable amount;
   c) incorporate an additional disclosure objective in IFRS 3 *Business Combinations* to provide information to help investors understand the subsequent performance of the acquired business, having regard to the commercially-sensitive nature of the information.

Effective dates of new IFRS and IFRIC interpretations

The table below lists new IFRS and IFRIC interpretations with an effective date on or after January 1, 2018. Entities 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 and IFRIC interpretations with an effective date on or after January 1, 2018

Title	Full title of standard or interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?*
IFRS 17	*Insurance Contracts***	January 1, 2021	Yes
IFRS 3	*Definition of a Business* (Amendments to IFRS 3)	January 1, 2020	Yes
IAS 1/IAS 8	*Definition of Material* (Amendments to IAS 1 and IAS 8)	January 1, 2020	Yes
Various	*Amendments to References to the Conceptual Framework in IFRS Standards*	January 1, 2020	Yes (but need to apply all amendments)
IFRS 16	*Leases***	January 1, 2019	Yes
IFRIC 23	*Uncertainty over Income Tax Treatments*	January 1, 2019	Yes
IFRS 9	*Prepayment Features with Negative Compensation* (Amendments to IFRS 9)**	January 1, 2019	Yes
IAS 28	*Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28)	January 1, 2019	Yes
IAS 12/IAS 23/ IFRS 3/IFRS 11	*Annual Improvements to IFRS Standards 2015–2017 Cycle*	January 1, 2019	Yes
IAS 19	*Plan Amendment, Curtail or Settlement* (Amendments to IAS 19)	January 1, 2019	Yes
IAS 40	*Transfers of Investment Property* (Amendments to IAS 40)	January 1, 2018	Yes
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*	January 1, 2018	Yes

* As a note of caution, to be in accordance with Canadian GAAP and securities regulations, an entity may not early adopt a new or amended IFRS until its issuance by CPA Canada in the *CPA Canada Handbook – Accounting*.

** The Basis for Conclusions, the Illustrative Examples and Guidance of implementing that accompany IFRS 9, IFRS 15, IFRS 16 and IFRS 17, but are non-authoritative, have been added to the *CPA Canada Handbook – Accounting*. The AcSB thinks this material supports the application of IFRS. The AcSB will also add non-authoritative material published by the IASB for other standards in the future.

New IFRS and IFRIC interpretations with an effective date on or after January 1, 2018 (continued)

Title	Full title of standard or interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?*
IFRS 1/ IFRS 12/ IAS 28	*Annual Improvements to IFRS Standards 2014-2016 Cycle*	January 1, 2018 However, the amendments to IFRS 12 are effective from 1 January 2017.	IAS 28 – Yes
IFRS 4	*Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts (Amendments to IFRS 4)	• a temporary exemption from IFRS 9 is applied for accounting periods on or after January 1, 2018 • the overlay approach is applied when entities first apply IFRS 9	N/A
IFRS 9	*Financial Instruments***	January 1, 2018	Yes (extensive transitional rules apply)
IFRS 2	*Classification and Measurement of Share-based Payment Transactions* (Amendments to IFRS 2)	January 1, 2018	Yes
IFRS 15	*Revenue from Contracts with Customers***	January 1, 2018	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 January 1, 2016)	Yes

* As a note of caution, to be in accordance with Canadian GAAP and securities regulations, an entity may not early adopt a new or amended IFRS until its issuance by CPA Canada in the *CPA Canada Handbook – Accounting*.

** The Basis for Conclusions, the Illustrative Examples and Guidance of implementing that accompany IFRS 9, IFRS 15, IFRS 16 and IFRS 17, but are non-authoritative, have been added to the *CPA Canada Handbook – Accounting*. The AcSB thinks this material supports the application of IFRS. The AcSB will also add non-authoritative material published by the IASB for other standards in the future.

Open for comment

This table lists the documents that the IASB currently has out for comment and the comment deadlines.

Current IASB documents

Document type	Title	Comment
Tentative Agenda Decision	Holdings of Cryptocurrencies	May 15, 2019
Tentative Agenda Decision	Costs to Fulfil a Contract (IFRS 15)	May 15, 2019
Tentative Agenda Decision	Effect of a Potential Discount on Plan Classification (IAS 19)	May 15, 2019
Tentative Agenda Decision	Subsurface Rights (IFRS 16)	May 15, 2019
Exposure Draft	*Interest Rate Benchmark Reform* (Proposed Amendments to IFRS 9 and IAS 39)	June 17, 2019
Exposure Draft	*Proposed Amendments to the IFRS Foundation Due Process Handbook*	July 24, 2019
Exposure Draft	*Annual Improvements to IFRS Standards 2018-2020*	August 20, 2019
Exposure Draft	*Reference to the Conceptual Framework (Amendments to IFRS 3)*	September 27, 2019

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