Raymond Chabot Grant Thornton

An instinct for growth™

Accounting

News

Discussion

IFRS Newsletter

December 2018

IFRS Newsletter is your quarterly update on all things relating to International Financial Reporting Standards (IFRS). 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.

The last quarter has been a quiet one for the International Accounting Standards Board (IASB), with just two amendments issued on the *Definition of Material* and the *Definition of a Business*. We therefore consider some topical issues in this final edition of our newsletter for 2018. These include regulators' views on IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*, reverse factoring, and issues related to the discontinuance of LIBOR and other inter-bank offer rates.

Further on in the newsletter, you will find IFRS-related news at Grant Thornton and a general round-up of financial reporting developments. We finish with a summary of the implementation dates of newer standards that are not yet mandatory, and a list of IASB publications that are out for comment.

Contents

IASB amends its definition of "material"

The IASB has issued *Definition of Material* making amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

The amendments are a response to findings that some entities experienced difficulties using the previous definition when judging whether information was material for inclusion in the financial statements. Indeed, up to now, the wording of the definition of material in the Conceptual Framework for Financial Reporting differed from the wording used in IAS 1 and IAS 8. The existence of more than one definition of material was potentially confusing, leading to questions over whether the definitions had different meanings or should be applied differently.

The old definition	Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements.
The new definition	Information is material if omitting, misstating or **obscuring** it could **reasonably be** expected to influence decisions that the **primary users** of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Grant Thornton International Ltd (GTIL) insight – "obscuring"

Including "obscuring" in the definition of material addresses concerns that the former definition could be perceived by stakeholders as focusing only on information that cannot be omitted (material information) and not also on why it may be unhelpful to include immaterial information. This does not mean that entities are prohibited from disclosing immaterial information however.

The amendments give a number of examples of circumstances that may result in material information being obscured.

GTIL insight – "reasonably be"

This wording reflects wording broadly previously used in IAS 1 and helps to address concerns raised by some parties that the threshold "could influence" in the existing definition of material is too low and might be applied too broadly.

GTIL insight – "primary users"

The amendments note that many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed.

The amendments are designed to rectify this problem and make it easier for companies to define materiality judgments. They do this by:

- including in the definition guidance that until now has featured elsewhere in IFRS;
- improving the explanations that accompany the definition;
- ensuring that the definition of material is consistent across all IFRS.

Transition

The changes are effective from January 1, 2020, but entities can decide to apply them earlier.

GTIL comment

The amendments are intended to make the definition easier to understand and are not intended to alter the concept of materiality in IFRS. As such, GTIL does not expect the amendments to change significantly how materiality judgments are made in practice or to significantly affect entities' financial statements. GTIL does however expect that they will improve the understanding of this important area.

IASB amends its definition of a business in IFRS 3 *Business Combinations*

The IASB clarifies the definition of a business in IFRS 3 *Business Combinations*, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

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

The amendments aim to clarify the definition of a business, with the objective that they will lead to more consistency in applying the definition of a business across entities applying IFRS 3.

Accordingly, the amendments:

- clarify that to be considered a business, an acquired set of activities and assets must at leat include an input and a substantive process that together significantly contribute to the ability to create outputs;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- modify the definition of a business by narrowing the definition of outputs, which now focuses on goods and services provided to customers and by removing the reference to an ability to reduce costs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Transition

Amendments apply to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Earlier application is permitted.

Reminder: IFRS 16 *Leases*

Having had to deal with the implementation of both IFRS 9 and IFRS 15 in 2018, companies could be forgiven for thinking that the biggest changes in financial reporting are behind them. This, however, would be to forget IFRS 16, which is mandatory for accounting periods beginning on or after January 1, 2019.

While most companies will be well aware of the changes and will have already taken steps to start implementing them, we give you a brief overview of the most significant changes below

IFRS 16 is the result of the IASB's long-running project to overhaul lease accounting, representing the first major change to lease accounting in over 30 years. It replaces IAS 17 *Leases* along with three interpretations (IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*). IFRS 16 will require lessees to account for leases "on balance sheet" by recognizing a "right-of-use" asset and a lease liability. For many businesses, however, exemptions for short-term leases and leases of low-value assets will greatly reduce the impact.

IFRS 16 also:

- changes the definition of a lease;
- sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods;
- changes the accounting for sale and leaseback arrangements;
- largely retains IAS 17's approach to lessor accounting;
- introduces new disclosure requirements.

The table summarizes the main changes at a glance:

IFRS 16 *Leases* at a glance

Issue	Other factors to consider
Who is affected?	• Entities that lease assets as a lessee or a lessor.
What's the impact on leases?	• All leases will be accounted for "on balance sheet", except short-term and low-value asset leases; • Lease expense will typically be "front-loaded"; • Lease liability will exclude: – option periods, unless exercise is reasonably certain; – contingent payments that are linked to sales/usage and future changes in an index/rate.
What's the impact on lessors?	• Only minor changes from the current standard – IAS 17.
Are there other changes?	• A new definition of a lease will result in some arrangements previously classified as leases ceasing to be so, and vice versa; • New guidance on sale and leaseback accounting; • New and different disclosures.
When are the changes effective?	• Annual periods beginning on or after January 1, 2019; • Various transition reliefs; • Early application is permitted.

UK Regulator advises on IFRS 9 and IFRS 15 disclosures

The UK's accounting regulator, the Financial Reporting Council, has written an open letter to Finance Directors and Audit Committee Chairs in the UK.

The letter calls for improvements in a number of key areas of corporate reporting, but will be particularly interesting for readers around the world for the advice it sets out on the two new accounting standards, IFRS 9 and IFRS 15, that are effective for December 2018 year-ends.

IFRS 9 *Financial Instruments*

IFRS 9 will of course have the biggest impact on the reporting by banks and other financial institutions (see our article *ESMA Chair comments on the challenges of applying IFRS 9's expected credit loss model*). The Financial Reporting Council (FRC) letter is of particular interest however in that it looks at the impact on non-banking companies (the FRC will address the impact on banks in a separate report).

For non-banking companies, the FRC expects them to:

- have updated their hedging documentation and assessed the effectiveness of existing hedges on application of the new requirements;
- explain and, where possible, quantify material differences between IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9, including key assumptions adopted on implementation;
- remember that the scope of the impairment requirements has been extended to include, for example, IFRS 15 contract assets and lease receivables, and will also apply to loans to subsidiaries and other undertakings in individual parent company accounts;
- take particular care when considering the application of the standard to embedded derivatives and the different treatment required where the host contract is a financial asset compared to where it is a financial liability;
- reconsider the accounting for previous debt modifications, such as refinancing, that did not result in derecognition;
- reflect the additional disclosure requirements of IFRS 7 *Financial Instruments: Disclosures*;
- if relevant, explain why the impact is not material, particularly where significant financial instruments are recognized in the accounts.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 15 *Agreements for the Construction of Real Estate* and all other revenue-related interpretations.

The FRC's letter encourages companies to invest sufficient time during their year-end preparation to ensure that:

- explanations of the impact of transition are comprehensive and linked to other relevant information in the annual report and accounts;
- changes to revenue policies are clearly described and explained, reflecting company-specific information – as are any associated management judgments;
- performance obligations, a new concept introduced by IFRS 15, are identified and explained, with a focus on how they have been determined and the timing of delivery to the customer;
- the impact of the standard on the balance sheet is also addressed, including accounting policies for contract assets and liabilities.

ESMA Chair comments on the challenges of applying IFRS 9's expected credit loss model

IFRS 9 only started to apply in practice for reporting period beginning on or after January 1, 2018 and in many cases, implementation of the standard is still being fine-tuned.

One of the biggest changes introduced by the standard relates to its impairment requirements. In determining those requirements, the IASB's aim was to rectify a major perceived weakness in accounting that became evident during the financial crisis of 2007/8, namely that the previous standard, IAS 39, resulted in "too little, too late" – too few credit losses being recognized at too late a stage.

Many people felt that IAS 39's "incurred loss" model delayed the recognition of impairment until objective evidence of a credit loss event had been identified. IFRS 9's impairment requirements therefore use more forward-looking information to recognize expected credit losses (ECL) for all debt-type financial assets that are not measured at fair value through profit or loss.

In a keynote speech at the Banco de España – CEMFI – FSI High-Level Conference in Madrid, Spain, Steven Maijoor, Chairman of the European Securities and Markets Authority (ESMA), welcomed the new provisioning model while commenting on its implementation challenges and financial stability implications.

In introducing his speech, which he pragmatically titled *Better to be good and on time than perfect and late: replacing incurred loss by expected loss*, Maijoor noted that ESMA has found the quantitative impact of IFRS 9 to be relatively modest so far.

In ESMA's view however, the relatively modest impact needs to be assessed with caution given that economic forecasts may have been impacted by relatively benign economic conditions in the last couple of years and the optimism which has accompanied that.

The effect of benign economic conditions

In his speech, he drew attention to ESMA's view that the calculation of the point-in-time ECL, used for accounting purposes, reflects those current economic conditions and that this may prove to be too optimistic as they are based on the extrapolation of the benign economic outlook triggered by a prolonged period of accommodative monetary policy and low interest rates.

Continuing on this theme, he noted that multiple scenarios need to be reflected in the ECL modelling, given the non-linear nature of credit losses in response to a deteriorating economic outlook. The repricing of risk premia and potential increase of interest rates in particular are key factors that could negatively affect financial institutions.

Realistic scenario analysis and transparency on the assumptions made play a key role in the proper application of the provisioning model. It is important that all relevant risks identified are reflected in ECL models.

In the event of a downturn in economic conditions, assumptions underpinning the ECL calculation might need to be revisited leading to a cumulative catch-up adjustment in the provisions which will be calculated for a longer estimated lifetime. Such development would, in Mr Maijoor's view, directly contradict the objective of IFRS 9 to reduce the cliff effect inherent in IAS 39's incurred loss model. In order to address the issue, realistic scenario analysis and transparency on the assumptions made play a key role in the proper application of the provisioning model. It is therefore important that all relevant risks identified are reflected in ECL models.

Transparency

Another key feature of Mr Maijoor's speech was highlighting the importance of disclosing material assumptions and judgments made in estimating ECL in order to enable users to understand the approach to the ECL calculation. Some of the key disclosures include:

Key disclosures	Summary
Assessment of the significant increase in credit risk (SICR)	• Financial institutions should disclose their approach to setting the criteria for identifying SICR for material portfolios; • Such disclosures should provide sufficient transparency on the qualitative and quantitative factors taken into account in the determination of SICR and provide transparency on the extent to which the SICR was assessed at portfolio level; • The way such a portfolio approach is used should be disclosed and explained.
Incorporation of forward-looking information in the ECL model	• Financial institutions should explain how they are taking into account forward-looking information in determining the ECL.
Use of multiple scenarios for calculating the ECL	• Disclosing the information on the multiple scenarios means entities will capture the non-linear nature of the credit losses under a downturn scenario.

Replacement of IBORs

Interbank offer rates or IBORs are floating rates based on actual or estimated interbank offering rates for short-term loans. They have been under challenge since the financial crisis, partly as the result of the LIBOR Rigging Scandal and partly due to a decline in liquidity in the unsecured interbank lending market.

In the next few years, many IBORs are expected to be replaced by new benchmark risk free rates (RFRs). For example, in the UK, the Bank of England has decided to no longer compel banks to participate in the GBP LIBOR submission process post 2021, although it is anticipated that GBP LIBOR will remain supported to some degree. Many existing contracts which reference GBP LIBOR will have maturity dates exceeding 2021 when the observability of LIBOR could be uncertain.

These prospective changes bring with them a number of accounting issues. Because IBORs represent actual or purported interbank loans, they implicitly reflect counterparty credit risk and liquidity considerations. The RFRs that regulatory agencies have selected to supersede the IBORs, on the other hand, are generally overnight rates which do not reflect a term structure. In addition, they are intended to be riskless and therefore do not reflect credit risk.

Hedge accounting

One of the biggest issues presented by the replacement of IBORs is the potential effect on hedge accounting.

Both IFRS 9 and its predecessor standard IAS 39 require formal designation of a hedging relationship at its inception. The replacement of IBORs raises questions such as:

- Where an entity designates IBOR cash flows, will it be possible to make the assertion that those cash flows will still occur in a hedge of highly probable future cash flows?
- If an entity designates the hedged item in a cash flow hedge as (for example) three-month IBOR risk, will it need to discontinue hedge accounting where the future variable cash flows extend beyond the date at which the relevant IBOR is expected to be replaced (e.g., 2021 for GBP LIBOR)?
- If an entity designates the hedged risk as IBOR in the original hedge designation, can it change the designated risk to a new overnight rate under the same hedge relationship?

We believe that in terms of December 2018 year-ends, it will generally be acceptable to continue with hedge accounting for existing relationships.

Our view is based on there still being highly probable cash flows in the future. These may not necessarily be LIBOR cash flows; however, the intention is that the replacement of LIBOR will be on equivalent terms that are intended to be neutral to both counterparties.

Discussion of these issues is very much continuing, and the IASB has launched a research project to consider the issue. The views we express below should therefore be read in that light and are therefore very much framed in terms of the latest thinking.

Having made these remarks, we believe that in terms of December 2018 year-ends, it will generally be acceptable to continue with hedge accounting for existing relationships in the situations referred to above.

Our view is based on there still being highly probable cash flows in the future. These may not necessarily be LIBOR cash flows; however, the intention is that the replacement of LIBOR will be on equivalent terms that are intended to be neutral to both counterparties. Furthermore, as of the time of writing, the market is still quoting LIBOR for dates that extend beyond the date of its intended replacement. In view of this, we believe it will generally be acceptable to continue with hedge accounting for 2018 year-ends. This is not to say that the issue will not become problematic at some point in 2019, and disclosure of the potential impact is advisable in the meantime. Over time, sources of ineffectiveness could also develop, for instance, if changes to an RFR index in a hedged item are not aligned in timing with the change to an RFR index in the related hedging instrument.

Another issue is that many existing hedge relationships will describe the hedged risk in the hedge documentation as "IBOR". Entities may then be tempted to change the hedge documentation to refer to a new replacement index as the hedged risk. Both IFRS 9 and IAS 39 however appear to require hedge accounting to be discontinued should such a change be made, which could result in adverse accounting consequences. This is an issue which the IASB may address in due course. In the meantime however, corporates may wish to avoid making such changes in the hedge designation documentation.

Modification or extinguishment of a financial instrument

Another issue relates to reporting entities with loan liabilities that reference an IBOR. The terms of these instruments will need to change in the future when the IBOR is replaced.

Our preference would be to account for such a change on a prospective basis, updating the effective interest rate on the instrument to reflect the new benchmark rate and any corresponding change to the spread. Both IAS 39 and IFRS 9 state that if a floating-rate financial asset or a floating-rate financial liability is recognized initially at an amount equal to the principal receivable or payable on maturity, re-estimating the future interest payments normally (for example, as a result of using IBOR replacement) has no significant effect on the carrying amount of the asset or the liability. Accordingly, no change to the carrying amount would be expected.

We are aware however that alternative views exist. For example, an argument could be made for treating the change as a modification of the instrument, requiring the new cash flows of the debt to be discounted at the original effective interest rate, with the difference from the previous carrying amount being recognized as a gain or loss.

An argument could also be made for treating the change as an extinguishment event, with the original instrument being derecognized and a new one recognized in its place. If this approach were taken, a gain or loss would be recognized in the income statement for the difference between the carrying value of the old instrument and the fair value of the new instrument.

Entities should also be aware that while the intention is that the replacement of IBORs will be on equivalent terms that are intended to be neutral to both counterparties, it is possible that additional changes may be made to loan contracts by the counterparties. If this is the case, the analysis will be more complex and different outcomes could arise.

Final words

As mentioned, the discussion in this area is ongoing and the IASB has launched a research project which may eventually bring clarity to the items discussed. The views we have expressed above should therefore be read in that light.

Reverse factoring

Regulators are increasingly looking at reverse factoring arrangements, which have become common in some jurisdictions in response to public policy initiatives aimed at encouraging prompt payment to suppliers.

While the commercial rationale for these arrangements varies, a common feature is that they are designed to benefit both the buyer and the supplier in liquidity terms.

One of the key accounting and presentation issues is whether the liability of a buyer to pay a bank for goods it has received from the supplier should continue to be recognized as a trade or other payable, or whether it needs to be treated as a debt or borrowing in the balance sheet. This has consequent implications in terms of the statement of cash flows, in particular whether the cash flows associated with such arrangements should be presented as "operating" or "financing" cash flows.

Regulators have encouraged comprehensive disclosures about such arrangements, particularly in situations where entities have decided against reclassifying them in the balance sheet and statement of cash flows. Such disclosures may cover the nature and amount of any material funding arrangement and the impact that is has on the company's liquidity. Without proper disclosure, transparency over the use (and even the existence) of such arrangements would be lacking.

Argentina declared hyperinflationary

IAS 29 *Financial Reporting in Hyperinflationary Economies* requires the financial statements of any entity whose functional currency is hyperinflationary to be restated for changes in its general purchasing power.

In the last edition of *IFRS Newsletter*, we discussed the status of the country and our expectation that Argentina would be declared hyperinflationary in the second half of 2018. Following the receipt of the latest monthly inflation figures, we can now confirm our view that the country should be considered hyperinflationary for IFRS purposes for reporting periods beginning on or after July 1, 2018. For entities reporting quarterly, this will mean that the quarter ended September 30, 2018 will need to be accounted for in accordance with the requirements of IAS 29.

As a reminder, IAS 29 requires that amounts in the statement of financial position that are not already expressed in terms of the measuring unit current at the end of the reporting period are restated by applying a general price index. In summary:

- assets and liabilities linked by agreement to changes in prices, such as index-linked bonds and loans, are adjusted in accordance with the agreement;
- non-monetary items carried at amounts current at the end of the reporting period, such as net realizable value and fair value, are not restated;
- all other non-monetary assets and liabilities are restated;
- monetary items are not restated because they are already expressed in terms of the monetary unit current at the end of the reporting period. Monetary items are money held and items to be received or paid in money.

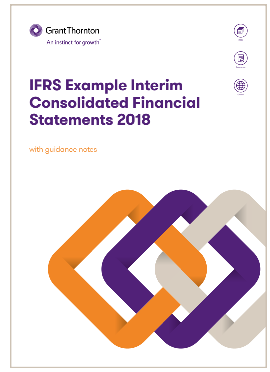
We will be issuing guidance on some of the specific challenges presented by the application of IAS 29 to Argentina in the near future.

For entities reporting quarterly, this will mean the quarter ended September 30, 2018 will need to be accounted for in accordance with the requirements of IAS 29.

Grant Thornton IFRS news

IFRS Example Consolidated Financial Statements 2018

The GTIL Global IFRS Team has published its IFRS Example Consolidated Financial Statements 2018.



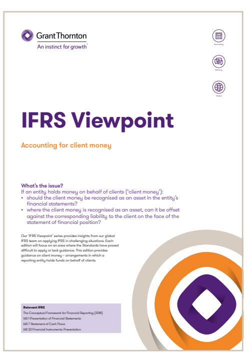
The Example Consolidated Financial Statements are based on the activities and results of Illustrative Corporation and subsidiaries – a fictional consulting, service and retail entity that has been preparing IFRS financial statements for several years. The objective in preparing these Example Consolidated Financial Statements is to illustrate one possible approach to financial reporting by an entity engaging in transactions that are typical across a range of non-specialist sectors.

Since the last edition, the publication has been reviewed and updated to reflect changes in IFRS that are effective for the year ending December 31, 2018. These include the adoption of IFRS 9 and IFRS 15, which both became effective for accounting periods beginning on or after January 1, 2018. No account has been taken of any new developments published after September 30, 2018.

To obtain a copy of the document, please refer to our *Adviser Alert* on the subject.

New *IFRS Viewpoint* on client money

The GTIL Global IFRS Team has issued a new *IFRS Viewpoint* on the accounting for client money.



The GTIL Global IFRS Team has issued a new *IFRS Viewpoint* on the accounting for client money.

The *IFRS Viewpoint* series provides insights on applying IFRS in challenging situations. Each edition focuses on an area where the standards have proved difficult to apply or lack guidance. The latest edition looks at the challenging issue of accounting for client money.

The term "client money" is used to describe a variety of arrangements in which the reporting entity holds funds on behalf of clients. Our view is that entities should recognize client money as an asset (and an associated liability) if the general definition of an asset contained in the Conceptual Framework for Financial Reporting (2018) is met.

The definition of an asset

The Conceptual Framework for Financial Reporting (2018) defines an asset as "a present economic resource controlled by the entity as a result of past events", with an economic resource being defined as "a right that has the potential to produce economic benefits".

Determining whether the definition is met

Determining whether this definition is met requires a careful analysis of the contractual terms and conditions and economic substance of the arrangements for holding client money to determine whether the client money:

- is a resource controlled by the reporting entity;
- confers a right that has the potential to produce economic benefits to the reporting entity.

The implications of meeting the definition

If both conditions apply, the client money should be recognized as an asset of the reporting entity. This determination may involve significant judgment in which case appropriate disclosures should be made in accordance with IAS 1.

If a client money arrangement results in recognizing cash at a bank as an asset and an associated liability to a client, it will not be appropriate to offset those items in most circumstances.

Want to know more?

To obtain a copy of the document, please refer to our *Adviser Alert* on the subject.

Raymond Chabot Grant Thornton presents a webinar on IFRS developments

In December 2018, Raymond Chabot Grant Thornton gave a webinar on IFRS developments to clients and business contacts. The presentation (in French) was made by Louise Roy, Diane Joly and Brian Toman, all Senior Managers and members of Raymond Chabot Grant Thornton's Risk Management and Accounting Research Department.

The online event presented an overview of the past year's IFRS-related activities by the IASB, the IFRS Interpretations Committee and the Canadian regulators as well as practical issues related to cryptocurrencies. You can watch the webinar or download the presentation used during the event (both in French) by going to: *https://www.rcgt.com/en/insights/webinar-2018-ifrs-developments-upgrade-knowledge/*.

Spotlight on the Financial Instruments Specialists' Support Group

Grant Thornton's Financial Instruments Specialists' Support Group (the "Group") has been established for the purpose of promoting consistent, high quality application of IFRS in the area of financial instruments across the network.

The Group provides a forum for our member firms to bring their own financial instrument-related accounting issues for discussion. It also provides input to the GTIL Global IFRS Team on selected issues, including consultation documents published by the IASB. In this edition, we throw a spotlight on Alan Chapman, one of the representatives from our UK member firm, Grant Thornton UK LLP.

Alan Chapman

Alan Chapman is Head of Financial Instruments Reporting at Grant Thornton UK LLP, working within National Assurance Services, which is the UK firm's national unit responsible for technical expertise in financial reporting and auditing.

Alan is a financial reporting specialist on both UK generally accepted accounting principles (GAAP) and IFRS. He has significant experience in financial instruments accounting, dealing with a large number of complex issues such as financial liability versus equity classification, accounting implications of complex financing structures, debt restructuring and hedge accounting. Alan has extensive experience of both IAS 39 and IFRS 9.

In 2016, he was appointed to the European Financial Reporting Advisory Group (EFRAG) Financial Instruments Working Group, which provides support to the EFRAG Technical Expert Group on financial instrument reporting issues.

Roundup

IASB

Proposed deferral of effective date for IFRS 17

The IASB approved in November 2018 a proposal for a one-year deferral of the effective date for new IFRS 17 *Insurance Contracts*, to 2022. The proposal also includes an extension to 2022 of the temporary exemption for insurers to apply IFRS 9, so that both IFRS 9 and IFRS 17 be applied at the same time. The proposed deferral is subject to public consultation, which is expected next year.

IASB Chair contemplates overhaul of goodwill accounting

In August, IASB Chairman, Hans Hoogervorst, visited Japan where he spoke at an event hosted by the Accounting Standards Board of Japan.

As well as discussing the adoption of IFRS around the world, his speech covered the accounting for goodwill, a topic of particular interest in Japan, where the amortization of goodwill still exists.

The IASB has been discussing the issue of goodwill following the Post-implementation Review of IFRS 3 *Business Combinations*. Initially, the Board did not intend to revisit the idea of re-introducing amortization of goodwill, feeling that there was insufficient new evidence to merit investigating such an idea. However, in its July board meeting, the IASB decided to include a comprehensive analysis of the accounting for goodwill in an upcoming discussion paper, including a discussion of the possibility of re-introducing amortization.

The Post-implementation Review identified a couple of problems with the impairment-only approach to goodwill. Some of these shortcomings were already known:

- The annual impairment test is both costly and subjective;
- The projections of future cash flows from cash generating units are often overly optimistic, meaning impairment losses tend to be identified too late;
- When an impairment loss is finally booked, the resulting information only has weak confirmatory value for investors.

In his speech, Mr Hoogervorst noted that these were all good reasons for the IASB to bring the question of re-introduction of amortization of goodwill back to its stakeholders in the form of a discussion paper. He stressed however that it is far from a foregone conclusion that the discussion paper will lead to a re-introduction of amortization.

Presenting the other side of the argument, he noted that there were many good reasons why the IASB had eliminated amortization back in 2004:

- The information value of amortization is very low as it is impossible to objectively determine the timeline over which amortization should occur;
- Goodwill is an asset with indefinite life and, in some cases, its value might not decrease over time;
- Many investors will ignore amortization and will immediately add it back in their projections (problematic given the IASB's efforts to push back on non-GAAP measurements).

Finally, he noted that any major accounting change needs to pass a clear cost-benefit analysis and that it is not immediately clear that the re-introduction of amortization would clear that hurdle.

IASB (cont.)

IFRIC discusses cryptocurrencies

The IFRS Interpretations Committee (IFRIC) discussed in its September meeting how an entity might apply existing IFRS in determining its accounting for holdings of cryptocurrencies and Initial Coin Offerings. The Committee's initial discussions regarding the appropriate accounting under current standards were consistent with those expressed in the May 2018 *IFRS Viewpoint Accounting for cryptocurrencies – the basics*, namely that holdings of cryptocurrency assets should be accounted for either under IAS 2 *Inventories* or IAS 38 *Intangible Assets*.

Having covered this point, IFRIC discussed whether this provided useful information and what possible standard-setting activities the IASB could undertake. The IASB will consider the Committee's advice when it discusses the matter at a future meeting.

Canada

Canadian IFRS Discussion Group: Report on the June 2018 public meeting

At its June 21, 2018 meeting, the IFRS Discussion Group (IDG) discussed several issues of interest for Canadian preparers of financial statements in accordance with IFRS. The Report on the public meeting and the archived audio webcast have been made available. As a reminder, the IDG is a discussion forum and its purpose is to assist the Canadian Accounting Standards Board (AcSB) with issues arising with the application of IFRS in Canada.

Europe

Three European Supervisory Authorities write to EFRAG on IFRS 17

The Chairs of the three European Supervisory Authorities (ESAs) have sent a letter to the EFRAG President expressing concerns on the endorsement process relating to IFRS 17 and urging its timely completion.

The three ESAs have consistently highlighted the importance of replacing the current accounting standard for insurance contracts, IFRS 4, which they see as being unable to facilitate comparable and transparent financial statements of insurance entities in Europe.

While not expressing any detailed technical views on IFRS 17 itself, they noted their concern with EFRAG's processes relating to the endorsement advice for the standard. In particular, they noted in the letter that they would have expected a more transparent decision-making process around the EFRAG Board letter to the IASB (see below), which urges the IASB to change key building blocks of IFRS 17, and a more in-depth discussion of the technical analysis of EFRAG's Technical Expert Group.

They also reiterated the need for EFRAG to continue to progress and to finalize the analysis of IFRS 17 in a timely manner against the background of its effective date of January 1, 2021.

EFRAG writes to the IASB on IFRS 17

In September, EFRAG wrote to the IASB as it prepares its draft endorsement advice on use of IFRS 17 within Europe. The letter highlights certain aspects of IFRS 17 that EFRAG believes merit further consideration by the IASB based on the extensive outreach it has undertaken. These include:

- acquisition costs (for costs incurred in expectation of contract renewals);
- Contractual Service Margin amortization (impact on contracts that include investment services);
- reinsurance (onerous underlying contracts that are profitable after reinsurance, contract boundary for reinsurance contracts where underlying contracts are not yet issued);
- transition (extent of relief offered by modified retrospective approach and challenges in applying fair value approach);
- annual cohorts (cost-benefit trade-off, including for contracts to which the variable fee approach applies);
- balance sheet presentation (cost-benefit trade-off of separate disclosure of groups in an asset position and groups in a liability position and non-separation of receivables and/or payables).

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, 2017. 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 and IFRIC interpretations with an effective date on or after January 1, 2017

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
IAS 1/IAS 8	*Definition of Material* (Amendments to IAS 1 and IAS 8)	January 1, 2020	Yes
IFRS 3	*Definition of a Business* (Amendments to IFRS 3)	January 1, 2020	Yes
N/A	*Conceptual Framework for Financial Reporting*	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, Curtailment 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, 2017 (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 January 1, 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* (2014)**	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
N/A	*Practice Statement 2: Making Materiality Judgements*	September 14, 2017	No
IAS 7	*Disclosure Initiative* (Amendments to IAS 7)	January 1, 2017	Yes
IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses* (Amendments to IAS 12)	January 1, 2017	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. GTIL aims to respond to each of these publications.

Current IASB documents

Document type	Title	Comment
Discussion Paper	Financial Instruments with Characteristics of Equity	January 7, 2019

Raymond Chabot Grant Thornton

An instinct for growth™

www.rcgt.com

About Raymond Chabot Grant Thornton

Raymond Chabot Grant Thornton LLP is a leading accounting and advisory firm providing audit, tax and advisory services to private and public companies. Together with Grant Thornton LLP in Canada, Raymond Chabot Grant Thornton LLP has approximately 4,400 people in offices across Canada. Raymond Chabot Grant Thornton LLP is a member firm within Grant Thornton International Ltd (Grant Thornton International). Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by the member firms.