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# IFRS News

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

In this second edition of the year, we look at developments relating to IFRS 11 Joint Arrangements; Exposure Drafts and other items in the IASB's pipeline; IFRS-related news at Grant Thornton; and a general round-up of financial reporting developments.

You can find out about the implementation dates of newer Standards that are not yet mandatory towards the end of the document, as well as a list of IASB publications that are out for comment.

# IFRIC agenda decisions on IFRS 11

## While no new Standards or amendments to Standards have been issued so far in 2015, the IASB's IFRS Interpretations Committee (IFRIC) has been busy with the publication of a batch of agenda decisions relating to IFRS 11 'Joint Arrangements'.

The IFRIC receives numerous requests for interpretations of IFRS. It examines these issues but in many cases decides not to develop a formal IFRIC Interpretation. This decision is made public by issuing an agenda decision rejecting the item (sometimes referred to colloquially as a 'rejection note'). These are issued first as tentative decisions and then either confirmed or amended following a 30-day comment period. They sometimes include the IFRIC's views on how IFRS should be applied. While the IFRIC has made it clear that IFRIC agenda decisions are not officially part of IFRS, they are nonetheless an important source of guidance. Several questions on IFRS 11 were submitted to the IFRIC, and have now resulted in agenda decisions. Accordingly these decisions are an important source of guidance on IFRS 11 and are outlined in the table.

**IFRS 11 guidance**

| Subject | Issue | Summary of discussion |
|---|---|---|
| **Classification of joint arrangements: the assessment of other facts and circumstances** | How and why particular facts and circumstances create rights and obligations | The classification of different types of joint arrangements as either 'joint ventures' or 'joint operations' is a key feature of IFRS 11. One part of this, which applies when an arrangement is structured through a separate vehicle, is the so-called 'other facts and circumstances' assessment. This assessment has led to many questions and the IFRIC therefore considered how it should be applied. The IFRIC concluded that the assessment should focus on whether those facts and circumstances create enforceable rights to the assets and obligations for the liabilities.<br>The IFRIC also clarified how and why these particular facts and circumstances create rights to the assets and obligations for the liabilities.<br>The IFRIC noted here that the assessment of other facts and circumstances is performed when there is no contractual arrangement to reverse or modify the rights and obligations conferred by the legal form of the separate vehicle. The assessment thus focuses on whether the other facts and circumstances establish, for each party to the joint arrangement, rights to the assets and obligations for the liabilities relating to the joint arrangement.<br>In summary this is when:<br>a) each party to the joint arrangement has rights and obligations relating to economic benefits of the assets of the arrangement (eg where the entity has the rights to substantially all the 'output' and is obliged to acquire that output); and<br>b) each party is obliged to provide cash to the arrangement through enforceable (ie legal or contractual) obligations, which is used to settle the liabilities of the joint arrangement on a continuous basis.<br><br>If this is the case, a joint arrangement structured through a separate vehicle is classified as a joint operation. |

**IFRS 11 guidance (continued)**

| Subject | Issue | Summary of discussion |
|---|---|---|
| **Classification of joint arrangements: the assessment of other facts and circumstances** | Implications of 'economic substance' | A related discussion looked at whether the concept of 'economic substance' may not be consistently understood or applied in practice with regard to the assessment of other facts and circumstances.<br>The IFRIC noted here that the consideration of other facts and circumstances is not a test of whether each party to the joint arrangement is closely or fully involved with the operation of the separate vehicle, but is instead a test of whether other facts and circumstances override the rights and obligations conferred upon the party by the legal form of the separate vehicle.<br>The IFRIC therefore determined that the assessment of other facts and circumstances should be undertaken with a view towards whether those facts and circumstances create enforceable rights to assets and obligations for liabilities. |
| **Application of other facts and circumstances test to specific fact patterns** | Output sold at a market price | The IFRIC considered whether the fact that the output from the joint arrangement is sold to the parties of the joint arrangement at a market price prevents the joint arrangement from being classified as a joint operation, when assessing other facts and circumstances.<br>The IFRIC observed that the sale of output from the joint arrangement to the parties at market price is not on its own a determinative factor for the classification of the joint arrangement. Accordingly judgement is needed in this situation. In making the assessment the parties should consider, among other things, whether the cash flows from the sale of output at market price would be sufficient to enable the joint arrangement to settle its liabilities on a continuous basis. |
| | Financing from a third party | The IFRIC considered whether financing from a third party prevents a joint arrangement from being classified as a joint operation.<br>The IFRIC noted that if the cash flows to the joint arrangement from the sale of output to the parties, along with any other funding that the parties are obliged to provide, satisfy the joint arrangement's liabilities, then third-party financing alone would not affect the classification of the joint arrangement. |
| | Nature of output (ie fungible or bespoke output) | The IFRIC considered whether the nature of the output (ie fungible or bespoke output) produced by the joint arrangement determines the classification of a joint arrangement when assessing other facts and circumstances.<br>The IFRIC noted that whether the output produced is fungible or bespoke is not a determinative factor for the classification of the joint arrangement. |
| | Determining the basis for 'substantially all of the output' | The IFRIC considered whether volumes or monetary values of output should be the basis for determining whether the parties to the joint arrangement are taking 'substantially all of the output' from it when assessing other facts and circumstances.<br>The IFRIC's conclusion was that the assessment is based on the monetary value of the output, instead of physical quantities. |
| **Classification of joint arrangements: consideration of two joint arrangements with similar features that are classified differently** | | The IFRIC discussed a circumstance in which two joint arrangements would be classified differently when they have similar features, apart from the fact that one is structured through a separate vehicle and the other is not (in circumstances in which the legal form confers separation between the parties and the separate vehicle).<br>This could happen because:<br>a) the legal form of a joint arrangement structured through a separate vehicle must be overridden by other contractual arrangements or specific other facts and circumstances for the joint arrangement to be classified as a joint operation; but<br>b) a joint arrangement that is not structured through a separate vehicle is classified as a joint operation.<br>The IFRIC thought that such different accounting would not conflict with the concept of economic substance because the presence of a separate vehicle plays a significant role in determining the nature of the rights and obligations of the parties to the joint arrangement. |

## Grant Thornton International Ltd comment

IFRS 11's guidance on assessing 'other facts and circumstances' (OFC) – one part of its classification requirements – has proved challenging to apply in practice. Some commentators have taken the view that the OFC guidance results in classification as a joint operation only in very specific circumstances – essentially when the joint operators have contractual obligations to purchase substantially all the output. Others believed the guidance is broader and that purchasing all the output is just one example of its application. The IFRIC has come down on the side of this narrower view. IFRIC agenda decisions carry weight as being the opinion of the IFRIC arrived at after IFRIC discussion and a brief public exposure period. This batch of decisions on IFRS 11 are therefore significant.

Where consideration of these decisions leads an entity to change its accounting, we recommend that an entity should apply IAS 8 and provide proper and sufficient disclosure on the reasons for the change, having regard to the particular facts and circumstances of the individual case, including reference to the IFRIC agenda decision note. We would not expect such changes to be treated as the correction of an accounting error however given the previous lack of clarity in the Standard.

**IFRS 11 guidance (continued)**

| Subject | Issue | Summary of discussion |
|---|---|---|
| **Accounting by the joint operator** | Recognition of revenue by a joint operator | The IFRIC considered whether a joint operator should recognise revenue in relation to the output purchased from the joint operation by the parties (this relates to the application of the requirement in IFRS 11.20(d) for a joint operator to recognise its share of the revenue from the sale of the output by the joint operation).<br>The IFRIC concluded here that IFRS 11.20(d) would result in the recognition of revenue by a joint operator only when the joint operations sells its output to third parties. |
| | The accounting treatment when the joint operator's share of output purchased differs from its share of ownership interest in the joint operation | The IFRIC considered whether the joint operators' share of assets, liabilities, revenue and expenses should reflect the percentage of ownership of the legal entity, or the percentage of output purchased by each joint operator.<br>The IFRIC noted that that if the joint operators made a substantial investment in the joint operation that differed from their ownership interest, there may be other elements of the arrangements that could explain why there is a difference between the percentage of ownership interest and the percentage share of the output produced, which each party is obliged to purchase. It noted that the identification of the other elements may provide relevant information to determine how to account for the difference between the two, and that judgement is therefore needed. |
| **Accounting in separate financial statements** | Accounting by the joint operator in its separate financial statements | The IFRIC considered how a joint operator should in its separate financial statements account for its share of assets and liabilities of a joint operation when that joint operation is structured through a separate vehicle.<br>The IFRIC observed here that the joint operator would account for its interest in the joint operation in the same way in its separate and its consolidated financial statements. Accordingly, it would not recognise its shareholding in the separate vehicle in its separate financial statements. |
| **Accounting by the joint operation** | Accounting by the joint operation that is a separate vehicle in its financial statements | Where a joint arrangement has been structured through a separate vehicle but is classified as a joint operation, the IFRIC considered whether the financial statements of the joint operation itself should recognise the same assets and liabilities that have been recognised by the joint operators for their share of the joint operation.<br>The IFRIC noted that IFRS 11 applies only to the accounting by the joint operators and not to the accounting by the separate vehicle that is a joint operation. Company law often requires a legal entity/separate vehicle to prepare financial statements and the reporting entity for the financial statements would therefore include the assets, liabilities, revenues and expenses of that legal entity/separate vehicle. |

# Lease accounting

## The IASB continues to work on its leasing project, with a new ‘Leases’ Standard expected to be published before the end of 2015.

Recent work has concentrated on the definition of a lease and accompanying guidance to help entities assess whether a contract is, or contains, a lease. Both focus on whether a customer controls the use of an asset. A lease exists when the contract depends on the use of a specific asset, and the customer can direct the use of the asset and obtain substantially all the benefits from it over the period.

In contrast, for a service contract the supplier retains control of the use of any items needed to deliver the service, even if those items are located at the customer’s premises. A contract will not contain a lease if the supplier has a right to substitute the asset(s) used and that right is substantive.

Frequently both leases and services are combined in a contract. These will be required to be separated. However, a lessee can choose not to separate services from a lease and, instead, account for the entire contract as a lease. Entities would be expected to make this election only when the service components of contracts are small.

The IASB has also confirmed that the new Leases Standard will include an exemption for small assets (the Standard is expected to indicate that the exemption is intended for assets costing less than $5,000, and will emphasise that the asset must be standalone, not dependent on other assets). It is intended to offer relief from tracking and capitalising things like photocopiers.

### Example: Telecommunications contract

A telecommunications company enters a two year contract to provide a retail company with network services. As part of the contract, the telecommunications company installs network servers on the retail company’s premises. The retail company does not operate the servers and cannot alter them, the maintenance of the servers being the responsibility of the telecommunications company.

The contract would not be within the scope of the proposed new Leases Standard as it is a contract for services. The telecommunications company determines how and for what purpose the servers are used by being able to reconfigure or replace the servers during the contractual term. In contrast, the trading company cannot change the purpose for which the servers are used.

# IASB proposes changes to IAS 1

The IASB has published an Exposure Draft (ED) 'Classification of Liabilities – proposed amendments to IAS 1' which would clarify the Standard's guidance on whether a liability should be classified as either current or non-current.

The amendments proposed would do this by:

- clarifying that the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period
- making clear the link between the settlement of the liability and the outflow of resources from the entity.

If accepted the amendments would be applied retrospectively, with entities being allowed to apply them early if they wanted to.

# Converged revenue standard may diverge

## In February it emerged that the US Financial Accounting Standards Board (FASB) wants to amend Topic 606, its version of the new global revenue Standard IFRS 15 'Revenue from Contracts with Customers'.

The FASB is expected to publish up to three separate proposals for amendments in the coming months – including one on the effective date (see below). The IASB is also considering a smaller, single package of changes. The IASB's possible changes will cover some, but not all, of the same areas and are expected to be less extensive.

The most significant area under scrutiny relates to licensing arrangements and how to distinguish those that are recognised over time from those treated as a sale at a point in time. FASB are looking to introduce two new terms into their Standard – functional intellectual property (a standalone property) and symbolic intellectual property (requiring the owner to continue some activity which supports it). Licensing revenue would be recognised at a point in time for functional intellectual property and over time for symbolic intellectual property. The IASB has indicated it will not make this change however as it is not just a clarification of the Standard but rather a modification of it.

Having spent more than five years developing a converged global Standard on revenue recognition, it seems there is now a risk that convergence will unravel over a much shorter timeframe. The two Boards have set up a Transition Resource Group to consider implementation issues, which has met several times. This Group has been fulfilling its remit of informing the IASB and FASB about issues that might arise when companies apply the new Standard. Perhaps unsurprisingly, the two Boards have struggled to agree on what to do in response.

IFRS 15 replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and will affect almost every revenue-generating entity that applies IFRSs.

## Breaking news

The US Financial Accounting Standards Board (FASB) tentatively decided at its 1 April 2015 meeting to defer for one year the effective date of its version of the new global revenue Standard. It is unclear at this stage whether the IASB will defer the effective date of IFRS 15, its version of the Standard.

The global Standard currently has an effective date of 1 January 2017, with early application permitted under the IFRS version of the Standard. During its discussions, FASB also tentatively decided to permit early adoption of its version of the Standard.

# Upcoming amendments to the IFRS for SMEs

**An updated version of the International Financial Reporting Standard for Small and Medium-Sized Entities (IFRS for SMEs) is expected to be released in May or June of 2015.**

The IFRS for SMEs was first issued in 2009 and is a simplified version of full IFRS aimed at the needs of private companies. At the time of its publication, the IASB envisaged that it would review the Standard after it had been in use for a few years.

The upcoming amended version of the Standard is the result of the first such comprehensive review. After considering the feedback it received during this initial review, and taking into account the fact that the IFRS for SMEs is still a new Standard, the IASB has made limited amendments to it. The majority of amendments are expected (on an individual basis) to affect only a few paragraphs, and in many cases only a few words, in the Standard. The updated version is however expected to contain three amendments which will have a more significant effect. These are:

- allowing an option to use the revaluation model for property, plant and equipment in Section 17 'Property, Plant and Equipment'
- aligning the main recognition and measurement requirements for deferred income tax with IAS 12 'Income Taxes'
- aligning the main recognition and measurement requirements for exploration and evaluation assets with IFRS 6 'Exploration for and Evaluation of Mineral Resources'.

It is expected that entities will be required to apply the new version of the Standard for annual periods beginning on or after 1 January 2017 with earlier application permitted provided that all of the changes are applied at the same time.

# Convergence: India boards the IFRS bandwagon

India will soon join the ranks of countries using IFRS following a recent announcement by India's corporate regulator, the Ministry of Corporate Affairs ('MCA').

The MCA is not adopting IFRS wholesale but is instead taking a convergence approach by issuing Indian Accounting Standards ('Ind AS'). These Standards are largely the same as IFRS but with a few modifications, referred to as 'carve-outs' which make the guidance more relevant and acceptable to Indian corporates. Some of the major carve-outs are discussed in the table.

**Summary of significant carve-outs**

| Subject | Summary of carve-out |
|---|---|
| **Property, plant & equipment (PP&E) and Intangible assets** | • as a transition relief, entities are allowed to use their Indian GAAP (IGAAP or previous GAAP) transition date carrying values as the starting point for reporting under Ind AS<br>• PP&E or intangible assets acquired by way of non-monetary government grants are to be recorded at their fair value. IFRS, additionally, allows recording of these assets at a nominal value. |
| **Investment properties** | • Ind AS requires investment properties to be measured at cost and does not allow use of the fair value model as under IFRS. |
| **Business combinations** | • Ind AS provide additional guidance on accounting for business combinations of entities under 'common control' whereby all assets and liabilities of the acquiree shall be taken over at their book values and any difference between net assets acquired and consideration paid is transferred to reserves. IFRS specifically scopes out such transactions but in practice, the accounting is often similar to Ind AS<br>• for business combinations where the consideration paid is less than the fair value of net assets, IFRS requires the gain to be recognised in profit or loss whereas Ind AS requires it to be recognised in other comprehensive income and accumulated in equity as a capital reserve. |
| **Financial instruments** | • IFRS requires a detailed assessment for classification of foreign currency convertible bonds (FCCBs) into equity or liability. In most cases, these instruments are classified as a liability. Under Ind AS however, FCCBs are classified as equity instruments as long as the conversion price is fixed in any currency. |

**Summary of less significant carve-outs**

| Subject | Summary of carve-out |
|---|---|
| **Operating leases** | • for assets given or taken on operating lease, where the lease payments are escalated based on the prevailing general inflation rates, the increases in lease payments need not be straight lined over the lease term. |
| **Separate financial statements** | • IFRS allows equity accounting to measure investments in subsidiaries, joint ventures and associates. Ind AS does not provide this option. |
| **Income statement** | • the income statement needs to be presented as a single statement<br>• unlike IFRS, there is no option to present a separate statement of income and other comprehensive income<br>• further, expenses need to be classified by their nature. Entities do not have the option to classify the same by function. |
| **Long-term loans** | • IFRS requires that long term loans are to be reclassified as current if the entity no longer has the ability to defer the repayment beyond 12 months due to breach of covenants. However, as an additional relaxation under Ind AS, long term loan arrangement need not be classified as current on account of breach of a material provision, for which the lender has agreed to waive the right to claim repayment before the approval of financial statements for issue. |

Indian Accounting Standards will be adopted under a phased 'roadmap' plan, the date of a company's adoption of the Standards depending on both its size and whether it is listed or not.

Further, the roadmap permits voluntary adoption of Ind AS a year earlier than the aforementioned timelines. The roadmap for banks, non-banking financial companies and insurance companies will be announced separately.

It is notable that Indian companies will apply new accounting standards on 'Financial Instruments' (Ind AS 109 equivalent to IFRS 9) and 'Revenue from Contracts with Customers' (Ind AS 115 equivalent to IFRS 15) ahead of the timelines for their global peers.

**The roadmap for Indian adoption**

The notified roadmap for **mandatory adoption** of Ind AS by all companies other than insurance companies, banking companies and non-banking finance companies, is as below:

| Phase | Threshold | First period of reporting | Comparative information |
|---|---|---|---|
| **Phase 1** | All companies with net worth of INR[1] 5 bn (USD[2] 83 mn) or more (whether listed or unlisted)* | Financial year[3] beginning on or after 1 April 2016 | Opening balance sheet as on or after 1 April 2015 and financial year ending on or after 31 March 2016 |
| **Phase 2** | Other companies whose equity and/or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India* | Financial year beginning on or after 1 April 2017 | Opening balance sheet as on or after 1 April 2016 and financial year ending on or after 31 March 2017 |
| **Phase 3** | Unlisted companies having net worth of INR 2.5 bn (USD 42 mn) or more and not covered in Phase 1* | Financial year beginning on or after 1 April 2017 | Opening balance sheet as on or after 1 April 2016 and financial year ending on or after 31 March 2017 |

1 Indian Rupees
2 Approximate exchange rate 1 USD = 60 INR
3 Financial year for Indian companies is 1 April to 31 March
* Including holding, subsidiary, joint venture or associate companies of such companies

## Indian firm readies itself for the new accounting landscape

With a view to increasing visibility in the market and creating awareness amongst corporates, our Indian firm has recently completed Ind AS training in four major cities across the country. The training has received an overwhelming response with the firm training about 150 professionals from approximately 70 companies in India.

The Indian firm's Financial Reporting Advisory Services (FRAS) group, which is at the forefront of these initiatives, has also launched a website known as MyGAAP (http://mygaap.grantthornton.in/). It contains all the latest accounting and regulatory updates. Users can also post queries and connect with the FRAS team or refer to existing discussions on accounting and reporting related matters.

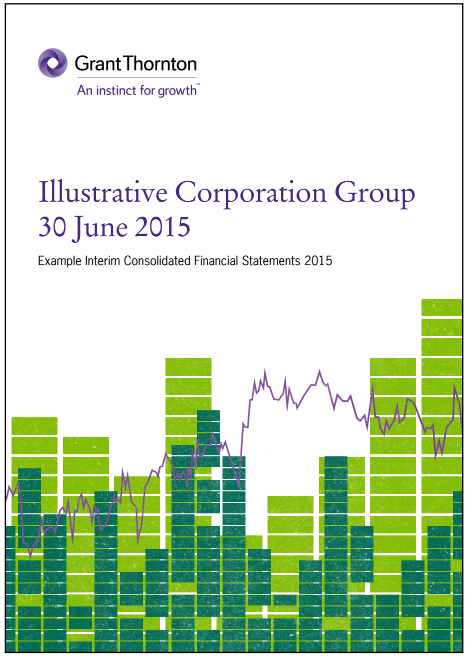
The India Firm's portfolio of services in respect of implementation of the new converged Standards can also be downloaded from the MyGAAP website.

# New Grant Thornton International Ltd example interim IFRS financial statements released

## We have published an updated version of our IFRS 'Example Interim Consolidated Financial Statements'.

The previous version has been reviewed and updated to reflect changes in IAS 34 and in other IFRSs that are effective for the year ending 31 December 2015.

To obtain a copy of the publication, please get in touch with the IFRS contact in your local Grant Thornton office.



# We comment on IASB Exposure Drafts

Since the last edition of IFRS News we have responded to the IASB on two of their Exposure Drafts (EDs).

### Classification and Measurement of Share-based Payment Transactions

This ED contains three proposed amendments to IFRS 2 'Share-based Payment' which would provide guidance on:

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

In our response to the IASB we agree with the proposals, which we believe are pragmatic and will provide clarity in these three areas that are not specifically addressed by IFRS 2 at present.

### Disclosure Initiative – Proposed amendments to IAS 7

This ED contains proposals for improved disclosures on liquidity and changes in debt, the latter proposals being heavily influenced by findings from the UK's Financial Reporting Lab.

We express support for these proposals, subject to the Board having robust evidence that there is a demand from investors internationally for the information on changes in debt.

The ED is also notable for including proposed changes to the IFRS Taxonomy to reflect the effect of the proposed amendments to IAS 7 'Statement of Cash Flows' (the IFRS Taxonomy is a translation of International Financial Reporting Standards (IFRS) into eXtensible Business Reporting Language). This is the first time that proposed changes to the IFRS Taxonomy have been included in an ED, the IASB intending to use the feedback it receives to decide whether to do this for all EDs going forward.

We however would prefer the IASB to maintain its existing practice of publishing EDs on proposed changes to IFRS, followed by separate consultation on related Taxonomy changes. We say this because we view the IFRS Taxonomy as a specialised area which is most relevant to preparers.

# Grant Thornton representative appointed to the Joint Transition Resource Group for Revenue Recognition

Jake Green, Director of National Assurance Services in Grant Thornton's UK firm, has been appointed as a member of the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) Joint Transition Resource Group for Revenue Recognition (TRG).

Jake, whose responsibilities at Grant Thornton include leading the financial reporting technical team within the UK firm, is also a member of the International Financial Reporting Standards (IFRS) Advisory Council.

Commenting on the appointment, Andrew Watchman, Global Head of IFRS at Grant Thornton International Ltd, said: "We are very pleased to announce Jake's appointment and I have no doubt that he will make an excellent contribution to the important work of the TRG. In this role, Jake has the full support of Grant Thornton's global IFRS team and its international network."

Launched in June 2014, the role of the TRG is to inform the IASB and FASB about potential implementation issues that might arise when companies or organisations put into practice the new global Standard on Revenue (IFRS 15 'Revenue from Contracts with Customers'). The TRG also provides stakeholders with the opportunity to learn about the new Standard.

# Grant Thornton Estonian leader receives state award

Mati Nõmmiste, managing partner at Grant Thornton Estonia (Rimess) has been awarded the Order of the White Star, Fifth Class by the country's President Toomas Hendrik for his work in growing auditing services in Estonia.

The Order of the White Star was established in 1936 to commemorate the Estonian people's struggle for freedom. It is bestowed on people in public service as well as to recognise other achievements in the fields of the economy, education, science, culture and sport.

Mati was nominated for the award by Estonia's board of auditors, in appreciation of his knowledge and commitment to the profession. The award presentation took place at a ceremony at Rakvere theatre on 23 February 2015.

# Appointments

## Canada

Stéphanie Laframboise, Senior manager in Risk Management and Accounting Research at Raymond Chabot Grant Thornton, has been appointed as a member of Canada's Mining Industry Task Force on IFRS.

The Mining Industry Task Force on IFRS was created by the Chartered Professional Accountants of Canada (CPA Canada) and the Prospectors & Developers Association of Canada to share views on IFRS application issues of relevance to mineral resource companies. The task force's views are provided in a series of non-authoritative papers that are available through free download. These views are of particular interest to Chief Financial Officers, Controllers and Auditors.

At Raymond Chabot Grant Thornton, Stéphanie provides accounting advisory services on complex topics relating to Canadian and IFRS accounting standards for clients in various industries, drafts accounting opinions and technical accounting publications, develops and leads accounting courses and workshops, speaks on accounting matters at client events and drafts comments on accounting exposure drafts published by the CPA Canada and the IASB. Stephanie succeeds John Cochrane, now Advisory Partner at Raymond Chabot Grant Thornton, on the task force and ensures the continuity of the firm's representation on this important task force.

## New Zealand

Simon Carey, a partner in the Christchurch office of our New Zealand member firm, has been re-appointed to the country's External Reporting Board (XRB).

The functions of the XRB comprise:

- developing and implementing an overall strategy for financial reporting standards and auditing and assurance standards (including developing and implementing tiers of financial reporting and assurance)
- preparing and issuing accounting standards
- preparing and issuing auditing and assurance standards, including the professional and ethical standards that will govern the professional conduct of auditors
- liaising with national and international organisations that exercise functions that correspond with, or are similar to, those conferred on the XRB.

Having been appointed on the inauguration of the body in 2011, Simon will now serve a further four year term until 2019.

# Round-up

## IFRS Taxonomy 2015

The IFRS Foundation has published the IFRS Taxonomy 2015. The IFRS Taxonomy is a translation of IFRS into eXtensible Business Reporting Language or XBRL, which is rapidly becoming the format of choice for the electronic filing of financial information. The IFRS Taxonomy 2015 is consistent with IFRS as issued by the IASB at 1 January 2015, including Standards published but not yet effective at that date.

## IASB Chairman discusses use of non-GAAP measures

In a speech in South Korea, IASB Chairman Hans Hoogervorst stressed the need for greater discipline in the use of non-GAAP measures. While Mr Hoogervorst noted that providing additional non-GAAP measures may be useful in some circumstances, some basic ground rules should be respected. These basic rules were that alternative performance measures should not present information that is misleading and that this information should not be given greater prominence in the financial statements than the IFRS numbers themselves.

## ESMA report on enforcement and regulatory activities of accounting enforcers within the EU

The European Securities and Markets Authority (ESMA) has published a report on the enforcement and regulatory activities of accounting enforcers within the European Union (EU) in 2014.

The report contains data on enforcement activities performed at national level, where European enforcers examined approximately a quarter of the IFRS interim or annual financial statements of the 6,400 issuers listed on EU regulated markets. Although the assessment showed improvements in the quality of application of IFRS, ESMA identified room for improvement where insufficient information was provided relating to forbearance practices in financial statements as well as the lack of disclosure of key assumptions when performing impairment tests for non-financial assets with an indefinite useful life.

## UK Financial Reporting Council publishes case study report on accounting policies

The UK Financial Reporting Council's (FRC) Financial Reporting Lab (the Lab) has found that investors support fresh approaches to the disclosure of accounting policies. Building on the Lab's recent report 'Accounting policies and integration of related financial information', the Lab has published a case study on William Hill plc, involving correspondence with some of the listed company's investors, retail shareholders, and analysts.

The study highlights the company's experimentation with accounting policy disclosure. The company's investors and analysts liked the clear identification of significant accounting policies, and effective disclosure of policy information in order to understand the business and its performance. The William Hill study is the first of a series of case studies being run by the Lab to support the FRC's Clear & Concise reporting initiative that promotes transparent and accessible reporting.

## UK director featured in ICAEW magazine

Jake Green, Director of National Assurance Services at our UK member firm, recently featured in the Institute of Chartered Accountants of England & Wales online magazine Economia. Jake discusses recent changes to IAS 1 which state that "An entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions."

His conclusion is that the application of materiality should come down to preparers using their judgement. His advice is for companies to take an honest look at their most recent annual report and ask what it says to investors about their business. To improve the annual report, he suggests the following tips:

- identify an owner for the improvement process; if someone doesn't drive it, it won't happen
- think about what investors actually want to read; what do they think is material. If you are not sure then ask them
- what does management think is relevant to understanding the development and performance of the business during the year and is the position at the end of that year clear from the financial statements?
- agree between senior management who will discuss what in the annual report; ensure the reporting timetable gives ample opportunity to review each other's reports
- ensure standing data is relevant; for example are the accounting policies still relevant and excluded for immaterial items
- remove immaterial disclosures from the notes; think about what would be relevant to a user.

## Basel Committee guidance on expected credit losses

The Basel Committee on Banking Supervision (BCBS) has issued a consultative document titled 'Guidance on accounting for expected credit losses'. The guidance sets out supervisory expectations for internationally-active banks relating to sound credit risk practices associated with implementing and applying an expected credit loss (ECL) accounting model.

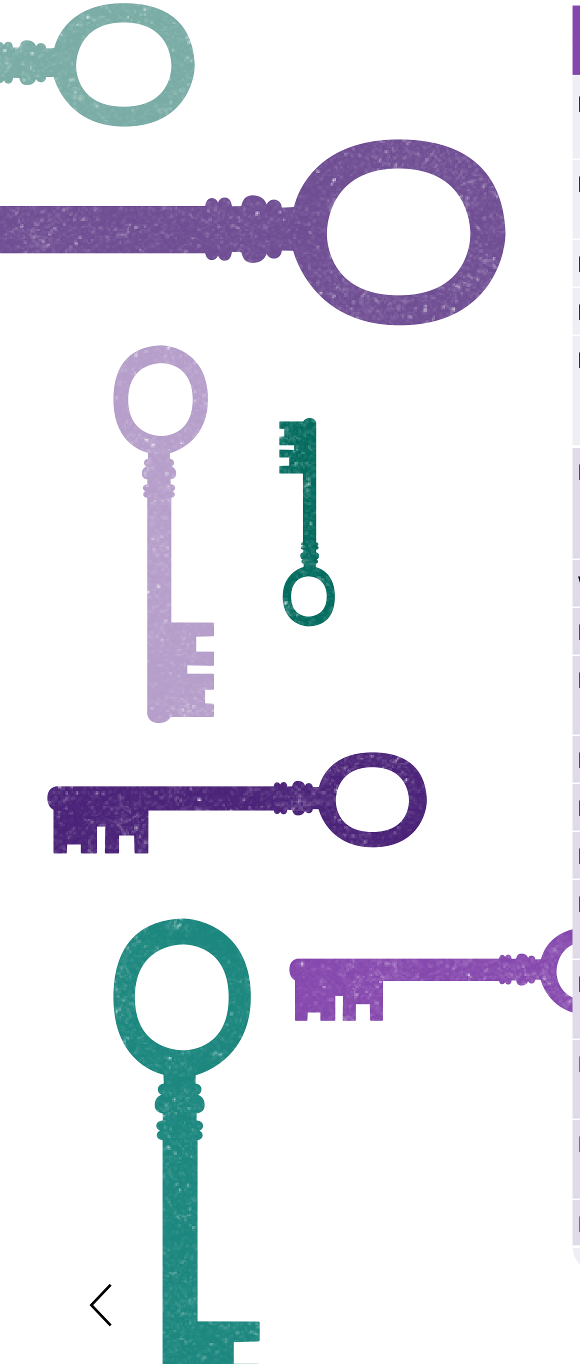
The BCBS proposes 11 fundamental principles concerning the governance and risk management framework necessary to ensure a robust and high quality implementation. The guidance also covers supervisory expectations of how an ECL accounting framework should interact with a bank's overall credit risk practices and the regulatory framework. The main guidance is intended to cover all accounting frameworks, but the consultation document also includes an appendix specifically devoted to IFRS 9. In this the BCBS suggests that internationally-active banks should avoid using IFRS 9's so-called 'practical expedients' to ensure a robust and high quality implementation.

# Effective dates of new standards and IFRIC interpretations

The table below lists new IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2013. Companies are required to make certain disclosures in respect of new Standards and Interpretations under IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

**New IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2013**

| Title | Full title of Standard or Interpretation | Effective for accounting periods beginning on or after | Early adoption permitted? |
|---|---|---|---|
| IFRS 9 | Financial Instruments (2014) | 1 January 2018 | Yes (extensive transitional rules apply) |
| IFRS 15 | Revenue from Contracts with Customers | 1 January 2017 | Yes |
| IAS 1 | Disclosure Initiative (Amendments to IAS 1 Presentation of Financial Statements) | 1 January 2016 | Yes |
| IFRS 10, IFRS 12 and IAS 28 | Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) | 1 January 2016 | Yes |
| IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) | 1 January 2016 | Yes |
| Various | Annual Improvements to IFRSs 2012-2014 Cycle | 1 January 2016 | Yes |
| IAS 27 | Equity Method in Separate Financial Statements (Amendments to IAS 27) | 1 January 2016 | Yes |
| IAS 16 and IAS 41 | Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41) | 1 January 2016 | Yes |
| IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) | 1 January 2016 | Yes |
| IFRS 11 | Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) | 1 January 2016 | Yes |
| IFRS 14 | Regulatory Deferral Accounts | 1 January 2016 | Yes |
| IAS 19 | Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) | 1 July 2014 | Yes |
| Various | Annual Improvements to IFRSs 2011-2013 cycle | 1 July 2014 | Yes |
| Various | Annual Improvements to IFRSs 2010-2012 cycle | 1 July 2014 | Yes |



**New IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2013**

| Title | Full title of Standard or Interpretation | Effective for accounting periods beginning on or after | Early adoption permitted? |
|---|---|---|---|
| IAS 39 | Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) | 1 January 2014 | Yes |
| IAS 36 | Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) | 1 January 2014 | Yes (but only when IFRS 13 is applied) |
| IFRIC 21 | Levies | 1 January 2014 | Yes |
| IFRS 10, 12 and IAS 27 | Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) | 1 January 2014 | Yes |
| IAS 32 | Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) | 1 January 2014 | Yes (but must also make the disclosures required by Disclosures – Offsetting Financial Assets and Financial Liabilities) |
| IFRS 10, 11 and 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12) | 1 January 2013 | Yes |
| Various | Annual Improvements 2009-2011 Cycle | 1 January 2013 | Yes |
| IFRS 1 | Government Loans – Amendments to IFRS 1 | 1 January 2013 | Yes |
| IFRS 7 | Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) | 1 January 2013 | Not stated (but we presume yes) |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine | 1 January 2013 | Yes |
| IFRS 13 | Fair Value Measurement | 1 January 2013 | Yes |
| IFRS 12 | Disclosure of Interests in Other Entities | 1 January 2013 | Yes |
| IFRS 11 | Joint Arrangements | 1 January 2013 | Yes (but must apply IFRS 10, IFRS 12, IAS 27 and IAS 28 at the same time) |
| IFRS 10 | Consolidated Financial Statements | 1 January 2013 | Yes (but must apply IFRS 11, IFRS 12, IAS 27 and IAS 28 at the same time) |
| IAS 28 | Investments in Associates and Joint Ventures | 1 January 2013 | Yes (but must apply IFRS 10, IFRS 11, IFRS 12 and IAS 27 at the same time) |
| IAS 27 | Separate Financial Statements | 1 January 2013 | Yes (but must apply IFRS 10, IFRS 11, IFRS 12 and IAS 28 at the same time) |
| IAS 19 | Employee Benefits (Revised 2011) | 1 January 2013 | Yes |

# Open for comment

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

**Current IASB documents**

| Document type | Title | Comment deadline |
|---|---|---|
| Exposure Draft | Classification of Liabilities (Proposed amendments to IAS 1) | 10 June 2015 |

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