

Financial Reporting Conference 2019

Expert speakers will explore the future of corporate reporting and discuss the latest developments in narrative and climate-related reporting.

Changes to UK GAAP, final preparations for IFRS 16, distributable profits and more are on the agenda.



10 October 2019

09.15 – 16.30

**Chartered Accountants' Hall
Moorgate
London**



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IFRS update

20 June 2019

Introduction

Marianne Mau
Technical Manager
ICAEW



Today's presenters

Anvi Mashru
Director
PwC



Catriona Lawrie
Director
Mazars



Ask a question



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- Resources** — □
- [Financial Reporting Faculty](#)
 - [The New UK GAAP](#)
 - [The New UK GAAP factsheets](#)



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Ask a question

Type your question into the question box then click submit.

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Contents

IFRS 9/15 – common lessons learned

Final preparation for IFRS 16

IFRS 17 endorsement status

Brexit and financial reporting

Overview of changes 2018/19 and beyond

Questions

Implementation timetable – IFRS 9 and 15

Effective date: Annual periods beginning on/after 1 January 2018

Timetable to adoption ... approach to adoption ...

Been there,
done that!

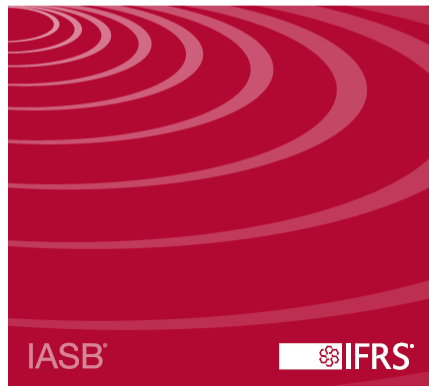
OR YIKES !!!

IFRS 15

More than 300 pages
of guidance on revenue recognition



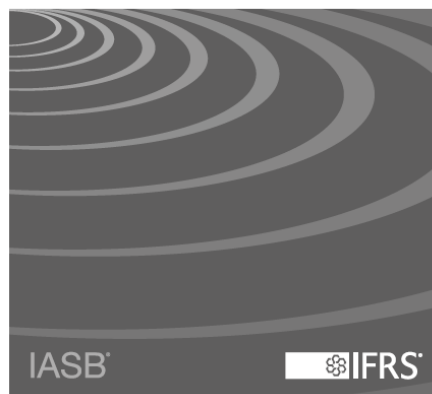
IFRS 15 Revenue from
Contracts with Customers



A 60-pages standard
(incl. application guidance)



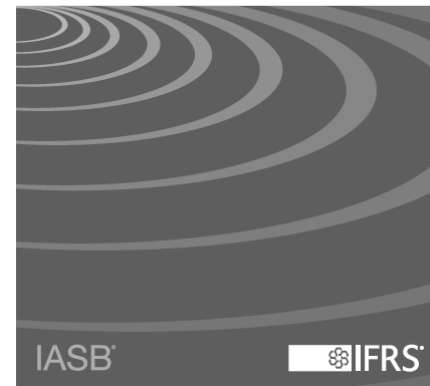
IFRS 15 Revenue from
Contracts with Customers



75-pages illustrative ex.
(by theme)



IFRS 15 Revenue from
Contracts with Customers

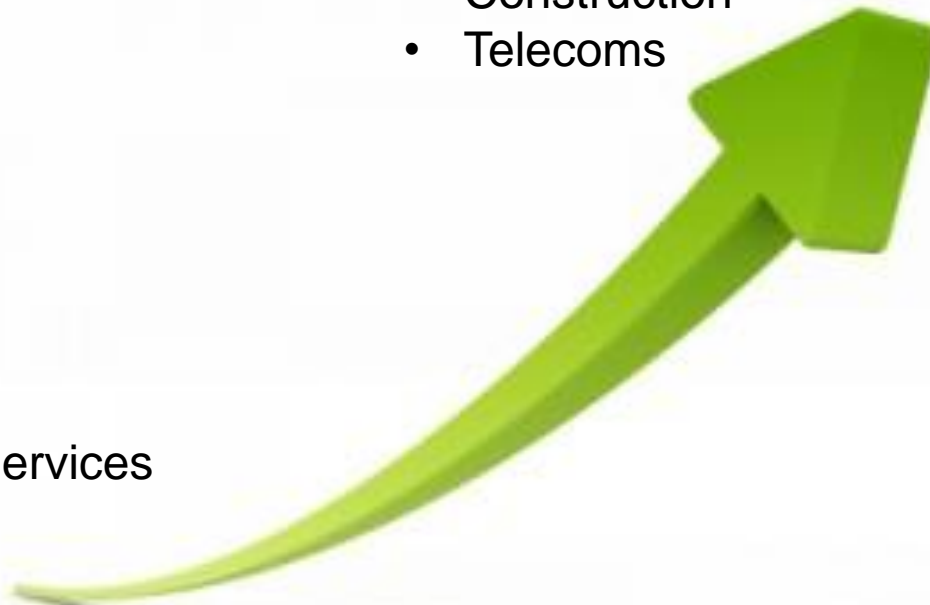


180 pages of basis for
conclusions

IFRS 15 – Impact

- Consumer products and retail
- Construction
- Telecoms

- Financial services
- Energy



IFRS 15 – Expected changes

Financial changes

- Timing of revenue recognition
- EBITDA, operating profit and profit before tax will be impacted as a result
- The timing of tax and deferred tax will be affected
- KPIs will be affected
- There will be significantly increased disclosures

Non-Financial changes

- Financial teams (and beyond) may need training
- Contracts may need to be changed






Impact of IFRS 15

Final preparation for IFRS 16

Poll question: Which impact does the adoption of IFRS 15 have on your company (or the majority of your clients)?

Please tick all that are applicable

IFRS 9 – Impact

- 
- Financial services
 - Retail
 - Construction
 - Energy

IFRS 9 – Expected changes (non-financial services)

Financial changes

- Classification and measurement of financial instruments will be different
- Monitoring impairment differently

Non-financial changes

- Financial teams (and beyond) may need training
- Impairment model will require significant redevelopment
- Hedge documentation will need to be updated



IFRS 9 – Expected credit loss impairment model

Simplified model using a provision matrix

1. Determine appropriate groupings of receivables

Judgement: assessing which receivables share credit risk characteristics (possibly geographical or product groupings)

2. Determine historic loss rates

Judgement: How far back to go?

3. Adjusting historic loss information for forward looking data

Judgement: Determining which forward looking macro-economic factors are applicable – i.e. what drives the reason your debtors default?

IFRS 9 and 15 – Lessons learnt (1/2)

- Simple accounting policy comparisons between the old and new standards are not sufficient
- Detailed contract reviews are critical
- Even if no change is expected, a lot of work is still required to analyse contracts and document enough evidence to establish that fact
- Senior management time will be needed to make the necessary accounting judgements and to choose between the options available on transition
- Don't leave the disclosures to the last minute, they take longer than expected and some involve the collation of 'new' information



IFRS 9 and 15 – Lessons learnt (2/2)

- IT systems, accounting policy manuals and procedures often need to be updated
- Collaboration between different teams (finance / tax / legal) will be necessary
- Establish a project structure, implementation timetable and sign-off procedures at the start of the implementation
- Open communication channels early

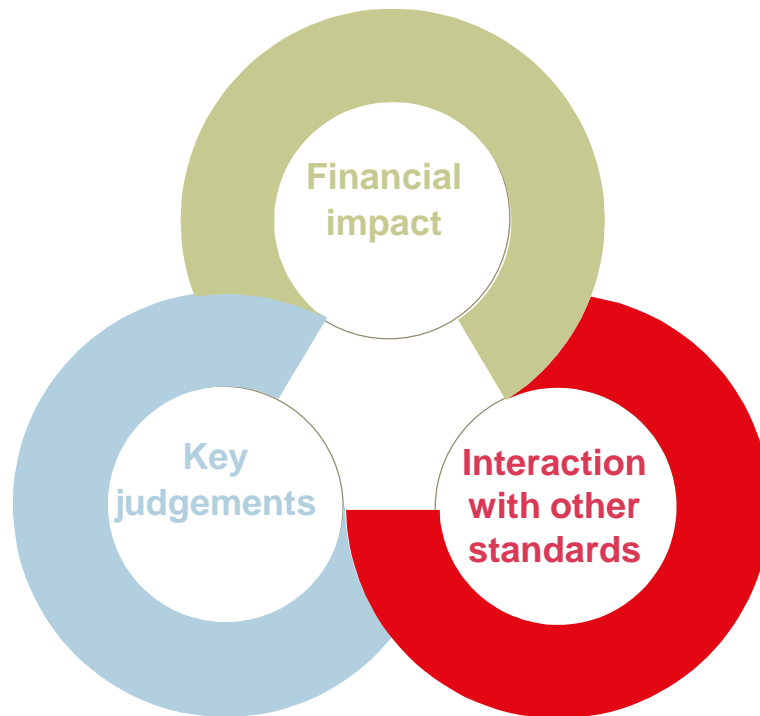




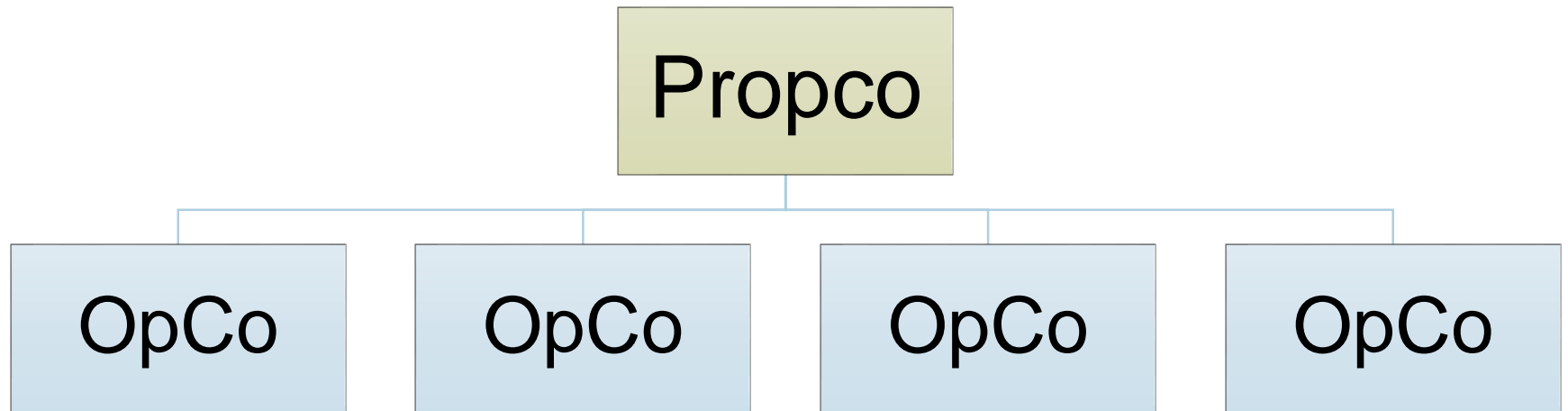
Final preparation for IFRS 16

Poll question: Which transition approach have you applied (or intend to apply) in moving to IFRS 16?

IFRS 16 – Interim disclosures

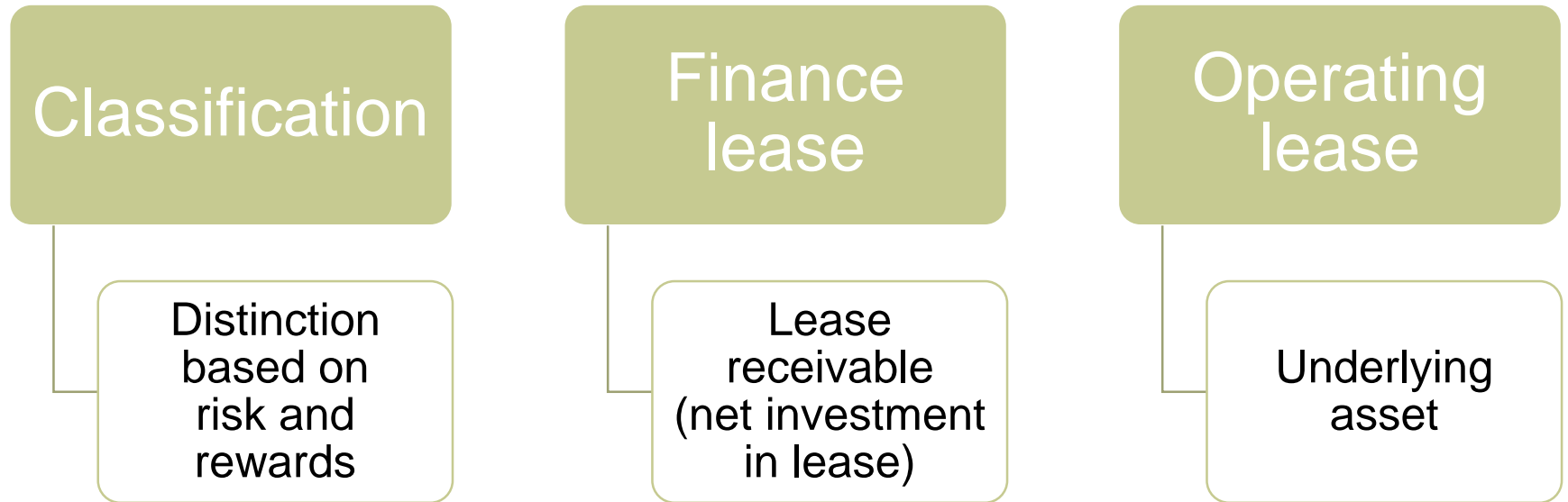


Group situations



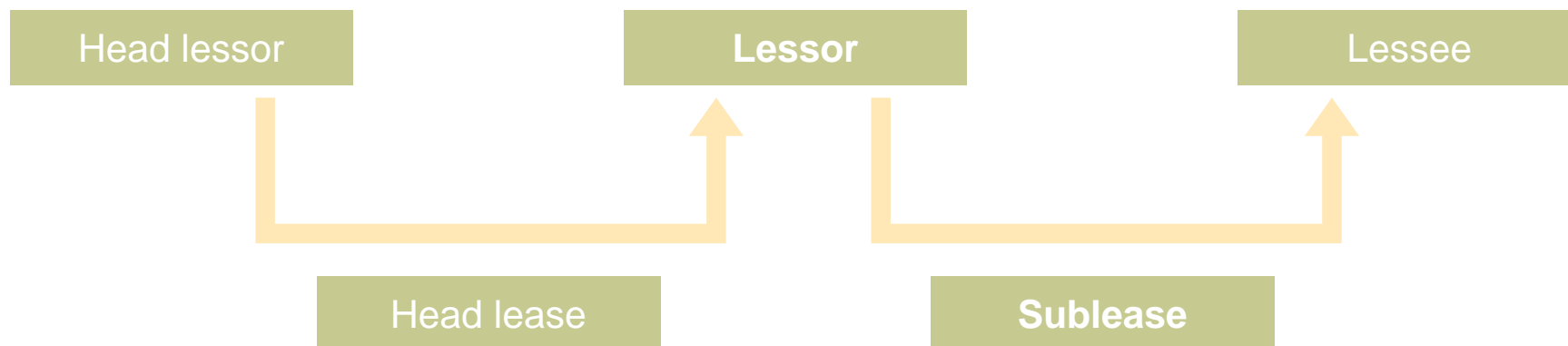
Accounting considerations for PropCo

Lessor accounting



Accounting considerations for PropCo

Lessor accounting – subleases



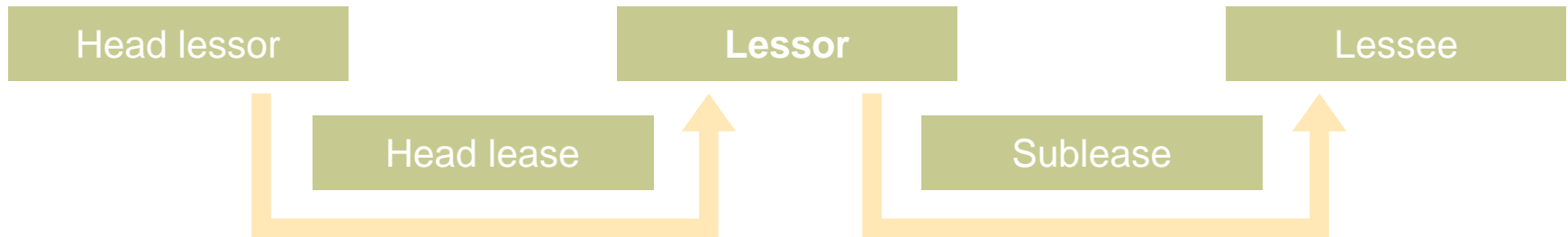
Lessor evaluates sublease with reference to **right-of-use asset**

Many subleases previously classified as operating lease probably now classified as **finance lease** (as fair value of right-of-use asset is in general below fair value of underlying asset)

If head lease is a short-term lease, sublease shall be classified as operating lease

Accounting considerations for PropCo

Lessor accounting – subleases (cont'd)



Balance sheet

<hr/>	
Right-of-use asset	Lease liability
Lease receivable	

Netting is not permitted!

Accounting considerations for OpCo

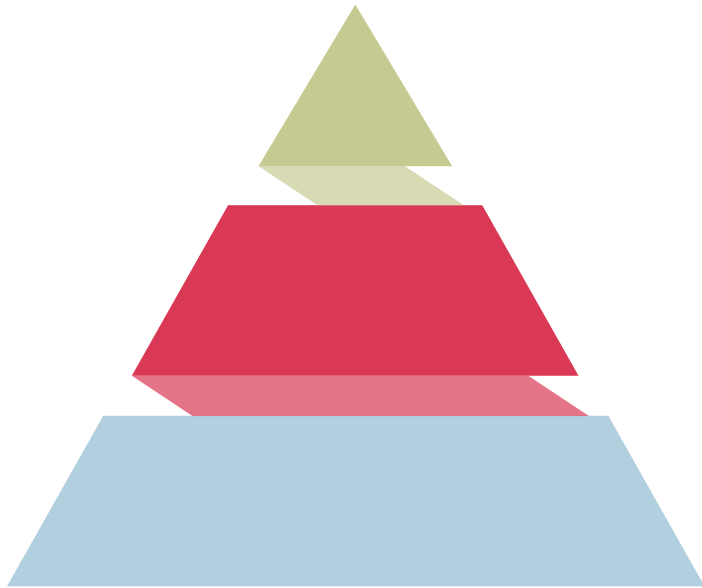
Lessee accounting – discount rate (cont'd)

- The lessee's incremental borrowing rate (IBR) reflects:
 - 'The rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment'

What if group financing arrangements are in place?

Accounting considerations for OpCo

Lessee accounting – discount rate (cont'd)



Asset

Security value of funds borrowed

Credit worthiness

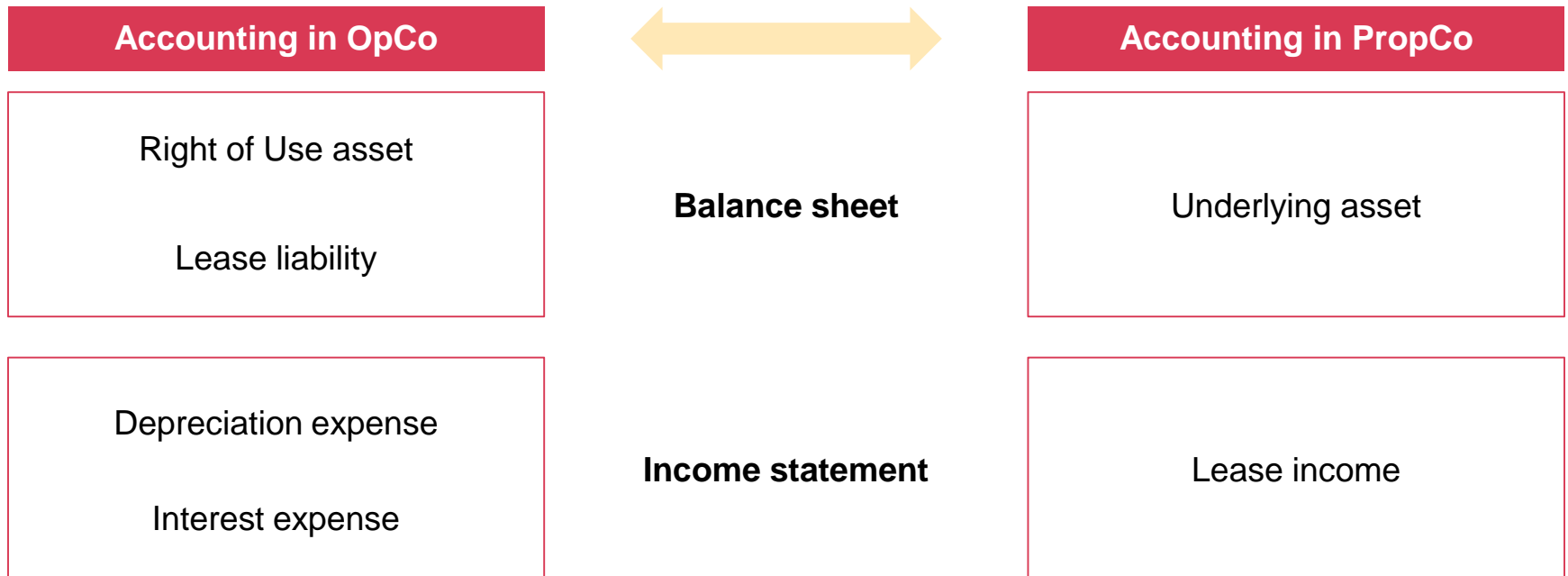
Lessee specific adjustments Lease term

Base rate

Relevant economic environment Reference to available risk free rates

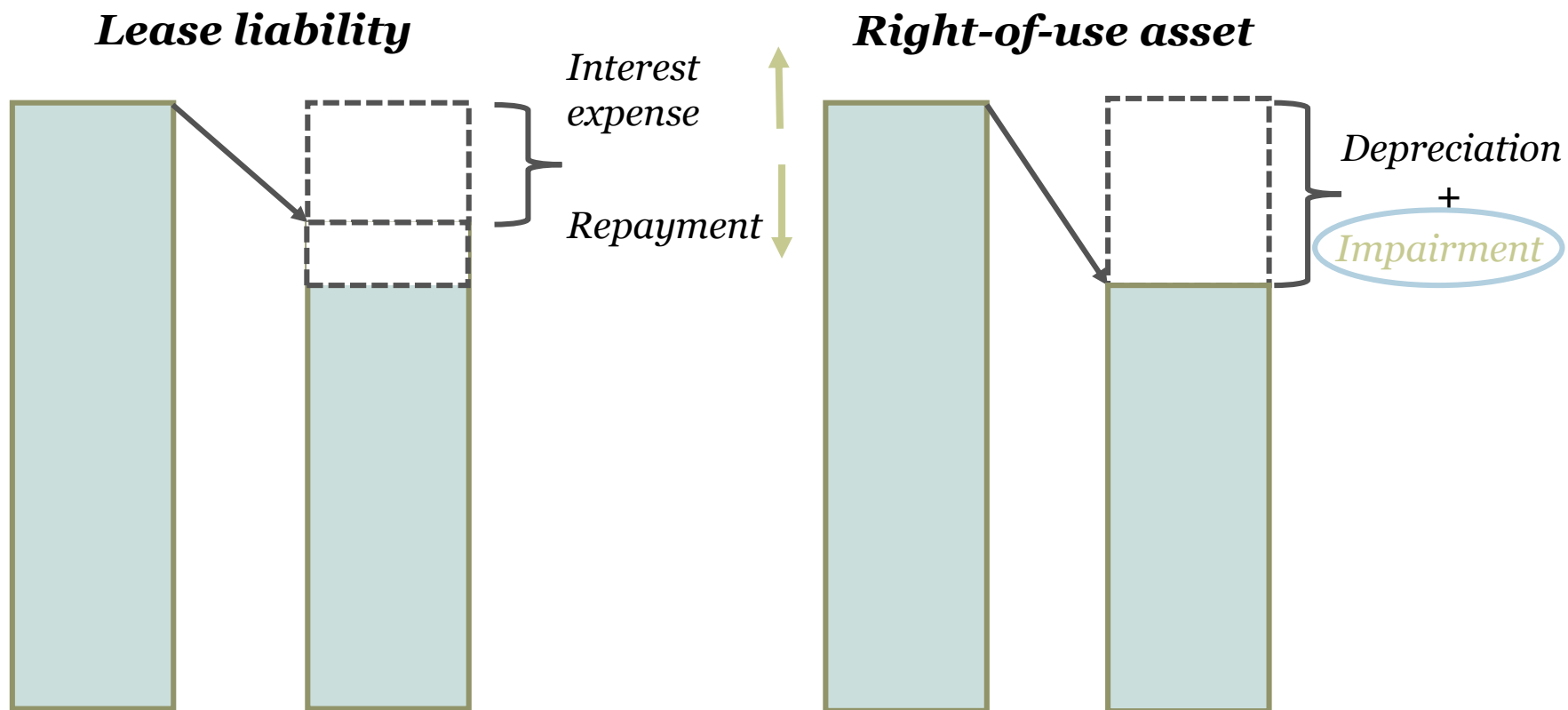
Consolidation in practice

Elimination entries on consolidation?



Lessee accounting

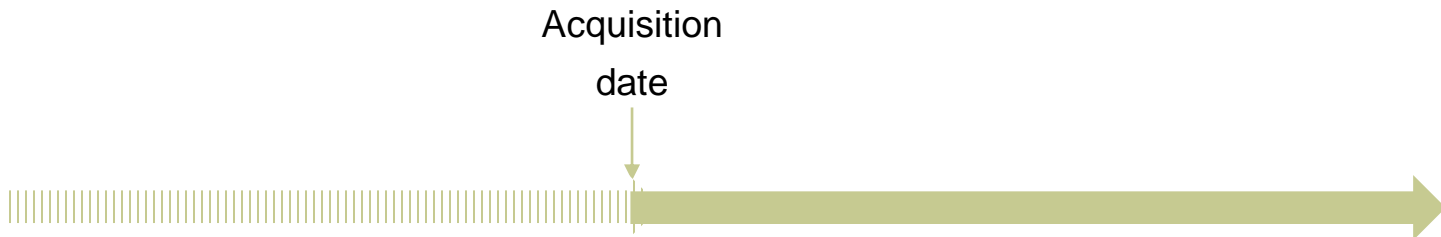
Comparison



Accounting in business combinations

Lessee accounting

Parent



Subsidiary

Lease
commencement
date





Final preparation for IFRS 16

Poll question: Which of the following areas have you already factored into your transition to IFRS 16?

What is IFRS 17?

New standard for
insurance contract
accounting

- Effective 01/01/2022.
- Applies to all insurance companies reporting under IFRS – 186 countries worldwide

Replaces IFRS 4

- IFRS 4 currently permits a wide variety of practices.
- IFRS17 will fundamentally change the accounting by all entities that issue insurance contracts.

Transition

- For insurers, the transition to IFRS 17 will have significant impact on financial statements, key performance indicators, financial reporting process and operations.

IFRS 17 – IASB objectives and key principles

- Develop single global accounting standard for insurance contracts
- Replace current accounting which permits wide range of practices
- Eliminate inconsistencies and provide comparability

Balance Sheet Approach

- Liability valuation
- Presented as single item
- Assets dealt with separately (IFRS 9)

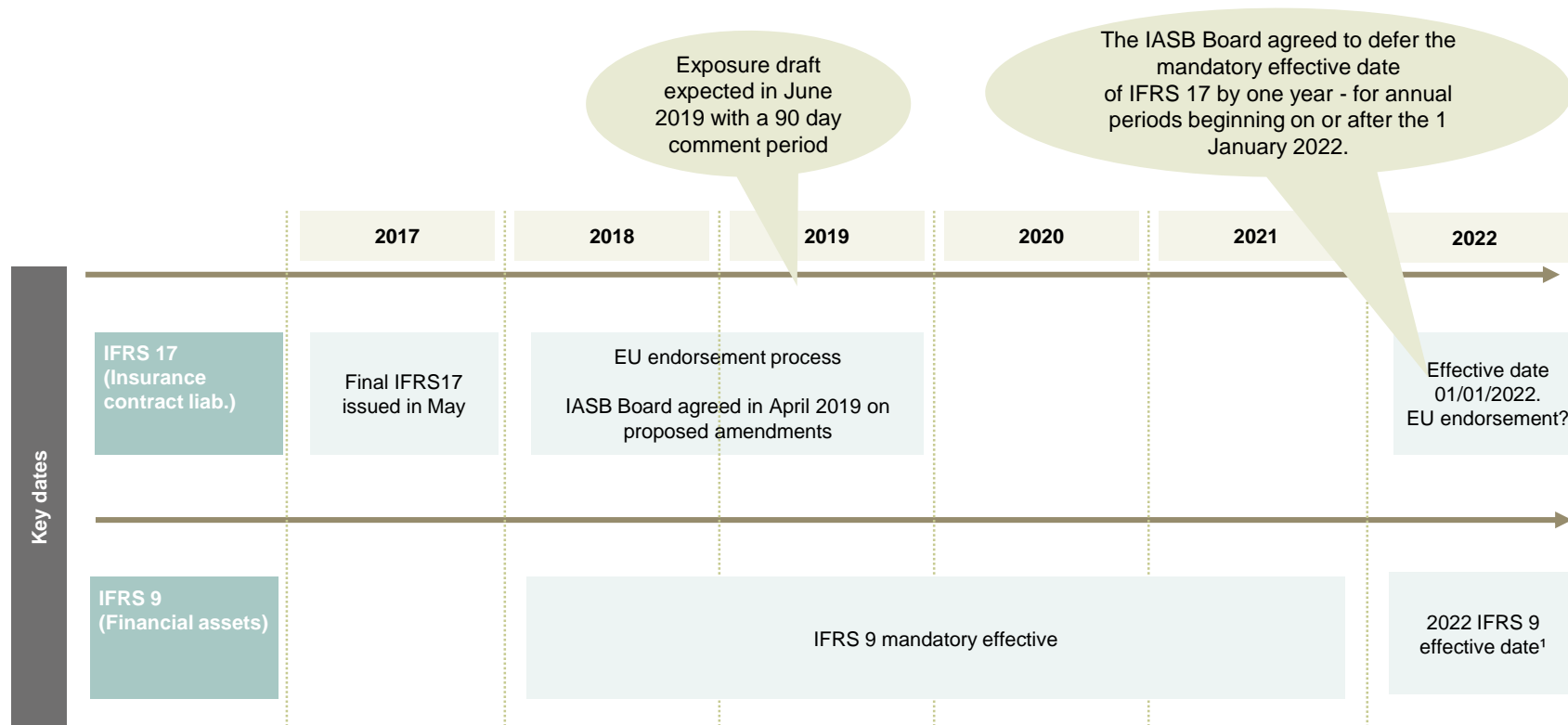
Separate profit profile

- No day one gain
- Contractual Service Margin & Risk Adjustment drive profit recognition
- Presentation & disclosure model separately defined

Liability valuation and approach

- General approach
- Variable Fee Approach required for insurance contracts with direct participation features
- Simplified model for short duration contracts

IFRS 17 timeline



¹ Deferral of final mandatory effective date for insurers to align with IFRS 17 effective date.

Brexit and financial reporting



Where are we now?

Accounting standards and amendments – 2018

IFRS 9 Financial Instruments ✓

IFRS 2 Share-based Payment Transactions ✓

Clarification and measurement

IFRS 4 Insurance Contracts ✓
Applying IFRS 9 with IFRS 4

IFRIC 22 Foreign Currency Transactions ✓

Exchange rates to be applied to payments

IFRS 15 Revenue Recognition ✓

IFRS 15 Revenue Recognition ✓
Clarifications

IAS 40 Investment Property ✓
Transfer of investment property

Annual Improvements 2014 – 2016 ✓
IFRS 1 and IAS 28 amendments

Key: ✓ EU endorsement
✗ Not yet endorsed

Accounting standards and amendments – 2019

IFRS 16 Leases ✓

IFRS 9 Financial Instruments ✓

Prepayment Features with Negative Compensation

IAS 19 Employee Benefits ✓

Plan amendment, curtailment or settlement

IAS 28 Investments in Associates & Joint Ventures ✓

Long-term interests clarification

Annual Improvements 2015 – 2017 ✓

IFRS 3, IFRS 11, IAS 12 and IAS 23 clarifications

IFRIC 23 Uncertainty over IT treatments ✓

Determining taxable profit (tax loss)

Accounting standards and amendments – 2020 and beyond

IFRS 17 Insurance Contracts ✕

IFRSs ✕

Amendment to references to
Conceptual Framework

IFRS 3 Business Combinations ✕

Definition of a business

IAS 1 and IAS 8 ✕

Definition of materiality

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Enter your question

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Faculty resources

ICAEW KNOW-HOW
FINANCIAL REPORTING FACULTY



2019 IFRS ACCOUNTS
IFRS FACTSHEET

Practical help in a complex world

Published 20 June 2019
Last updated 20 June 2019

2019 IFRS Accounts
This factsheet highlights new and modified requirements for preparers of IFRS accounts. The factsheet deals primarily with new requirements with mandatory application for annual periods beginning on or after 1 January 2019.

Key regulations for this factsheet
This factsheet includes links and references to key regulations. There's a summary of the links, and guidance on how to use them, on page 2.

Section 1
Introduction

Significant changes mandatory for 2019 and beyond
The most significant change for 2019 is the new leasing standard, IFRS 16 Leases, which will bring more leases on to the balance sheet for the lessee. IFRIC 23 *Uncertainty over Income Tax Treatments* and a number of narrow-scope amendments are also mandatory from 2019. Although not mandatory before 2021, the new standard on insurance contracts may affect more entities than might at first be expected. The impact of these new standards should be considered carefully sooner rather than later.

Accounting periods beginning before 1 January 2019
Preparers of accounts for accounting periods beginning before 1 January 2019 should refer to the factsheet *2018 IFRS Accounts*.

Other regulatory changes
This factsheet does not cover other regulatory changes. Entities in the UK can find out more information about such changes in our *UK Regulation for Company Accounts factsheet*.

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New and amended standards mandatory for annual periods beginning in 2020 and beyond	13
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IFRS accounting standards

International Financial Reporting Standards (IFRSs) are accounting standards and interpretations published by the International Accounting Standards Board (IASB). The standards tracker is a unique tool which allows faculty members to identify quickly and easily the version of a standard which is applicable to a particular accounting period.

For members of the Financial Reporting Faculty to have direct access to the electronic versions of IFRS, you need to have first [logged into eIFRS](#).

IFRS standardsIAS standardsIFRIC standardsSIC standardsIFRS for SMEs


IFRS standards trackers
IFRS standards trackers.

International Financial Reporting Standards (IFRSs)

Financial Reporting Faculty members are reminded that to access electronic versions of IFRS through the links in these standard trackers you need to have first logged into eIFRS.

- IFRS 1 First-time Adoption of IFRS
- IFRS 2 Share-based Payment
- IFRS 3 Business Combinations
- IFRS 4 Insurance Contracts
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 6 Exploration For and Evaluation of Mineral Rights
- IFRS 7 Financial Instruments: Disclosures
- IFRS 8 Operating Segments
- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IFRS 14 Regulatory Deferral Accounts

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Questions

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Bitesize briefings



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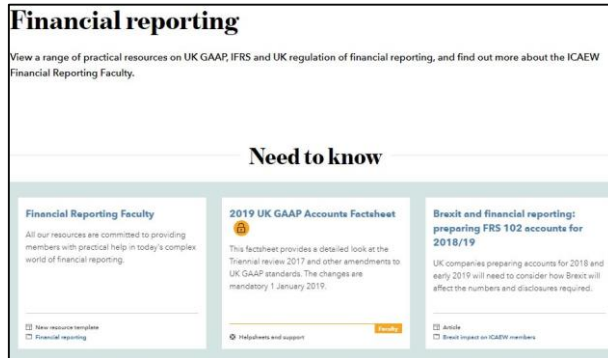
18 July - ESEF – understanding the controversy



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10 October 2019

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Thank you for attending

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short survey

