

IFRS Foundation

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Chair of Trustees, IFRS Foundation

Helsinki, September 2019

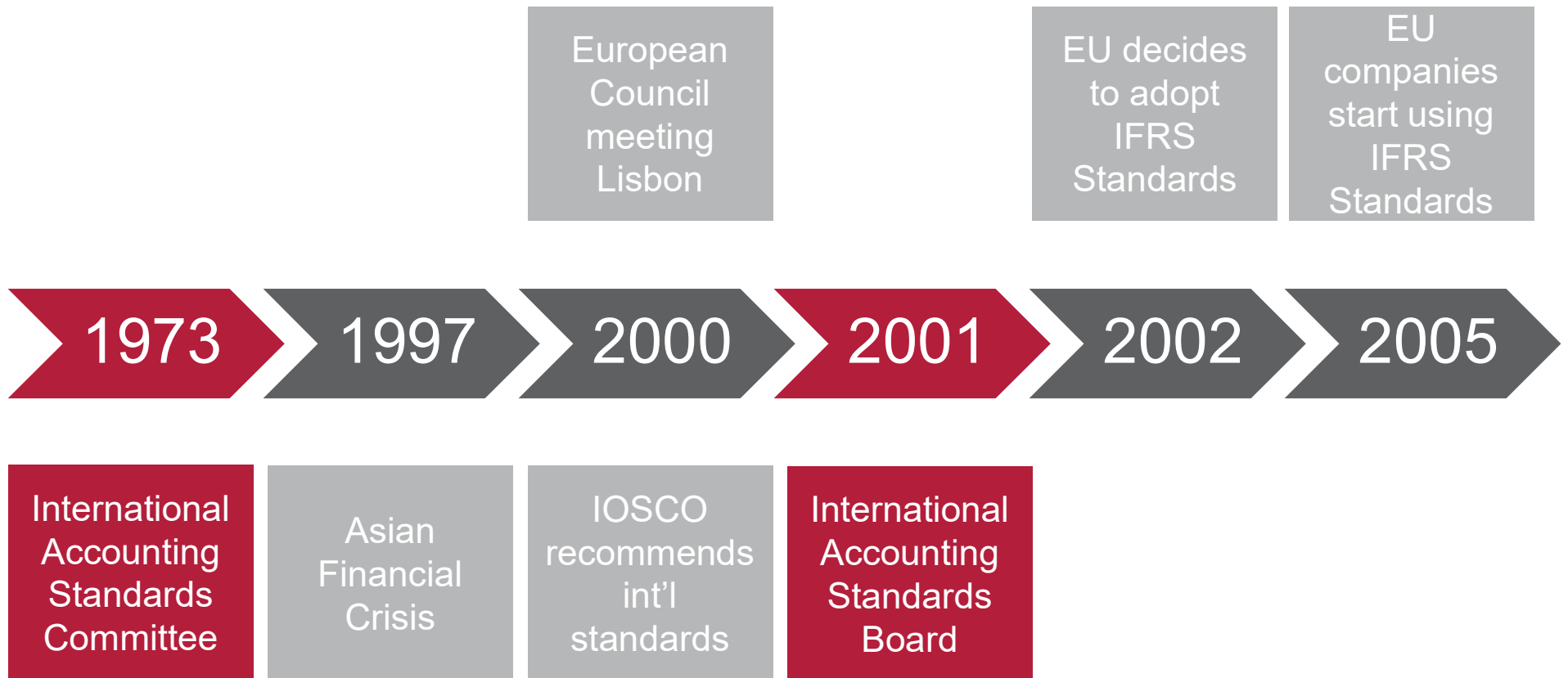
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“ To develop IFRS Standards that bring **transparency**, **accountability** and **efficiency** to financial markets around the world.

Our work serves the public interest by fostering **trust**, **growth** and **long-term financial stability** in the global economy. ”

The move to global standards

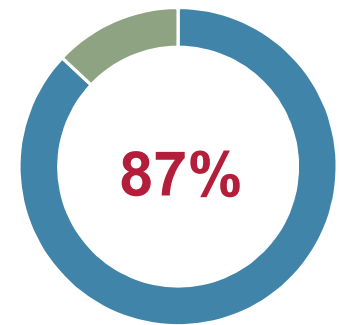


Adoption of IFRS® Standards



■ = IFRS Standards required

144 of 166 jurisdictions require IFRS Standards for all or most publicly accountable companies



Structure



Monitoring Board

Who: capital market authorities
What: public accountability



Trustees

Who: 22 individuals
What: governance and oversight
– constitution, due process, strategy, financing, appointments



International Accounting Standards Board

Who: 14 members
What: independent standard-setting (IFRS Standards)

Globalisation

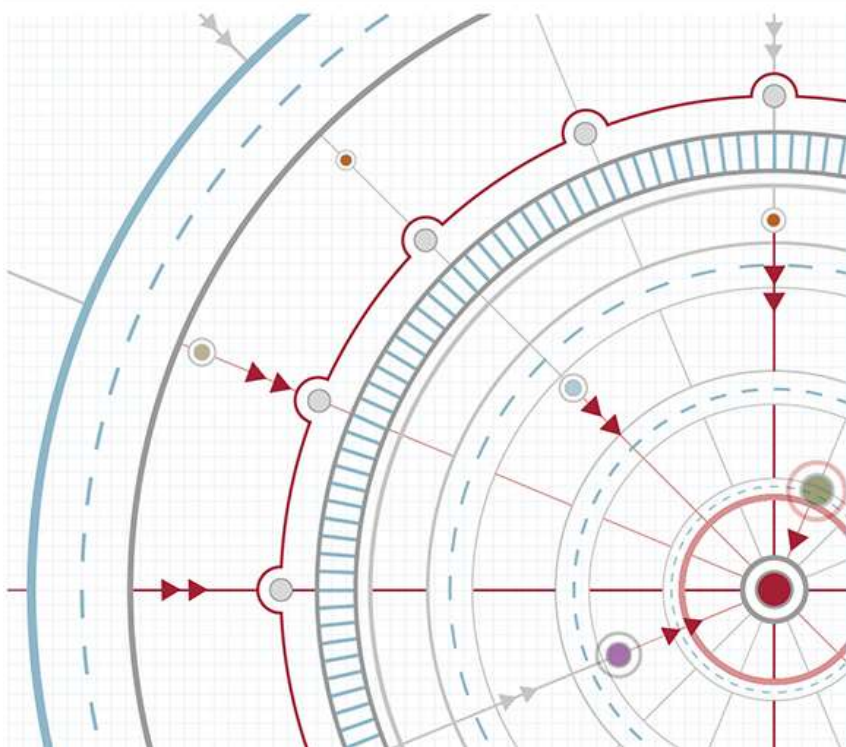
- Global market for capital
- Ever-greater demand for transparency, accountability and efficiency

Relevance

- Factors relevant to long-term financial performance
- Environmental, social and governance (ESG) reporting

Technology

- Electronic filing
- Digital consumption
- Digital transformation



IASB Update

Hans Hoogervorst
Chair, International Accounting Standards Board

Helsinki, September 2019

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IFRS Foundation



New IFRS Standards

The 'big 4'

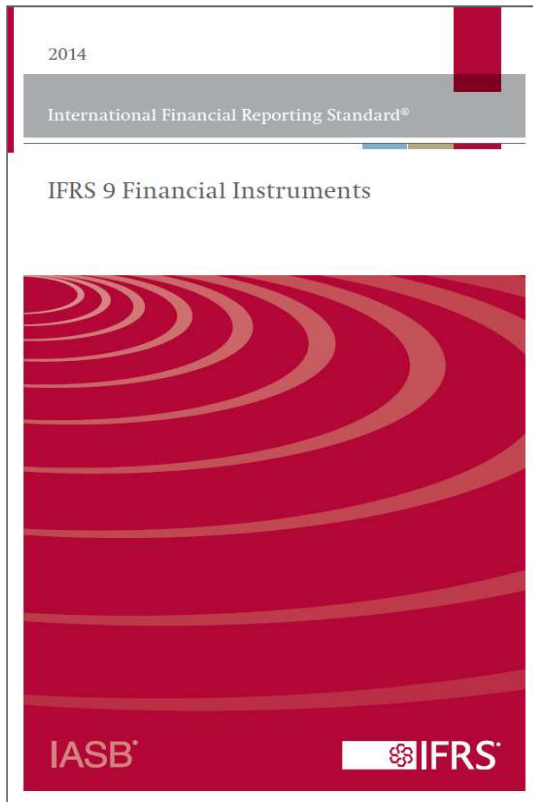
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Standard	Effective
IFRS 9 <i>Financial Instruments</i>	2018
IFRS 15 <i>Revenue from Contracts with Customers</i>	2018
IFRS 16 <i>Leases</i>	2019
IFRS 17 <i>Insurance Contracts</i>	2022*

* proposed new effective date

IFRS 9 at a glance

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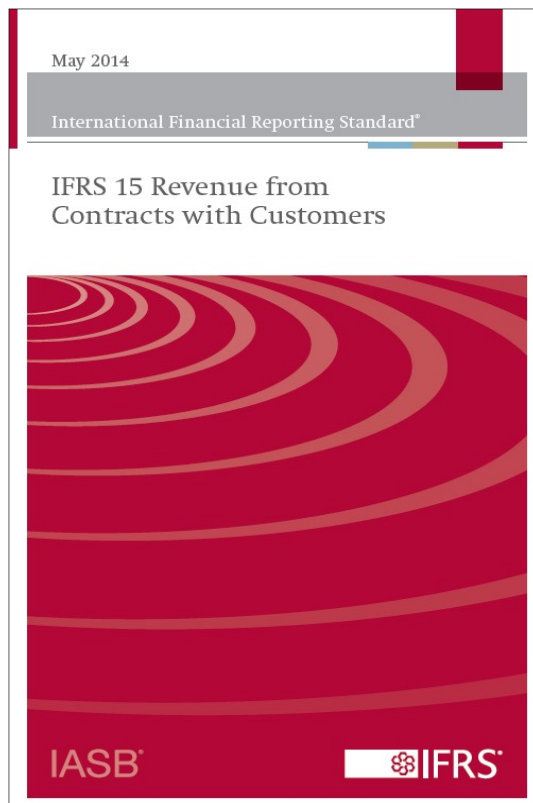
- Issued in 2014
- Effective 1 January 2018
- Replaced IAS 39

Key points:

- Classification and measurement
 - a logical, single classification approach driven by cash flow characteristics and how financial instruments are managed
- Impairment
 - forward-looking 'expected loss' model
- Hedge accounting
 - better aligns accounting with risk management

IFRS 15 at a glance

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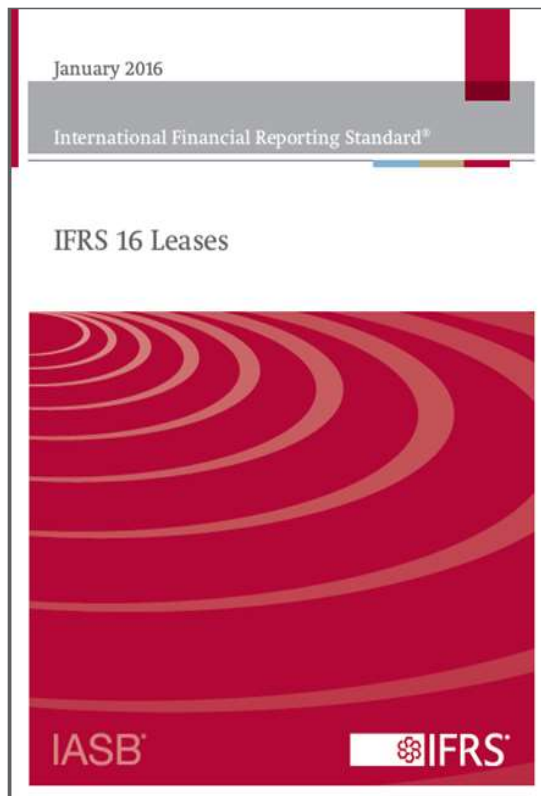
- Issued in 2014
- Effective 1 January 2018
- Replaced IAS 18 and IAS 11

Key points:

- Global framework for all revenue recognition
- Simple core principle: recognise revenue when or as goods/services are transferred to customer
- Increases comparability and enhances disclosures

IFRS 16 at a glance

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- Issued in January 2016
- Effective 1 January 2019
- Replaced IAS 17

Key points:

- Brings all leases onto the balance sheet
- Changes lessee accounting substantially; little change for lessors
- Enables comparisons of companies that lease with companies that borrow to buy

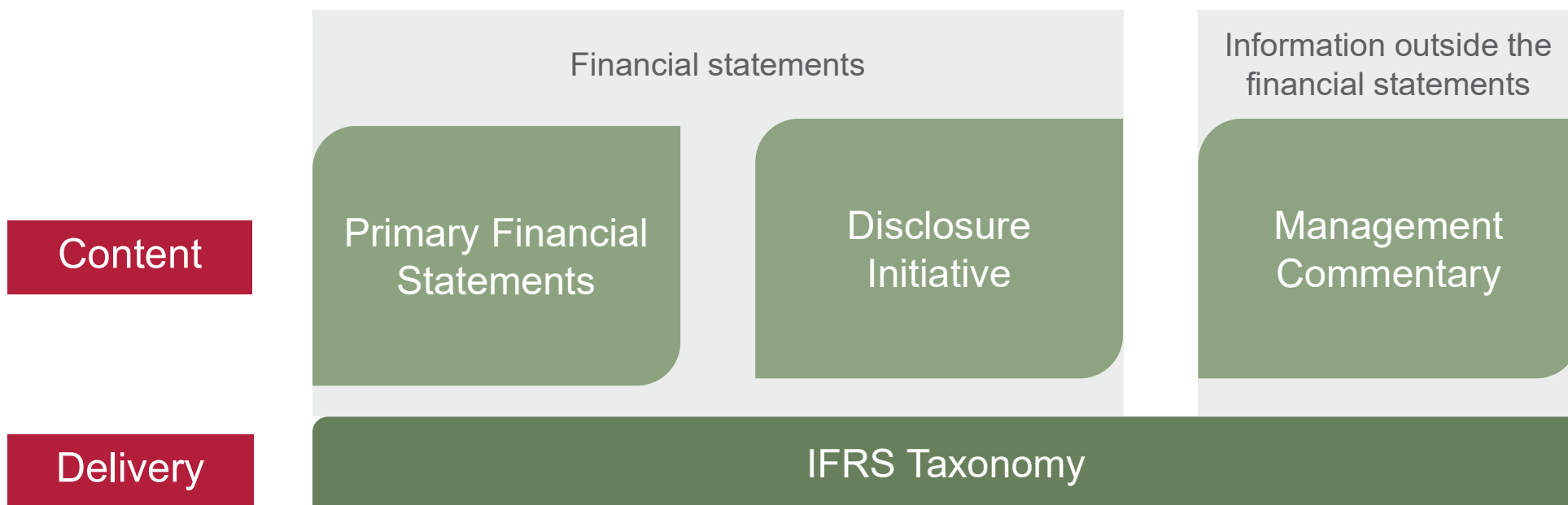


Current work

Central theme of the Board's work

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Better Communication in Financial Reporting



Primary Financial Statements

Main issues the Board is addressing in the PFS project



objective

Targeted improvements to the primary financial statements with a focus on the statement(s) of financial performance



Users

Statements of financial performance are not sufficiently comparable between different companies

Introduce **required and defined subtotals** in the statement(s) of financial performance



Users

Non-GAAP measures can provide useful information, but transparency and discipline need to be improved

Introduce disclosure of **Management Performance Measures (MPMs)**



Users

Level of disaggregation does not always provide the information I need

Introduce **requirements to improve disaggregation**

PFS – Introducing defined subtotals in P&L

Revenue	16,500
Changes in inventories of finished goods and work in progress	(1,000)
Raw material and consumables used	(6,000)
Employee benefits expense	(4,000)
Impairment of property, plant and equipment	(500)
Depreciation expense	(1,200)
Amortisation expense	(800)
1 Operating profit	3,000
Share of profit of integral associates and JVs	500
2 Operating profit and share of profit or loss of integral associates and JVs	3,500
Changes in the fair value of financial assets	250
Dividend income	50
Share of profit of non-integral associates and JVs	100
3 Profit before financing and income tax	3,900
Interest income from cash and cash equivalents	100
Expenses from financing activities	(1000)
Unwinding of discount on pension liabilities and provisions	(100)
Profit before tax	2,900



Operating



Investing



Financing

Management performance measures (MPMs)

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Disclosure in the notes of measures of profit not defined by IFRS Standards

Complements IFRS-defined totals or subtotals and in management's view **communicates** an entity's **performance**

Same measure must be used in public communications with users **outside financial statements**

Must **faithfully represent** the financial performance of the entity to the users

Accompanied by disclosures to **enhance transparency**, in a **single note**—including a **reconciliation** to the closest IFRS-defined total or subtotal (see example on next slide)

General

- Improved principles, definitions and guidance on aggregation and disaggregation (eg on 'other' balances)

Unusual items

- **Definition of unusual items:** 'income or expenses with limited predictive value because it is reasonable to expect that similar items will not arise for several future annual reporting periods. Similar items are income or expenses that are similar in type and amount.'
- Requirement: note disclosing **unusual items, attributed to line items** in the statement(s) of financial performance



Management Commentary

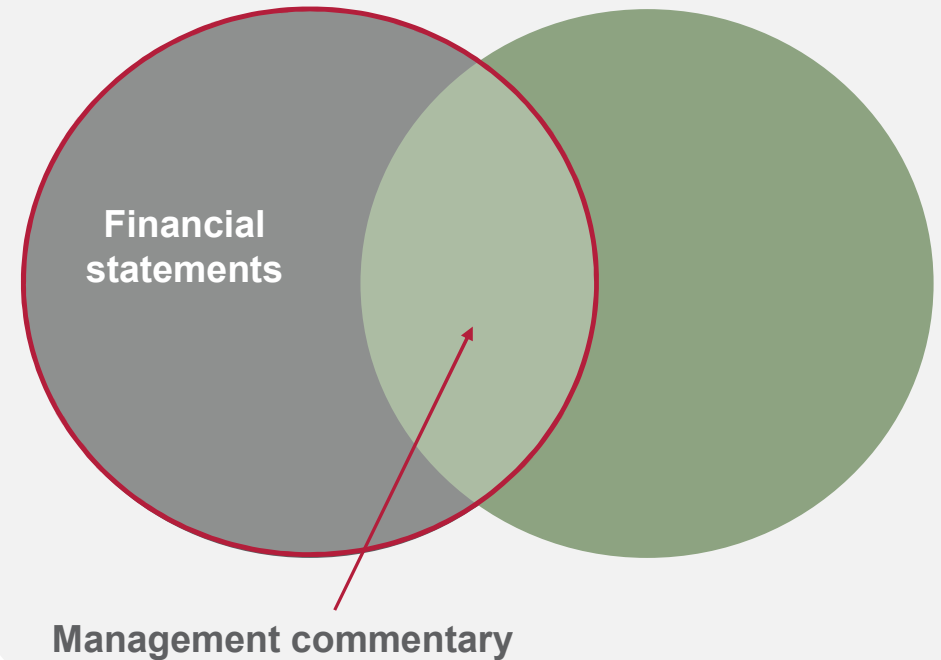
What is management commentary?

- A narrative report that gives context for the financial statements and additional insight into the company's long-term prospects
- Sits within the boundaries of financial reporting and is aimed at primary users of financial reports—existing and potential investors, lenders and other creditors

Environmental, social and governance (ESG) matters—normally part of wider corporate reporting—are discussed in management commentary if necessary for primary users to make economic decisions

Financial reporting
aimed at primary users

Wider corporate reporting
aimed at a wider range of
stakeholders



Project focus

Why revise?

Developments in narrative reporting



Gaps in current reporting practice



Increasing need for additional information



Focus of revision

Meet primary users' information needs

Retain a principles-based approach but expand the guidance to:

- consolidate innovations
- address gaps in reporting
- support rigorous application

Particular emphasis on:

- company-specific matters
- intangibles and ESG matters
- matters that underpin long-term success
- coherent discussion linked to strategy

Intended to be compatible with jurisdictional requirements and subject-matter frameworks (eg TCFD, SASB)

Sustainability reporting

- 230+ corporate sustainability standards*
- 80+ sectors



*Source: Financial Times

IFRS 17 *Insurance Contracts*

IFRS 17 – main improvements introduced

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More useful and transparent information

- Current assumptions regularly updated
- Options and guarantees fully reflected
- Discount rates reflect characteristics of the insurance liability – risks not matched by assets will be reflected in the accounts

Consistent recognition of revenue and profits for insurance services

- Revenue recognition more consistent with IFRS 15
- Profits recognised as the insurance coverage is provided
- Additional metrics to evaluate performance

Easing IFRS 17 implementation

Deferral of the effective date by one year

IFRS 17
IFRS 9

Additional scope exclusions

Loans
Credit cards

Allocation of acquisition costs to expected contract renewals

Attribution of profit to service relating to investment activities

Extension of risk mitigation option

Reduced accounting mismatches for reinsurance

Simplified balance sheet presentation

Additional transition reliefs

Business combinations
Risk mitigation—
transition date
Risk mitigation—fair
value approach

Timeline



Goodwill and Impairment

Problems

Post-implementation review of IFRS 3:

- 1 Impairments not timely ('too late' issue)
- 2 Impairment test costly
- 3 Users need information to assess subsequent performance of acquisitions

Goodwill and Impairment (continued)

Tentative decisions to date

1 Impairments not timely ('too late' issue)

- Retain impairment-only model and not reintroduce amortisation of goodwill
- Present a sub-total or memo line on balance sheet for total equity before goodwill

2 Impairment test costly

Simplify impairment test process:

- permit relief from mandatory annual quantitative test
- include restructuring/enhancement cash flows in value in use estimates
- allow post-tax inputs in value in use estimates

3 Information on subsequent performance

Improve disclosures to explain:

- strategic rationale and key objectives for acquisition (replacing primary reasons)
- post-acquisition performance – are key objectives being achieved?

Next steps

- Discussion Paper expected around end of 2019

Get involved

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