

International Financial Reporting Standards



2015/2016 Common Practice Project

Grace Leung, Practice Fellow

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.



Aims of the meeting today

- In the last three years, **our focus** has been on identification of common practice content for **specific activities**
- Today, we would like to ask your views on whether we should take the same **approach for a potential 2015/2016 common practice project**

Please note that a 2015/2016 common practice project has not yet been approved. The input we receive from the ITCG today will help us to formulate the staff proposal. We will also be reviewing in the next two months how to best engage the IASB.

Possible approaches

General approach

- Reasons why a repeated general common practice project may be useful

Focused approach

- Focused on specific disclosures
- Focused on new (revised) Standards effective from 1/1/2013
- Focused on items under Post-implementation Reviews
- Focused on activities

External resources

- IFRS taxonomy extensions by regulators (possibilities & risks)
- External research

Why using a general approach again might be useful?

The **first common practice project (2011)** consisted of an empirical analysis of the full set of IFRS financial statements across activities and countries. However:

- The project was **limited in scope**: SEC foreign private issuers using IFRS, almost 20% of which are UK companies
- Based on **2009 IFRS financial statements**
- **New jurisdictions** have adopted IFRS

General Approach

Focused Approach

External Resources

Specific disclosures — examples

Items	Possible extensions ¹	Activities that might possibly be more affected ²	
Income Taxes	Voluntary disclosures – disclosures not required by IFRSs		General Approach
Research and Development	Voluntary disclosures – disclosures not required by IFRSs		
Financial Risk Disclosures	<p><u>Credit risks:</u> Quantification of amounts analysed by counterparty Reference to risk concentration</p> <p><u>Liquidity risks:</u> Instrument disaggregation Principal & interest identified Liability and asset positions net</p> <p><u>Market risk management</u></p>	Financial Institutions	Focused Approach
Managing Capital	Sensitivity Analysis showing the impact of changes on capital	Life and Health Insurance Multi-line Insurance Consumer Finance	External Resources

¹ Data extracted from Company Reporting

² Industries/jurisdictions were identified as being more relevant to the items

New(revised) Standards effective from 2013/1/1— examples

Items	Possible extensions ¹	Activities possibly being more affected	General Approach
<p>IFRS 12 <i>Disclosure of Interests in Other Entities</i></p> <p>(effective from year beginning on or after 2013/1/1)</p>	<ul style="list-style-type: none"> possible extensions to both face statements and notes as no requirements on where and how to disclose Disclosures on judgment & assumption, interest of NCI Special disclosures for structured entities (aggregation & disaggregation) 	<div data-bbox="1279 472 1794 687" style="border: 2px solid blue; border-radius: 15px; padding: 10px; background-color: #4a7ebb; color: white; text-align: center;"> <p>Only effective from 2014/1/1 for the whole EU</p> </div>	<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Focused Approach</p>
<p>IFRS 13 <i>Fair Value Measurement</i></p> <p>(effective from year beginning on or after 2013/1/1)</p>	<ul style="list-style-type: none"> The additional information about the assumptions used when fair values are measured using models 	<ul style="list-style-type: none"> Acquisitive companies across all industries and those with significant goodwill and indefinite-lived intangible assets on the balance sheet Financial services and other companies with financial instruments at fair value Industrial companies that revalue their property, plant and equipment Real estate developers, retail companies and others with investment properties at fair value Investment companies measuring subsidiaries or other investments at fair value 	

References:

1. <http://www.pwc.com/ca/en/financial-reporting/ifrs-and-other-accounting-developments/publications/pwc-10-10-2013-new-disclosures-2013-annual-financial-statements-05-en.pdf>

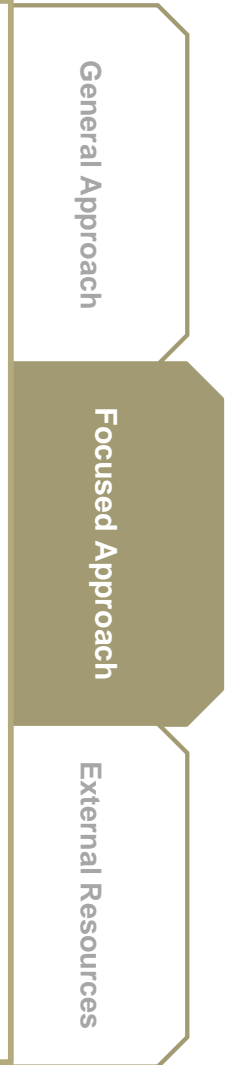
Post-Implementation Reviews — examples

	Finalised / Upcoming PIR
IFRS 3	<i>Business Combinations</i>
IFRS 12	<i>Disclosure of Interests in Other Entities</i>
IFRS 13	<i>Fair Value Measurement</i>

Not yet approved by the IASB

Benefits of an integrated taxonomy and PIR review:

- may provide input into the scope of the project
- may identify areas for further CP analysis
- outreach on taxonomy related implementation issues can be synchronised



Activities — examples

Current Status:

- Activities we have reviewed so far represent around 2/3 (number of companies) of all IFRS filers listed on the global exchanges.
- Number of elements added to the IFRS Taxonomy is relatively low but importance of these elements to a particular activity is generally significant
- Complete analysis for Retailing (initiated in 2014)

Possible changes:

- Choose activities with smaller representation in exchange markets but a high possibility of extensions
examples: gaming, agriculture
- Possibility of sub-activities:
examples: divide transport into sea, land and air transport

General Approach

Focused Approach

External Resources

General Approach vs Focused Approach

General Approach

- Cover all items, Standards
- Same sample is used for review of different Standards



Focused Approach

- Timely reaction to new/revised Standards and other emerging issues
- May be easier to engage investors and preparers
- Likely to be more effective



General Approach

- General approach is not useful in all cases (eg IFRS 2 may be irrelevant for some selected companies)
- General review over all items in FS and notes were also performed during activity-specific reviews.



Focused Approach

- Digging into too much details while general elements are sufficient (eg aircraft fuel expenses vs (existing element) fuel expense)



IFRS Taxonomy extensions

Possibility:

Compare local taxonomies developed by different jurisdictions based on IFRS Taxonomy; some extensions may be common among different jurisdictions

However, there are constraints and risks, including:

- English version of local taxonomies might not always be available
- Local taxonomies developed may not be as up-to-date as the IFRS Taxonomies
- The IFRS Foundation resources required to do the research, etc

Proposed action:

- review ways to increase collaboration with regulators and taxonomy standard-setters

General Approach

Focused Approach

External Resources

Other External Resources

Organisation	Articles released	Topics
ESMA	Jun-14	Review on the application of accounting requirements for business combinations in IFRS financial statements
ESMA	Nov-13	Comparability of IFRS Financial Statements of Financial Institutions in Europe
ESMA	Jan-13	European enforcers review of impairment of goodwill and other intangible assets in the IFRS financial statements
CFA Institution	Aug-14	calls for enhanced loan disclosures to allow investors to compare bank financial statements more effectively
CFA Institution	Jul-14	CFA Institute Calls for Greater Transparency in Bank Reporting

General Approach

Focused Approach

External Resources

However, instead of identifying common practice of existing disclosures, the reports focus more on improvements needed for better practice

- For the 2015/2016 CP project, we should **divide our resources**:
 - Activity-specific analysis
 - post implementation reviews (PIRs)
- Assuming same resources are available as in 2014, this implies we can undertake a CP analysis **for two additional activities and one PIR**
- Additionally, we should seek further ways to **increase our collaboration** with regulators and standard-setters

Questions to the ITCG

- Do you agree that we should undertake a new CP project in 2015?
- Do you agree with our proposals as regards the scope of a potential 2015/2016 CP project? Are there other approaches we should consider?