Beyond the GAAP

Mazars' newsletter on accounting standards

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Editorial

News from the IASB continues to be dominated by work to amend IFRS 17, to which we return in this edition's special study. This project even seems to overshadow progress on other issues, such as the presentation of financial statements, or the finalisation (with no changes to the standards) of work on segment reporting and interest rates. The fact remains that the latest news from the March IASB meeting suggests that there is no appetite, on the IASB's part, for change on the thorniest aspect of IFRS 17, the level of contract aggregation.

Enjoy your reading!

Edouard Fossat Isabelle Grauer-Gaynor

Study | Survey | Expert opinion | Overview | **Newsletter**

IFRS Highlights

The IASB ends its improvement projects on IFRS 8 and discount rates

On 28 February 2019, the IASB published the summary of its projects proposing improvements to IFRS 8 – *Operating segments* (IFRS 8 and IAS 34 amendments) and on discount rates in IFRS standards, bringing these two projects to an end.

Readers will recall that, following the Post-implementation Review (PIR) of IFRS 8 launched in 2012, an exposure draft (ED/2017/2) was issued in March 2017, but failed to convince the stakeholders.

In the case of the cross-cutting project on discount rates in IFRS standards, which aimed to investigate reasons for inconsistencies between requirements relating to discount rates in different standards and to consider how these inconsistencies could be addressed, the IASB at length concluded that it was preferable to consider discount rate questions case by case rather than in a single cross-cutting project.

For more details, see the IASB site at:
https://www.ifrs.org/news-and-events/2019/02/project-summaries-on-ifrs-8-and-discount-rates-published/

European highlights

Potential impacts of a no-deal Brexit on financial reporting.

In view of the political difficulties attending the departure of the United Kingdom from the European Union, the UK's Department for Business, Energy and Industrial Strategy and the Financial Reporting Council published a letter on 19 February containing important information on corporate financial reporting in the case of a no-deal Brexit. Although the UK Parliament voted on 13 March to reject any departure without a withdrawal agreement (which nonetheless leaves this outcome on the table at this stage), we thought it timely to bring this letter to the attention of our readers.

Two subjects in particular may affect non-British EEA entities with a cross-border presence in the United Kingdom. For example:

- an intermediate UK parent company with an immediate EEA parent will no longer be automatically deemed exempt from producing consolidated accounts;
- UK-registered dormant companies with EEA parents will be required to prepare individual annual accounts for accounting periods beginning after the exit date.

The letter indicates this scenario would also see the removal of exemptions from producing the non-financial information statements and the alteration of accounting reference dates.

We advise readers to consider without delay how they would be affected should the United Kingdom leave the European Union without a withdrawal agreement.

In the case of EEA public companies with a UK listing, the British government wishes to provide continuity. Therefore, it intends to issue an equivalence decision, in time for exit day, determining that EU-adopted IFRS can continue to be used to prepare financial statements for Transparency Directive requirements and for the purposes of preparing prospectuses under the Prospectus Directive (both directives should be adopted in the UK).

The BEIS/FRC letter is available on the FRC site at the following address:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/780885/accounting-if-theres-no-brexit-deal-letter-21-february-2019.pdf

Adoption of IAS 28 amendment

On 8 February 2019, the European Commission endorsed the amendment to IAS 28 – *Long-term Interests in Associates and Joint Ventures*

This amendment states that IFRS 9 is applicable to other financial instruments in an associate or joint venture to which the equity method is not applied, including the long-term interests that form part of the entity's net investment in an associate or joint venture.

These other financial instruments must therefore be accounted for in accordance with IFRS 9, including its provisions for the impairment of financial instruments, before any allocation of losses and impairments under IAS 28.

Note that the IASB amendment is accompanied by an illustration that is not included in the regulation.

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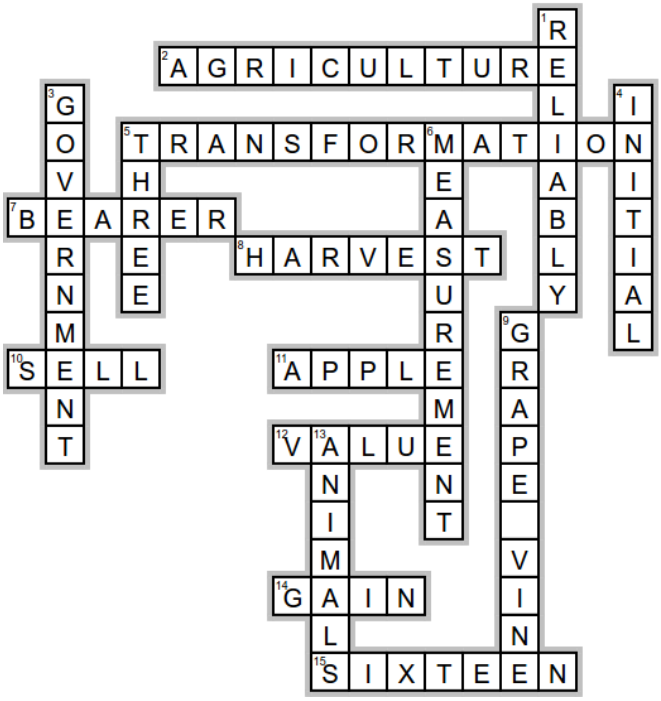
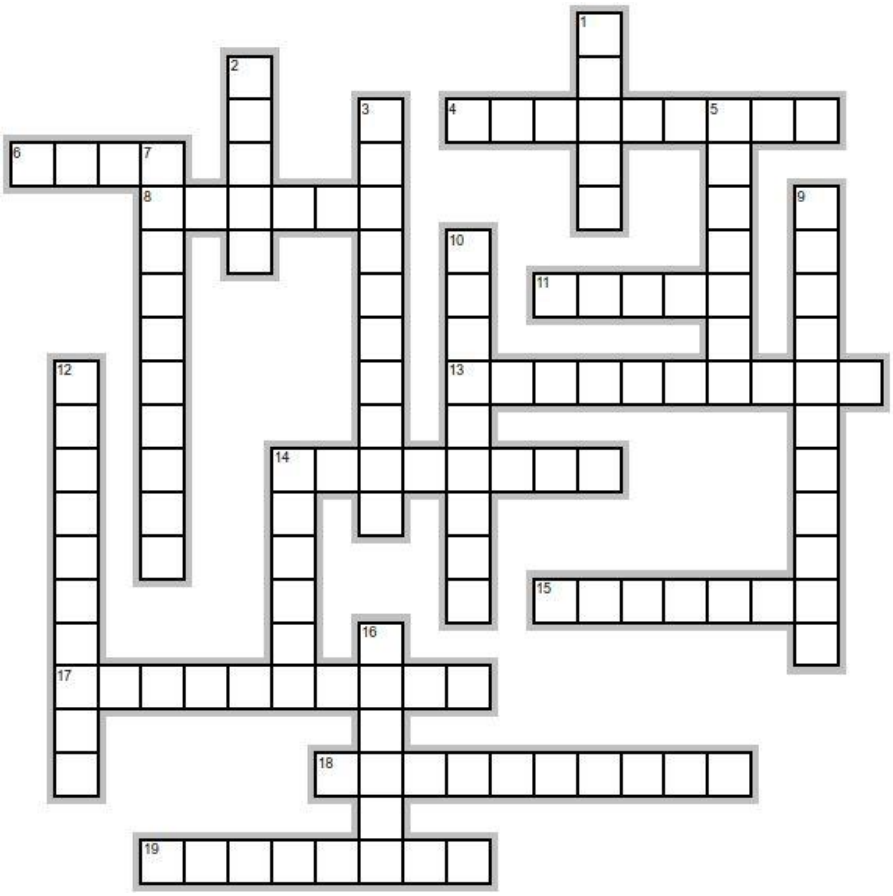
Regulation (EU) 2019/237, published in the OJ EU on 11 February 2019, is of mandatory application to annual reporting periods beginning on or after 1 January 2019.

It can be consulted at the following address: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.2019.039.01.0001.01.ENG&toc=OJ%3AL%3A2019%3A039%3ATOC

Crossword: last month's solution



Crossword: IAS 1 – Back to basics!



Across

4. Type of financial statements published under another standard and not covered by IAS 1
6. Number of summary financial statements
8. Number of components that may appear in other comprehensive income
11. The standard requires no particular one for each of the statements
13. If an entity concludes that compliance with an IFRS requirement would provide misleading information, it must depart from that requirement, provided this framework allows it to
14. When expenses are presented this way, additional information must be furnished in the notes, using a different method of presentation
15. Deferred tax assets and liabilities may not be presented as such assets and liabilities
17. The presentation of each financial statement must be given the same level of this by the entity
18. IFRS financial statements must include this statement
19. Most common method of presenting the cash flow statement

Down

1. When the disclosures required in IFRS are insufficient to meet the objective of providing financial information, further disclosures must be this
2. Certain information, when not provided in the summary statements, must appear here
3. The financial statements also report on the results of it's stewardship of the resources entrusted to it
5. Type of information not covered by IAS 1
7. Nature of the efforts an entity must make before concluding that the application of a standard is impracticable
9. Principle applying to every aspect of financial reporting (recognition, measurement, presentation and disclosure)
10. Information included in the notes, in addition to quantitative disclosures
12. The default presentation, as required by IAS 1, of assets and liabilities and income and expenses does not allow it
14. This is not defined for summary statements
16. The statement of other comprehensive income starts with this net aggregate

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A Closer Look

IASB planning amendments to IFRS 17 – *Insurance Contracts* (cont'd)

During its February meeting, the IASB continued its discussions on the amendments necessary to IFRS 17 on insurance contracts. Readers will recall that these discussions aim to address the criticisms raised by stakeholders and thus to more faithfully represent the performance of insurance contracts in financial statements.

At the end of this meeting the IASB tentatively decided to add additional amendments to the provisional list drawn up in January (see Beyond the GAAP no 129 – January 2019).

The new amendments relate to:

- loans that transfer significant insurance risk;
- transitional arrangements on the first application of IFRS 17.

The official report of these decisions is available on the IASB site at: https://www.ifrs.org/news-and-events/updates/iasb-updates/february-2019/#4.

The staff papers on the various topics addressed by the IASB in February can also be consulted at: https://www.ifrs.org/news-and-events/calendar/2019/february/international-accounting-standards-board/.

Beyond the GAAP will address each of these topics below, point by point.

1. Loans that transfer significant insurance risk

During the meeting, the IASB considered the case of loans that transfer significant insurance risk, where the insurance coverage only refers to the payment obligations of the policyholder/borrower.

The Board proposes to clarify the standard to be applied to contracts of this type by amending the scope of standards IFRS 17 – *Insurance contracts* and IFRS 9 – *Financial instruments* in order to:

- enable entities issuing such contracts to account for those contracts applying either IFRS 17 or IFRS 9, and
- to clarify that the choice would be made portfolio by portfolio, using the definition of a portfolio in IFRS 17.

Note that where entities opt to apply IFRS 9 to these instruments, the insurance component may have to be taken into account in the SPPI (Solely Payments of Principal and Interest) analysis.

2. IFRS 17 transitional arrangements

The IASB has tentatively decided to amend some of the arrangements for first application of IFRS 17, but to retain others.

Proposed amendments

The IASB has tentatively decided to amend the transitional requirements in IFRS 17 for liabilities that relate to the settlement of claims incurred before an insurance contract was acquired as follows:

- to add a specified modification to the modified retrospective approach (MRA) so that an entity classifies such liabilities as a liability for incurred claims. Consistent with the other specified modifications in the MRA, an entity would be permitted to use this specified modification only to the extent that it does not have reasonable and supportable information to apply a full retrospective approach (FRA);
- to permit an entity applying the fair value approach (FVA) to choose to classify such liabilities as a liability for incurred claims.

Requirements not proposed to be amended

The IASB has tentatively decided to retain IFRS 17 on the following aspects of the transition:

- the choice between different approaches to the transition (for example, where the full retrospective method cannot be applied, IFRS 17 allows entities to choose between the modified retrospective approach and the fair value approach);
- the requirement to present restated comparative information (i.e. supposing that the standard comes into effect on 1 January 2022, as voted in November, the 2021 comparative information will have to be restated under IFRS 17; unlike IFRS 9, IFRS 17 does not allow the 2021 comparative information to be retained as originally published, without restatement);
- the prohibition of retrospective application of the risk mitigation option[†]. One Board member disagreed with this decision. The IASB asked the staff to continue to explore alternative proposals that would address stakeholders' concerns about the results of this prohibition;
- the transition requirements in IFRS 17 relating to the cumulative amounts included in other comprehensive income.

  When an entity chooses to apply the OCI option for the recognition of insurance finance income or expenses[‡], it may in some circumstances be permitted or required to determine the amounts recognised in OCI at the transition date as nil, whereas IFRS 9 provides no analogous options for the financial assets measured at fair value through OCI (FV-OCI) to which these insurance contracts are linked.

  This absence of alignment between the transition arrangements for the two standards may create accounting mismatches during the years that follow transition.

- The following aspects of the modified retrospective approach (MRA) are retained:
  - the prohibition preventing an entity from using a specified modification to the extent that the entity has reasonable and supportable information to apply the related IFRS 17 requirement retrospectively (i.e. in accordance with the FRA);
  - the option for an entity to use a specified modification only when the entity has reasonable and supportable information to apply that modification;
  - the prohibition preventing an entity from introducing its own modifications (even those that it regards as consistent with the objective of the MRA) in addition to those specifically set out by IFRS 17[§]. However, the Board noted that the existence of specified modifications does not preclude the normal use of estimation techniques;
  - the specified modification in IFRS 17 paragraph C12, relating to the use of cash flows that are known to have occurred at the transition date, instead of estimating retrospectively cash flows that were expected to occur;
  - the methods for calculating the contractual service margin or loss component at the transition date set out in paragraph C17 of IFRS 17 for contracts with direct participation features (subject to the variable fee approach), without an amendment that would permit an entity to apply to such contracts the specified modifications set out in paragraphs C11 to C16 for contracts subject to the general IFRS 17 model.

[†]See IFRS 17 paragraphs B115 to B118 and January's edition of Beyond the GAAP on reinsurance contracts issued

[‡]See IFRS 17 paragraphs 88 to 90

[§]See IRFS 17 paragraphs C9 to C19

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3. What next?

The remaining topics identified by the staff in October 2018, and which the IASB has not yet resolved, will continue to be debated at future meetings.

These include, in particular, the level of aggregation of contracts an in particular the annual cohorts requirement, along with any amendments to the disclosures to be provided on insurance contracts.

Key points

The February meeting made substantial progress on:

- loans with an insurance component, which may be accounted for by applying either IFRS 17 or IFRS 9, at the issuing entity's choice;
- the transitional requirements in IFRS 17 for liabilities that relate to the settlement of claims incurred before an insurance contract was acquired.

The precise wording that will be proposed in the future amendments must be closely monitored in order to ensure that these achieve the stated objectives.

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Events and FAQ

Frequently asked questions

IFRS

- IFRS 16 and business combinations
- Any accounting consequences of the announcement of a job-saving plan after the reporting date
- Delay in the PPA and appropriation period
- IFRS 15: right of access or right of use?
- Recognition of an intra-group share-based payment

Upcoming meetings of the IASB, IFRS Interpretations Committee and EFRAG

IFRS		EFRAG	
IASB	**Committee**	**Board**	**TEG**
8-12 April	30 April	4 April	17 April
13-17 May	11-12 June	7 May	22-23 May
17-19 June	16-17 September	4 June	4 July

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