

Beyond the GAAP

Mazars' newsletter on accounting standards

NEWSLETTER / No. 111 – May 2017



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Editorial

IFRS 17 – *Insurance Contracts* has been in the pipeline for more than ten years, and finally made its appearance during the night of 16 to 17 May 2017. On 17 May, the IASB hosted two interactive webinars on the standard, and launched a dedicated webpage to support implementation. IFRS 17 will replace the interim standard IFRS 4 from 2021, meaning insurers will no longer be able to use local accounting frameworks for insurance contracts. The new standard is therefore likely to cause substantial upheaval, with impacts varying significantly from one company to another.

On the maintenance side, the IASB has also launched the Post-implementation Review of IFRS 13, which relates to fair value measurement (although it does not cover the circumstances in which fair value applies). Finally, our traditional summary of applicable standards and interpretations shows that there have been few changes in the first half of the year.

Enjoy your reading!

Edouard Fossat

Isabelle Grauer-Gaynor

IFRS Highlights

IASB launches Post-implementation Review of IFRS 13

As part of the Post-implementation Review of IFRS 13 – *Fair Value Measurement*, the IASB has published two documents relating to two different phases of the project:

- a call for applications to undertake a review of the academic literature on the effect of implementing IFRS 13 (published on 23 May 2017); and
- a Request for Information to gather stakeholders' experiences of implementing the standard (published on 25 May 2017).

As a reminder, Post-implementation Reviews of IFRS standards aim to assess:

- whether the information produced in accordance with the standard is useful to users of financial statements;
- whether any aspects of the standard present implementation difficulties and might result in inconsistent application of the requirements;
- whether any unexpected costs were incurred in preparing, auditing or enforcing the standard, or in using the information produced in accordance with the standard.

According to the Request for Information, the IFRS 13 PIR focuses primarily on the following areas:

- fair value measurement disclosures presented in accordance with the standard;
- additional information on measuring quoted investments in subsidiaries, joint ventures and associates at fair value (cf. Beyond the GAAP no. 81, September 2014);
- application of the concept of highest and best use of an asset when measuring the fair value of a non-financial asset;
- application of judgement.

The IASB is also consulting on whether there is a need for further guidance on measuring the fair value of biological assets and unquoted equity instruments.

The call for applications to undertake the literature review is open until 20 June 2017.

The deadline for the Request for Information is 22 September 2017.

Both documents can be found here:

<http://www.ifrs.org/projects/work-plan/pir-of-ifrs-13-fair-value-measurement/#published-documents>

Accounting for insurance contracts set to change over to IFRS 17

On 18 May 2017 the IASB published IFRS 17 – *Insurance Contracts*. This marks the end of the last major standard-setting project of the past decade.

IFRS 17 will replace the interim standard IFRS 4, for financial periods commencing on or after 1 January 2021. IFRS 4 was published in 2005 and, rather than setting out specific IFRS accounting principles, it permitted insurers to continue applying their local accounting framework.

This meant that users of financial statements were unable to make meaningful comparisons between different entities in this sector.

IFRS 17 aims to address this by:

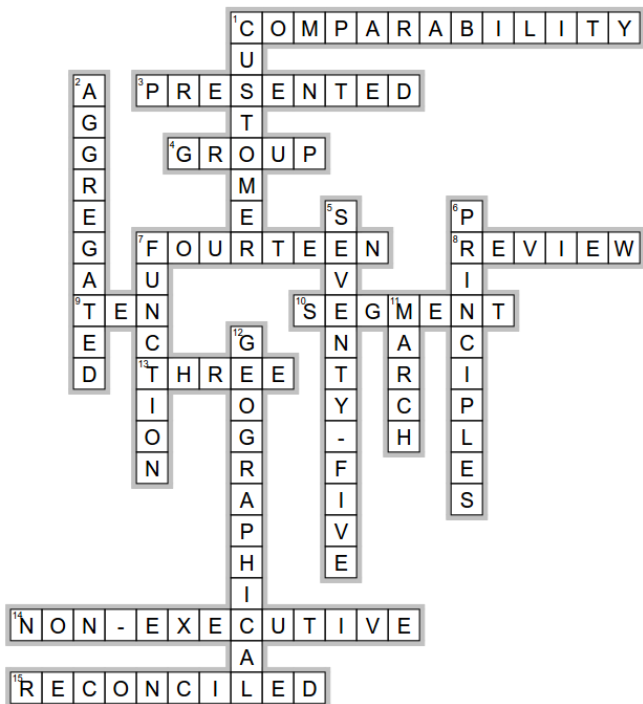
- requiring consistent accounting treatments for the various different types of insurance contract; and
- measuring insurance liabilities at their present value using an approach similar to Solvency II.

Given the huge range of existing practices, the impact of the standard will vary from one company to another. The IASB has published an effects analysis along with the standard to this effect. In the large majority of cases, the standard will fundamentally change the accounting policies for measuring, presenting and recognising insurance contracts, meaning there are big challenges for insurers in terms of implementing the standard and the related financial reporting.

To support implementation of the new standard, the IASB has decided to form a Transition Resource Group, as it did for IFRS 15 – *Revenue from Contracts with Customers* and for IFRS 9 on impairment of financial instruments. The IASB has launched a call for nominations for the group. In addition, the IASB has created a dedicated webpage for supporting implementation of the standard, on which it will post articles, presentations, webcasts and so on, as well as the effects analysis and a summary of the project: <http://www.ifrs.org/supporting-implementation/supporting-materials-by-ifrs-standard/ifrs-17/#support>

Stakeholders can also send questions to a dedicated email address, which is also listed on this page.

Crossword: last month's solution



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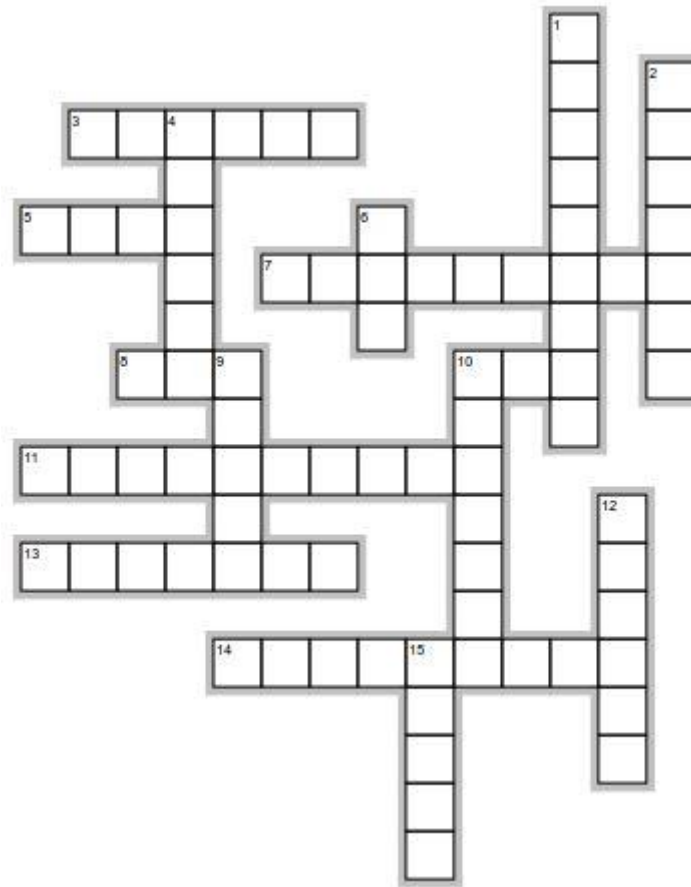
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Crossword: Do you have a fair knowledge of fair value?



Down:

1. The fair value measurement shall be adjusted for these costs in certain specific situations
2. For such financial instruments, inputs may be unobservable, meaning they are categorised at level 3
4. The adjective used to describe a market in which transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis
6. This price may be used to measure the fair value of a quoted asset
9. The number of levels in the fair value hierarchy under IFRS 13
10. It may not be taken into account when measuring the fair value of a quoted financial asset that is a controlling interest
12. The price to use to measure the fair value of quoted assets, except in rare cases
15. This price does not always equal the fair value of an asset or liability

Across:

3. These contracts do not fall within the scope of IFRS 13
5. Price which always equals the fair value, even at initial recognition
7. Fair value measurement assumes a transaction taking place on such a market. If no such market exists, the most advantageous market shall be used
8. In certain situations, the measurement basis of the fair value of a group of financial assets and liabilities
10. The acronym for the type of review that the IASB is currently carrying out with respect to IFRS 13
11. Entities shall maximise the use of such inputs when measuring fair value
13. The first of the two characteristics of use of a non-financial asset that is to be assumed when measuring the fair value of this asset
14. It must be exercised to assess the relative significance of unobservable inputs used to measure fair value, and thus to determine whether the fair value measurement is categorised at level 2 or level 3

A Closer Look

Standards and interpretations applicable at 30 June 2017

To coincide with the preparation of interim financial reports, Beyond the GAAP presents an overview of the IASB's most recent publications. For each text, we clarify whether it is mandatory for this closing of accounts, or whether early application is permitted, based on the EU endorsement status report (Position 7 June 2017) :

<http://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FLists%2FPublic%20News%2FAttachments%2F12%2FEFRAG%20Endorsement%20Status%20Report%207%20June%202017.pdf>

As a reminder, the following principles govern the first application of the IASB's standards and interpretations:

- The IASB's draft standards cannot be applied as they are not published standards.
- IFRIC's draft interpretations may be applied if the two following conditions are met:
 - The draft does not conflict with currently applicable IFRSs;
 - The draft does not modify an existing interpretation which is currently mandatory.
- Standards published but not yet adopted by the European Union may be applied if the European adoption process is completed before the interim financial reports have been approved by the relevant authority (i.e. usually the board of directors).

- Interpretations published but not yet adopted by the European Union at the end of the interim financial reporting period may be applied unless they conflict with standards or interpretations currently applicable in Europe.

It should also be noted that under IAS 34 "Interim Financial Reporting", the changes in accounting policies required by new standards must also be disclosed in the interim financial reporting published during the course of the year.

1. Situation of European Union adoption process for standards and amendments published by the IASB

Standard	Subject	Effective date according to the IASB	Date of publication in the Official Journal	Application status at 30 June 2017
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014)	Postponed Early application permitted	Deferred	Permitted ⁽²⁾
IFRS 15	Revenue from Contracts with Customers (issued on 28 May 2014) including amendments to IFRS 15: Effective date (issued on 11 September 2015)	1/01/2018 Early application permitted	29 October 2016 Effective for annual periods beginning on or after 1 January 2018	Permitted
Amendments to IFRS 15	Clarifications to IFRS 15 (issued on 12 April 2016)	1/01/2018 Early application permitted	Awaiting endorsement by the EU (expected in Q2 2017)	Possible ⁽¹⁾
IFRS 9	Financial Instruments (issued on 24 July 2014)	1/01/2018 Early application permitted	29 November 2016 Effective for annual periods beginning on or after 1 January 2018	Permitted
IFRS 14	Regulatory Deferral Accounts (issued on 30 January 2014)	1/01/2016 Early application permitted	No endorsement The EC has decided not to launch the endorsement process of this interim standard and to wait for the final standard	Not permitted

(1) If the amendment is a clarification of an existing standard and is not in contradiction with current standards

(2) If the entity had not developed an accounting policy

1. Situation of European Union adoption process for standards and amendments published by the IASB (continued)

Standard	Subject	Effective date according to the IASB	Date of publication in the Official Journal	Application status at 30 June 2017
IFRS 16	Leases (issued on 13 January 2016)	1/01/2019 Early application permitted	Awaiting endorsement by the EU (expected in Q4 2017)	Not permitted
IFRS 17	Insurance Contracts (issued on 18 May 2017)	1/01/2021 Early application permitted	Awaiting endorsement by the EU (date not yet announced)	Not permitted
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses (issued on 19 January 2016)	1/01/2017 Early application permitted	Awaiting endorsement by the EU (expected in Q2 2017)	Permitted ⁽¹⁾
Amendments to IAS 7	Disclosure Initiative (issued on 29 January 2016)	1/01/2017 Early application permitted	Awaiting endorsement by the EU (expected in Q2 2017)	Permitted ⁽¹⁾
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016)	1/01/2018 Early application permitted	Awaiting endorsement by the EU (expected in Q3 2017)	Permitted ⁽¹⁾
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016)	1/01/2018 Early application permitted	Awaiting endorsement by the EU (expected in Q3 2017)	Not permitted
Annual improvements to IFRSs 2014-2016 Cycle	Annual improvements to various Standards (issued on 8 December 2016)	1/01/2017 or 1/01/2018 Early application permitted for amendment to IAS 28	Awaiting endorsement by the EU (expected in Q3 2017)	Permitted ⁽¹⁾
Amendments to IAS 40	Transfers of Investment Property (issued on 8 December 2016)	1/01/2018 Early application permitted	Awaiting endorsement by the EU (expected in Q3 2017)	Permitted ⁽¹⁾⁽²⁾

(1) If the amendment is a clarification of an existing standard and is not in contradiction with current standards

(2) If the entity had not developed an accounting policy

2. Situation of European Union adoption process for interpretations published by the IFRS IC

Interpretation	Subject	Effective date according to the IASB	Date of publication in the Official Journal	Application status at 30 June 2017
IFRIC 22	Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016)	1/01/2018 Early application permitted	Awaiting endorsement by the EU (expected in Q3 2017)	Permitted ⁽²⁾
IFRIC 23	Uncertainty over Income Tax Treatments (issued on 7 June 2017)	1/01/2019 Early application permitted	Awaiting endorsement by the EU (expected in 2018)	Possible ⁽²⁾

(1) If the amendment is a clarification of an existing standard and is not in contradiction with current standards

(2) If the entity had not developed an accounting policy

Events and FAQ

Frequently asked questions

IFRS

- Determining whether the sale of trade receivables gives rise to derecognition.
- Deferred tax relating to an internal relocation of assets and error correction.
- Initial and subsequent recognition of contingent liabilities in a business combination under IFRS 3.
- Accounting for additional CS3 contributions (the French Corporate Social Solidarity Contribution).
- Extending the expiration date of an option to purchase a trademark.
- The portion of business combination costs that can be allocated to an equity-settled transaction.

Upcoming meetings of the IASB, the IFRS Interpretations Committee and EFRAG

IFRS		EFRAG	
IASB	Committee	Board	TEG
19-23 June	13 June	20 July	28-29 June
17-21 July	12-13 September	14 September	26-28 July
18-22 September	20-21 November	10 October	20-22 September

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