BY
Garrett Ryan

Garrett Ryan, Financial Reporting Supervision, IAASA, is a Chartered Certified Accountant (AccA) with over 9 years' of IFRS (and Irish GAAP) enforcement experience of listed equity, fund and debt issuers.

The new accounting standards

Implementation in companies' annual and half-yearly financial statements

This article examines the impact the new Accounting Standards IFRS 9, IFRS 15 and IFRS 16 will have on companies.

> *'It is important that, where the impact of the new Standards is expected to be significant, companies shall ensure that the financial statements disclose, as early as possible, the possible impact of the new Standards will have on the company's financial statements'*

Introduction

IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* (together the 'new Standards') represent a significant change compared to the existing Standards. The new Standards have the potential to significantly impact the reported results of some companies, to make large impacts on companies' balance sheets, to alter the amount and timing of revenue recognition and to require new disclosures in companies' financial statements.

The transition to the new Standards may have a significant impact on, for example, banks when they measure expected impairment losses on their loan books and on technology companies and companies providing services (containing multiple performance obligations) when they measure revenues.

IFRS 9 incorporates a new expected loss impairment model for recognising impairment provisions and replaces the current incurred loss impairment model in IAS 39. There are also changes to the accounting for a modification of financial liabilities arising from applying IFRS 9.

IFRS 15 provides a single, principles based model to be applied to all contracts with customers and requires new disclosures to be provided in the financial statements. For some companies, there may be a material impact on the amount and/or timing of revenue recognition (e.g. companies with long-term contracts, multiple-element arrangements, transactions with variable consideration and transactions with financing features).

IFRS 16 introduces significant changes to lessee accounting and requires a lessee to recognise almost all leases on the balance sheet (with limited exceptions permitted). Aspects of IFRS 16 that are likely to pose challenges for some companies include: identifying all relevant contracts, capturing all the necessary data in accounting systems, considering all the practical difficulties such as dealing with contract extensions, termination options, discount rates for operating leases and the new reporting requirements.

It is important that, where the impact of the new Standards is expected to be significant, companies must ensure that the financial statements disclose, as early as possible, the possible impact the new Standards will have on the company's financial statements.

Results of IAASA's survey – implementation of the new Standards

In July, IAASA published the results of a desktop survey of the 2016 annual financial statements of Irish equity issuers to assess the level of preparedness by companies for the implementation of the new Standards. The results of the survey are available on the IAASA website.[1]

IFRS 9 Financial Instruments

The three Irish banks (AIB, Bank of Ireland and Permanent TSB) provided detailed qualitative descriptions of the key concepts and expected impacts of the transition to IFRS 9 that are of a good quality in their 2016 annual financial statements. The three banks expect that IFRS 9 will result in higher impairment provisions and more volatile impairment charges. However, none of the banks quantified the possible impact of IFRS 9 on impairment provisions, prudential ratios, regulatory capital or key performance measures in their 2016 financial statements.

IFRS 15 Revenue from Contracts with Customers

Most companies that will be impacted by IFRS 15 did not highlight important differences to current practises arising from their initial application of IFRS 15. A large number of companies provided little or no disclosure of the key concepts of IFRS 15. However, a small number of companies provided good quality IFRS 15 disclosures indicative of the type of information that is useful to users of financial statements.

1. www.iaasa.ie/getmedia/f3952fac-2813-401c-8e04-59d65a5c2335/New-Accounting-Stds-IFRS-9-IFRS-15-IFRS-16-FINAL.pdf .

IFRS 16 Leases

Sixty-two percent of companies are still evaluating the impact of IFRS 16 and a further seventeen percent expect IFRS 16 to have a significant impact in the period of initial application. There is room for improvement in companies' disclosure of the key differences from current accounting practices. Disclosures made by companies either lacked sufficient detail of the key changes to accounting for leases, or the descriptions were incomplete, or companies were silent on the key changes arising from IFRS 16. Disclosures of the expected impact of IFRS 16 presented by a small number of companies were of good quality and indicative of the type of information that is useful to users of financial statements.

> *'Companies should anticipate the implementation of the new Standards to be an area of focus for IAASA in the selection of and examination of companies' future financial statements.'*

How should companies improve their communication of the impacts of the new Standards?

Where companies expect that the impact of applying the new Standards will be significant, they should:

a. provide information about the accounting policy choices that are to be taken upon first application of the new Standards;
b. disaggregate the expected impact into elements that companies use to measure the impact and are useful to users of the financial statements;
c. explain the nature of the impacts, in entity specific terms, so that users of the financial statements understand the key changes and the key drivers when compared to the existing accounting principles on recognition and measurement; and
d. provide a quantitative assessment of the impact of the new Standards in the period of initial application, where reliable data is available.

Conclusion

The provision of timely and entity specific information in the financial statements may be important information for users of the financial statements. Disclosure of the impact of implementing the new Standards is likely to vary between companies depending on the complexity of the implementation process, the impact and, where relevant, differences in entities' timetables for capturing data and implementing new information systems. Companies should anticipate that the implementation of the new Standards will be an area of focus for IAASA in the selection of and examination of companies' future financial statements. The European Securities and Markets Authority ('ESMA') and European national accounting enforcers (including, in Ireland, IAASA) are monitoring the level of transparency that companies provide in their financial statements regarding the preparation for and implementation of the new Standards.

Disclaimer – the views expressed herein are those of Garrett Ryan and do not necessarily reflect the views of the Authority, the Board or the staff of IAASA.