

# IFRS on point.

## Financial Reporting Developments and Information: June 2015

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### International headlines

#### IASB issues work plan update

Following its June meeting, the IASB has updated its work plan. The revised plan moves the target ED date for clarifications arising from the post-implementation review of IFRS 8 up one quarter to the third quarter of 2015 and extends redeliberations for insurance contracts project to the third quarter of 2015.

Click [here](#) for more information.

#### Hans Hoogervorst speaks about historical cost and fair value

At the IFRS Foundation's IFRS conference recently held in Paris, IASB Chairman Hans Hoogervorst spoke about the question of how assets and liabilities should be measured, a topic he called "one of the most difficult topics in accounting".

Mr Hoogervorst pointed at the fact that the recently published exposure draft containing proposals for topical areas where the IASB considers a revision and amendment of the existing *Conceptual Framework* necessary also included a chapter on measurement offering a description of different measurement bases, the information that they provided and their advantages and disadvantages. In this chapter, the IASB had divided the measurement techniques into two categories: historical cost and current value. He said that within the current value category, it was fair value accounting that generated most controversy. However, Mr Hoogervorst pointed out that "the dichotomy between historical cost and fair value is not as stark as one would expect". He listed four aspects where the assumed stability of historical cost and the often cited vulnerability of current value were not necessarily that far apart. He cited:

- the fact that, for many transactions, historical cost started and ended with fair value (or values that came very close to it);
- that, despite its name, historical cost was updated too (depreciation/ amortisation);
- that the alleged stability resulting from historical cost accounting could be extremely misleading; and
- that the stability of historical cost could be interrupted by steep cliff effects.

He summed up:

*"In conclusion, historical cost is to some extent based on fair value; it needs a degree of current measurement to maintain its relevance, it is not free from subjective updating requirements; and it is not necessarily stable. Moreover, historical cost is also vulnerable to abuse. In sum, all the vulnerabilities that are often attributed to fair value accounting can be equally pertinent to historic cost."*

For more useful information please see the following websites:

[www.iasplus.com](http://www.iasplus.com)

[www.deloitte.com](http://www.deloitte.com)

However, Mr Hoogervorst also stated that it would not do to abandon historical costs completely in favour of fair value. Instead, he noted in “very broad brushstrokes indeed” the following general conclusions as to when the different categories of measurement bases should be applied:

- If the nature of business activities is to use assets in combination with other assets to produce goods or services, this generally points in the direction of historical cost.
- If the nature of business activities is to trade assets or liabilities in active markets, this would generally point in the direction of current value measurement.
- If the characteristics of an asset or a liability are such that they are highly sensitive to market factors or to other risks in the item, this would generally point in the direction of current value measurement.

He also noted of course that more factors than these would need to be taken into consideration, such as the cost of performing the measurement, the degree of measurement uncertainty, faithful representation and the avoidance of accounting mismatches. He encouraged his audience to comment on the proposals in the IASB’s exposure draft.

Click [here](#) to access the full transcript of Chairman Hoogervorst’s speech available on the IASB website.

### **ASAF membership update**

The IFRS Foundation Trustees have announced the new composition of the Accounting Standards Advisory Forum (ASAF) for the next three years. The ASAF is chaired by the IASB and includes 12 non-voting members from various locations around the world.

The composition, which is effective immediately, consists of the following:

- Africa region:
  - Financial Reporting Council of South Africa.
- Asia-Oceania region:
  - Asian-Oceanian Standard-Setters Group.
  - Accounting Standards Board of Japan.
  - Australian Accounting Standards Board working with the New Zealand Accounting Standards Board.
  - China Accounting Standards Committee.
- European region:
  - European Financial Reporting Group.
  - Accounting Standards Committee of Germany.
  - Autorité des normes comptables.
  - Organismo Italiano di Contabilità.
- Americas region:
  - Group of Latin American Accounting Standard Setters.
  - Canadian Accounting Standards Board.
  - Financial Accounting Standards Board.

Click [here](#) for more information, see the press release on the IASB’s website.

### **European Commission concludes evaluation of the IAS Regulation**

The European Commission has published a report on the evaluation of its Regulation on the application of International Financial Reporting Standards (IFRS). The evaluation aimed at establishing whether the initial objectives of the IAS Regulation are still relevant and at identifying areas for improvement in the functioning of the IAS Regulation, if needed.

The key findings of the evaluation launched in August 2014 show that IFRSs were successful in creating a common accounting language for capital markets. Preparers claimed mostly positive experiences regarding their application of IFRSs and stated that in most cases benefits outweighed costs. Investors also largely supported IFRS for improving the transparency and comparability of financial statements. In addition, most stakeholders considered that the process through which IFRSs become part of EU law works well and the recent reform of the European Financial Reporting Advisory Group (EFRAG) was supported.

However, the report also identifies room for improvement in some areas. Respondents feel that the collaboration in the endorsement process could be enhanced to improve timeliness and to allow for a more holistic consideration of standards with other aspects of EU law. They also stated that while an endorsement process remains necessary to ensure that the standards developed by the IASB meet EU criteria and are conducive to the European economy, procedures could be simplified.

All in all the Commission concludes that:

- The key objectives of the IAS Regulation have been met.
- Evidence suggests that the existing scope of the Regulation and the options given to Member States are appropriate.
- The Commission supports IFRS as global standards and continues to urge the US SEC to adopt IFRS for use by its domestic companies.
- The effectiveness and efficiency of the Regulation depend on the quality of the Standards themselves which should continue to be appropriately assessed during their development and endorsement.
- The Commission encourages Member States to apply ESMA enforcement guidelines.

Click [here](#) to access the press release, click [here](#) to see the report on the European Commission's website and click [here](#) to access the staff working paper on the European Commission's website.

#### **IASB proposes amendments to IAS 19 and IFRIC 14 on pension accounting**

The International Accounting Standards Board (IASB) has published an exposure draft (ED) of proposed amendments to IAS 19 *Employee Benefits* and IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The amendments address two issues submitted to the IFRS Interpretations Committee.

Comments are requested by 19 October 2015.

Click [here](#) for more information.

#### **IFRS Foundation publishes teaching material for education initiative**

The IFRS Foundation has published the third part of its comprehensive, framework-based IFRS teaching material for its education initiative. The material is free to download and is designed to enhance educators' teaching about IFRSs and to help students develop their abilities to make the necessary estimates and judgments when applying IFRSs and the *IFRS for SMEs*.

The material covers the accounting for liabilities, classification of financial instruments with characteristics of equity, forward contracts, and financial assets and liabilities. In addition, the material is presented in three stages to accommodate students at different levels:

- Stage 1 – A student's first financial reporting course.
- Stage 2 – A financial reporting course midway to qualifying as a CA, CPA or equivalent.
- Stage 3 – A course immediately before qualifying as a CA, CPA or equivalent.

Click [here](#) for more information to see the press release on the IASB's website.

#### **IFRS Foundation publishes proposal related to IFRS Taxonomy 2015**

The IFRS Foundation has published "Proposed Update 1 to the IFRS Taxonomy" for public comment.

The Taxonomy updates contain additional Taxonomy concepts that reflect new IFRSs and improvements to IFRSs, technical updates, and corrections. This update includes Taxonomy elements for the May 2015 final amendments to the *IFRS for SMEs*.

Comments on the proposed update are due by 17 August 2015.

Click [here](#) for more information to see the press release on the IASB's website.

### **IASB completes post-implementation review of IFRS 3**

The IASB has completed its post-implementation review (PIR) of IFRS 3 '*Business Combinations*'. The review concluded that there is general support for IFRS 3 and its related Standards; however, there are several aspects where additional research is needed.

The PIR report assessed information gathered from academic literature as well as feedback from (1) investors and other financial statement users and (2) preparers, auditors, and regulators. It showed general support for the "usefulness of reported goodwill, other intangible assets and goodwill impairment." However, views were mixed on certain elements of the Standard, including the following:

#### *For investors*

- Subsequent accounting for goodwill.
- Separate recognition of intangible assets.
- Measurement of non-controlling interests
- Subsequent accounting for contingent consideration.

#### *For preparers, auditors, and regulators*

- Definition of a business.
- Fair value measurement.
- Impairment test for goodwill.
- Contingent payments to selling shareholders who become employees.

The area of amortisation of goodwill was recently covered in a research paper by the Accounting Standards Board of Japan (ASBJ) and an earlier discussion paper by a joint-research group which included the ASBJ, EFRAG, and OIC ("Organismo Italiano Contabilità") to provide their observations on the topic in order to stimulate a global discussion.

On the basis of the PIR report, the IASB added to its agenda two research projects that will focus on:

- Effectiveness and complexity of testing goodwill for impairment.
- Subsequent accounting for goodwill.
- Challenges related to applying the definition of a business.
- Identification and fair value measurement of intangible assets such as customer relationships and brand names.

Click [here](#) to access the press release and click [here](#) for the PIR report on the IASB's website. In addition click [here](#) to see our IASPlus project page on the PIR of IFRS 3.

### **EFRAG suggests public review of the forthcoming Standard on leases**

European Financial Reporting Advisory Group (EFRAG) has sent a letter to the IASB requesting a public fatal flaw review of the forthcoming leases Standard to ensure that constituents understand the requirements and how to apply them.

In September 2014, EFRAG had called for amending the IASB's consultation process by adding a public fatal flaw review prior to finalisation of a Standard or a major amendment to a Standard. This time EFRAG is solely suggesting to have this public fatal flaw for the leases Standard. The IASB at times uses the tool of fatal flaw reviews, and EFRAG feels such a review is warranted this time as the IASB has put significant redrafting effort into the final Standard, especially with respect to the definition, since the last public consultation. As a consequence of the substantial changes to the definition, EFRAG fears that preparers may be confused and not necessarily understand the scope of the new requirements. EFRAG argues:

*"Unless entities are able to properly understand and apply the definition of a lease and the other requirements in the Standard, there will be a significant and wasteful use of time debating possible interpretations, which will lead to a real risk of divergent application."*

Click [here](#) to access the letter on the EFRAG website.

### **IASB issues 'Investor Perspectives' on prudence**

The International Accounting Standards Board (IASB) has released a new edition in its 'Investor Perspectives' series. In this edition, IASB member Steve Cooper discusses the concept of prudence.

On 28 May 2015, the IASB issued an exposure draft on the *Conceptual Framework*, which reintroduced an explicit reference to prudence and states that the exercise of prudence supports neutrality. Mr Cooper discussed how issues with the pre-2010 definition of prudence created uncertainty in practice and noted that the proposed definition provides more clarity into the approach intended by the IASB.

Click [here](#) for more information, see the June 2015 edition of the *Investor Perspectives* newsletter on the IASB's website.

### **IFRS Foundation publishes updated progress report on global use of IFRSs**

The IFRS Foundation has issued an updated version of "*Financial Reporting Standards for the World Economy*," which details the progress made toward global use of IFRSs, including IFRS profiles for 140 jurisdictions around the world (analysis related to whether IFRSs are required or permitted in those jurisdictions).

The publication's observations regarding use of IFRSs in those jurisdictions include the following:

- There is general support for global accounting Standards as well as for the use of IFRSs as the global standard.
- IFRSs are required for domestic listed companies in 116 jurisdictions, with 60 percent of those jurisdictions requiring IFRSs for unlisted financial institutions and 90 percent permitting IFRSs for unlisted companies.
- Most of the 24 remaining jurisdictions do not require IFRSs but do permit their use to some degree.
- Modifications to IFRSs are rare.
- The auditor's report refers to compliance with IFRSs in most jurisdictions.
- An endorsement process is not performed for 67 percent of 107 jurisdictions (not including the 33 countries of the EU, the EEA, and EU candidates).
- Adoption of the *IFRS for SMEs* is permitted or required in 73 of the 140 jurisdictions.

Click [here](#) for more information, see the progress report on the IASB's Website.

### **Chief Accountant of the SEC believes former SEC Chairman's call for burying IFRS was 'premature'**

At a financial reporting conference in California, Jim Schnurr, Chief Accountant of the US Securities and Exchange Commission (SEC) confirmed that the SEC does not intend to bury the objective of a single set of high-quality, globally accepted accounting Standards.

As in a speech given last month at Baruch college, Mr Schnurr stated that his research to date has revealed that there is virtually no support to have the SEC mandate IFRS for all registrants, that there is little support for the SEC to provide an option allowing domestic companies to prepare their financial statements under IFRS, but that there is continued support for the objective of a single set of high-quality, globally accepted accounting Standards. He therefore questioned former SEC Chairman Christopher Cox' comments at the same conference last year who had stated: "I come to bury IFRS, not to praise them". Given the continued support for convergence, Mr Schnurr commented that the real questions are: what is the path to achieve that objective and how do we get there? He opined:

*"In my opinion, in the near term, FASB and IASB should continue to focus on converging the Standards. The boards should renew their commitment to cooperate and develop Standards that eliminate differences between IFRS and U.S. GAAP whenever it meets the needs of its constituents and improves the quality of financial reporting. I recognise the boards will not always be able to eliminate differences during the standard-setting process, primarily because they serve different constituents that have different needs. However, when differences in Standards arise, the boards should monitor the implementation of those Standards with the objective of learning from the implementation and re-engaging with each other with the goal of converging to the Standard with the highest quality financial reporting outcome."*

Mr Schnurr also commented on revenue recognition and the new converged Standards published in May 2014 and the work of the joint revenue transition resource group (TRG) which has led to proposed amendments to the FASB guidance in May and will see proposed IASB amendments in the third quarter of 2015.

The boards should apply the lessons learned from the recent revenue recognition Standard and realise that even though the words may be the same, to achieve convergence, cooperation is needed after the standard-setting process is complete and during the implementation stage of the Standards. While the FASB and IASB approach to clarifying the guidance differs slightly, both boards, as evidenced by their discussions during their joint meeting, continue to believe they have a converged approach.

Click [here](#) to access the full text of Mr Schnurr's speech on the SEC website and click [here](#) for all conference materials available on the conference website.

#### **IFRS Foundation issues Taxonomy guide for regulators**

The IFRS Foundation has issued a guide, "Using the IFRS Taxonomy – a Regulator's Guide," to help market regulators and other organisations adopt and use the IFRS Taxonomy within an electronic filing system.

The guide provides details on:

1. How to get started.
2. IFRS Taxonomy architecture.
3. Architecture options for using the IFRS Taxonomy in a filing system.
4. Best practices/recommendations.

Click [here](#) for more information, see the press release and click [here](#) for the guide on the IASB's website.

## Deloitte IFRS communications and publications

Issuance Date	Description
26 June 2015	<b>IFRS in Focus:</b> IASB proposes amendments to IAS 19 and IFRIC 14 to clarify two issues
5 June 2015	<b>IFRS in Focus:</b> IASB issues Exposure Draft for a revised Conceptual Framework
18 June 2015	<b>IFRS in your pocket:</b> IFRS in your pocket 2015

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## IASB and IFRS Interpretations Committee meetings

Description	
IASB meeting	Click <a href="#">here</a> for the 22 – 25 June 2015 meeting notes

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## Hot topics on IFRS

Topic	
Country by country reporting	Click <a href="#">here</a> for more information on the developments related to proposals to require the publishing of financial information by country or jurisdiction.
Differential Reporting	Click <a href="#">here</a> for more information dealing with the financial reporting needs and requirements of different categories of entities (listed, public, private).
Global financial crisis	Click <a href="#">here</a> for more information on global financial crisis.
Islamic Accounting	Click <a href="#">here</a> for more information responding to concerns that existing accounting Standards such as IFRSs or local GAAP may be perceived to be insufficient to account for and report Islamic financial transactions.
Use of IFRS by jurisdiction	Click <a href="#">here</a> for more information on use of IFRS within different jurisdictions.
IFRS in Europe	Click <a href="#">here</a> for more information on IFRS in Europe.
Research and education matters	Click <a href="#">here</a> for more information on research and education matters.

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## Comment letters

	Description	Receiving party	Date issued/ Comment deadline
Comment letters issued	Exposure draft ED/2015/1: <i>Classification of Liabilities (Proposed amendments to IAS 1)</i>	IASB EFRAG	10 June 2015 3 June 2015
	Tentative agenda decision on IFRIC 14: <i>Continuation of a minimum funding requirement</i>	IASB	1 June 2015
	Comment letters pending	Exposure draft ED/2015/2: <i>IASB officially proposes to defer the effective date of IFRS 15</i>	IASB
Comment letters pending	Exposure draft ED/2015/5: <i>Remeasurement on a Plan Amendment, Curtailment or Settlement/Availability of a Refund from a Defined Benefit Plan (Proposed amendments to IAS 19 and IFRIC 14)</i>	IASB	19 October 2015
	Exposure draft ED/2015/3: <i>Conceptual Framework for Financial Reporting</i>	IASB	26 October 2015
	Exposure draft ED/2015/4: Updating <i>References to the Conceptual Framework</i>	IASB	26 October 2015

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## Effective dates

Click [here](http://www.iasplus.com/standard/effect.htm) for upcoming and recent effective dates. <http://www.iasplus.com/standard/effect.htm>

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### Key contacts

*Global IFRS Leader*  
Veronica Poole  
[ifrsglobalofficeuk@deloitte.co.uk](mailto:ifrsglobalofficeuk@deloitte.co.uk)

### IFRS Centres of Excellence

#### Americas

*Canada*

Karen Higgins

[ifrs@deloitte.ca](mailto:ifrs@deloitte.ca)

*LATCO*

Claudio Giaimo

[ifrs-LATCO@deloitte.com](mailto:ifrs-LATCO@deloitte.com)

*United States*

Robert Uhl

[iasplus-us@deloitte.com](mailto:iasplus-us@deloitte.com)

#### Asia-Pacific

*Australia*

Anna Crawford

[ifrs@deloitte.com.au](mailto:ifrs@deloitte.com.au)

*China*

Stephen Taylor

[ifrs@deloitte.com.cn](mailto:ifrs@deloitte.com.cn)

*Japan*

Shinya Iwasaki

[ifrs@tohatsu.co.jp](mailto:ifrs@tohatsu.co.jp)

*Singapore*

Shariq Barmaky

[ifrs-sg@deloitte.com](mailto:ifrs-sg@deloitte.com)

#### Europe-Africa

*Belgium*

Thomas Carlier

[ifrs-belgium@deloitte.com](mailto:ifrs-belgium@deloitte.com)

*Denmark*

Jan Peter Larsen

[ifrs@deloitte.dk](mailto:ifrs@deloitte.dk)

*France*

Laurence Rivat

[ifrs@deloitte.fr](mailto:ifrs@deloitte.fr)

*Germany*

Jens Berger

[ifrs@deloitte.de](mailto:ifrs@deloitte.de)

*Italy*

Massimiliano Semprini

[ifrs-it@deloitte.it](mailto:ifrs-it@deloitte.it)

*Luxembourg*

Eddy Termaten

[ifrs@deloitte.lu](mailto:ifrs@deloitte.lu)

*Netherlands*

Ralph Ter Hoeven

[ifrs@deloitte.nl](mailto:ifrs@deloitte.nl)

*Russia*

Michael Raikhman

[ifrs@deloitte.ru](mailto:ifrs@deloitte.ru)

*South Africa*

Nita Ranchod

[ifrs@deloitte.co.za](mailto:ifrs@deloitte.co.za)

*Spain*

Cleber Custodio

[ifrs@deloitte.es](mailto:ifrs@deloitte.es)

*United Kingdom*

Elizabeth Chrispin

[deloitteifrs@deloitte.co.uk](mailto:deloitteifrs@deloitte.co.uk)

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