# IOSCO STATEMENT ON IMPLEMENTATION OF NEW STANDARDS

INTERNATIONAL FINANCIAL REPORTING BULLETIN 2017/03

STATUS
Final

EFFECTIVE DATE
Immediate

ACCOUNTING IMPACT
Guidance on IOSCO's financial reporting expectations in advance of adopting IFRSs 9, 15 and 16.

## Summary

In December 2016 the International Organisation of Securities Commissions (IOSCO) issued a statement on the implementation of IFRS 9 *Financial Instruments*, IAS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*. This follows on from similar statements made by other regulatory bodies such as the European Securities and Markets Authority (ESMA), and which were addressed in IFRBs 2016/16 and 2017/1.

One of the IOSCO Principles of Securities Regulation for issuers (principle 16) is that there should be full, accurate and timely disclosure of financial results, risk and other information which is material to investors' decisions. IOSCO considers the accuracy, integrity, and comparability of issuer disclosure to be essential for maintaining investor confidence and therefore facilitating a stable international financial system.

Accordingly, IOSCO has issued a statement based on, and in the light of:

- The International Accounting Standard Board (IASB) issuing 3 new accounting standards dealing with the accounting for financial instruments, revenue and leases, all of which (individually or collectively) have the potential significantly to affect the reported financial performance and positions of many issuers

- The fact that issuers will, if they have not already done so, need to commence work soon to implement the new standards by their effective dates (periods beginning on or after 1 January 2018 in the case of IFRSs 9 and 15, and 1 January 2019 in the case of IFRS 16), noting that audit committees will be engaged in oversight of the implementation processes and auditors will be planning work to perform audit procedures thereon; and

- The requirement in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to disclose transparent quantitative and qualitative information about the impact these new standards will have in accounting periods leading up to their effective date, which in turn is consistent with IOSCO Principle 16.

This IFR Bulletin summarises the main points in IOSCO's statement, which can be can be downloaded from their web site here.

## New Standards

IOSCO notes that the new standards are likely significantly to affect the financial statements of many issuers globally given their breadth of applicability in terms of jurisdictions and issuers affected, as well as the prevalence of transactions within their scope. In this respect IOSCO's statement highlights:

- Revenue is often not only a key performance measure in its own right, but also the starting point for other measures such as operating profit, net profit and earnings per share. It is also a key component in key analytical ratios such as margins, return on equity, and return on assets, as well as company valuation metrics such as revenue multiples and price-to-earnings ratios. Consequently, the implementation of IFRS 15 *Revenue from Contracts with Customers* has the potential to change investor analyses that depend on the financial statements.
- IFRS 9 *Financial Instruments* was developed in response to concerns of many investors and other stakeholders, both during and after the global financial crisis, that there needed to be more timely recognition of credit losses for financial assets.
- IFRS 16 *Leases* will result in certain lease assets and liabilities being recorded on balance sheet for the first time which, like IFRS 15, can substantially affect key financial ratios used by analysts and providers of finance.

## Implementation of the New Standards

IOSCO emphasises that the extent to which any or all of IFRSs 9, 15, and 16 could affect issuers' financial statements and related processes should not be underestimated.

The statement draws particular attention to:

- the potential for significant systems changes;
- the need to review existing sales, financial instrument and lease contracts to ascertain if and how those contracts will need to be accounted for once the relevant standard becomes effective;
- the importance of conducting an appropriate assessment of their possible impact, giving consideration to decisions such as when and how to effect any changes within the available timescale for implementation; and
- the responsibility of those charged with governance, such as audit committees, to set an appropriate tone by creating an environment in which management and employees combine their respective expertise in performing the required analyses and evaluating alternatives to arrive at well-reasoned professional judgements on application of the new standards.

IOSCO also suggest that, given the breadth of changes on the horizon, now would be an appropriate time for issuers, including their audit committees, to:

- focus on the potential impact of the new standards;
- assess the quality and status of implementation plans; and
- ensure they have allocated sufficient time and resources to support high quality implementation.

## Disclosure

The statement by IOSCO draws attention to the requirement in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to disclose known or reasonably estimable information relevant to assessing the possible impact that application of the new standard may have on the issuer's financial statements, noting the purpose of this disclosure is to provide decision-useful information to investors.

Consistent with statements made by the European Securities and Markets Authority (ESMA) which we summarised in IFRBs 2016/16 and 2017/1, IOSCO believes the level of an issuer's disclosures should increase with the progress in its implementation leading up the standards' effective dates. The earliest stages of implementation is likely to lead to qualitative disclosures about which aspects will be relevant, with disclosure of the quantitative impact increasing as implementation plans are progressed.

IOSCO also states that issuers should not be reluctant to disclose reasonably estimable quantitative information just because the ultimate quantitative impact may differ from these estimates, as by their nature estimates are inherently subject to change. This is because such reasonably estimable information may be relevant to users, notwithstanding that the ultimate effects may be uncertain, with the nature of the uncertainty being made clear by disclosing that they are estimates To be decision useful, however, IOSCO also identifies that the disclosures must be timely, issuer specific, and sufficiently robust and detailed.

IOSCO also reminds auditors to consider their responsibilities for

- evaluating the adequacy of their clients' disclosures related to the possible impact of IFRS 9, 15 and 16,
- understanding of the processes and internal controls applied to produce the information required; and
- determining the appropriateness of any changes to accounting policies and the impact of these changes both in relation to disclosures of the future impact of adopting the new standards and disclosure of the ultimate impact in the year of adoption.

Finally, IOSCO also asks issuers to consider whether disclosure should be provided in narrative parts of the annual report (such as Management's Discussion and Analysis, Operating and Financial Review, Strategic Report, or other relevant management commentary) if there may be changes in its business practices as a result of the new standards, e.g. impacts on the company's ability to pay dividends, or a decision to purchase rather than lease assets.

www.bdoglobal.com