Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)

35th SESSION
24 - 26 October 2018
Room XVII, Palais des Nations, Geneva

Thursday, 25 October 2018
Afternoon Session

Agenda item 4.
Issues of practical implementation of international standards of accounting and reporting in the public and private sectors

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AGENDA

• EFRAG’s core activities
• EFRAG’s input to IFRS
• IFRS ‘state of play’
• Role of impact assessment
• Role of others
EFRAG’s core activities
- Influencing IFRS (from the start of each project)
- Endorsement advice
- Research activities
EFRAG’S INPUT TO IFRS

During development
- Monitor IASB project
- Comment to IASB (or staff) where issues expected
- Contribute EFRAG research findings

Draft comment letter issued
- Outreach, field tests and ‘early-stage’ impact assessment
- Finalise comment letter to IASB

Work plan based on request from EC
- Draft endorsement advice issued
- Outreach, field tests and impact assessment
- Finalise endorsement advice to EC
IFRS ‘STATE OF PLAY’ (1)

IFRS FOUNDATION PROFILED 166 JURISDICTIONS (98% OF GLOBAL GDP)

- **144** require use of IFRS Standards for all or most public companies
- **13** additional jurisdictions permit IFRS Standards for all or most domestic companies
- IFRS Foundation estimates over **50% of domestic listed companies on 93 securities exchanges** in the world use IFRS Standards
- **>90%** of those that do not use IFRS are in Japan, China, India and the US
MAJOR NEW IFRS STANDARDS AND THE ‘PERIOD OF CALM’
HOW DOES IMPACT ASSESSMENT SUPPORT IMPLEMENTATION?

IFRS 16 ‘LEASES’ AS A CASE STUDY

• Impact assessment provides insights into:
  • Implementation costs
  • Effect on the financial statements

IFRS 16 costs (€k)

Impact on financial statements

Average increase (excl financials)
Utilities
Telecoms
Materials
Information Technology
Industrials
Healthcare
Energy
Consumer Staples
Consumer Discretionary

Increase in EBITDA
Increase in reported debt

Below €500m €500m–€5bn Over €5bn

Revenue band

Costs - initial
Costs - ongoing

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HOW DOES IMPACT ASSESSMENT SUPPORT IMPLEMENTATION?

IFRS 16 ‘LEASES’ AS A CASE STUDY

• Impact assessment provides insights areas of technical complexity and/or high levels of judgement

• Based on EFRAG’s assessment these include:
  • Applying the definition of a lease
  • Determination of lease term
  • Determining the incremental borrowing rate (smaller entities)
HOW DOES IMPACT ASSESSMENT SUPPORT IMPLEMENTATION?

IFRS 16 ‘LEASES’ AS A CASE STUDY

• Impact assessment provides insights into potential wider effects, e.g.
  • 25% of lessees expect to have to renegotiate borrowing covenants (with most expecting this to be a straightforward exercise)
  • 50% of analysts expect to continue to make adjustments to the IFRS 16-based numbers
  • Modest decline (up to 3%) in demand for leases projected along with limited renegotiation of lease terms
ROLE OF OTHERS

- Standard-setters
- Preparers
- Auditors
- Regulators
- Academics
- Investors
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