

# IFRS News

**Quarter 3 2018**

IFRS News is your quarterly update on all things relating to International Financial Reporting Standards. We'll bring you up to speed on topical issues, provide comment and points of view and give you a summary of any significant developments.

We begin this third edition of 2018 with the IASB's major new Discussion Paper 'Financial Instruments with Characteristics of Equity'. This contains proposals that would alter the process for classifying financial instruments issued by an entity as either financial liabilities or equity.

We then move on to consider the likely outcome of Argentina being declared hyperinflationary in the second half of 2018, and the effects this would have. The accounting implications of such a large economy being considered hyperinflationary for IFRS purposes are likely to be felt well beyond Argentina itself, and we encourage clients with operations there to start preparing for the change now.

Further on in the newsletter, you will find IFRS-related news at Grant Thornton and a general round-up of financial reporting developments. We finish with a summary of the implementation dates of newer Standards that are not yet mandatory, and a list of IASB publications that are out for comment.



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## IASB consults on a new method for distinguishing between equity instruments and liabilities

The IASB has published a Discussion Paper ‘Financial Instruments with Characteristics of Equity’. The Discussion Paper looks at how companies can improve the information they provide about financial instruments they have issued, and proposes a new way of distinguishing between equity and liabilities.

Currently, IAS 32 ‘Financial Instruments: Presentation’ sets out the process for classifying financial instruments that have been issued by an entity. It is important as classifying a financial instrument as equity or as a liability has an immediate and significant effect on the entity’s reported results and financial position. Liability classification affects an entity’s gearing ratios and typically results in any payments being treated as

interest and charged to earnings. Equity classification avoids these impacts but may be perceived negatively by investors if it is seen as diluting their existing equity interests. The classification process is therefore a critical issue for management and must be kept in mind when evaluating alternative financing options.

The IASB believes that IAS 32 has worked well for most financial instruments

however continuing financial innovation has meant that issuers can find it challenging to apply IAS 32’s classification process to some complex financial instruments that combine features of both liabilities and equity. This has led the IASB to issue the Discussion Paper which proposes a new method for distinguishing between equity and liability instruments.

The project focuses on the classification of financial instruments from the perspective of the issuer. It does not affect other accounting requirements for financial instruments, such as those contained in IFRS 9 'Financial Instruments' or IFRS 7 'Financial Instruments: Disclosures'.

### The proposed new classification process

The Discussion Paper proposes that a financial instrument would be classified as a financial liability if it contains:

- a an unavoidable contractual obligation to transfer cash or another financial asset at a specified time other than at liquidation; and/or
- b an unavoidable contractual obligation for an amount independent of the entity's available economic resources.

The first of these two features is labelled a 'timing feature' and is intended to capture information that would help users of financial statements to assess whether the entity will have the cash (or another financial asset) required to meet its obligations as they fall due. The second feature is labelled an 'amount feature' and would help users to assess whether the entity has sufficient economic resources to meet its obligations at a point in time; and whether the entity has produced a sufficient return on its economic resources to satisfy the return that its claims oblige it to achieve.

The table below shows how the IASB's proposed approach would distinguish between financial liabilities and equity instruments:

|  |  |   |  |
|--|--|---|--|
| Distinction based on amount feature  | Distinction based on timing feature  | Obligation for an amount independent of the entity's available economic resources (such as fixed contractual amounts, or an amount based on an interest rate of other financial variable) | No obligation for an amount independent of the entity's available economic resources (such as an amount indexed to the entity's own share price) |
| Obligation to transfer cash or another financial asset at a specified time other than at liquidation (such as scheduled cash payments)                 | <b>Liability</b><br>(eg simple bonds)  | <b>Liability</b><br>(eg shares redeemable at fair value)  |  |
| No obligation to transfer cash or another financial asset at a specified time other than at liquidation (such as settlement in an entity's own shares) | <b>Liability</b><br>(eg bonds with an obligation to deliver a variable number of the entity's own shares with a total value equal to a fixed amount of cash) | <b>Equity</b><br>(eg ordinary shares)   |  |

### Insight

The IASB expects most of the existing classification outcomes of IAS 32 to remain the same if the proposals in the Discussion Paper were to be implemented. However, the classification of certain instruments will be affected.

An example could be the classification of callable preference shares with step-up dividend clauses that allow the issuing entity to defer payment indefinitely. The Discussion Paper's classification approach would require the issuer to classify such instruments as financial liabilities if the amount feature is independent of the entity's available economic resources.

### Derivatives over own equity

The IASB has noted that problems have been encountered in a number of different areas relating to derivatives over own equity because of the lack of a clear rationale to IAS 32's classification process. These areas include:

- the classification of derivatives on own equity, including when there is some variability in the number of equity instruments to be delivered or in the amount of cash or another financial asset to be received by the entity in exchange
- the accounting for compound instruments (instruments containing both liability and equity components) such as convertible bonds and some types of contingent convertible bonds
- the accounting for obligations to redeem equity instruments (such as put options written on non-controlling interests).

While IAS 32's requirements have worked well for simpler instruments, problems have been encountered with more complex instruments. The Discussion Paper therefore proposes separate classification principles for derivative financial instruments based on the more general principles set out in the Discussion Paper.

Under the proposals, a derivative on own equity would be classified in its entirety. A derivative on own equity would be classified as a financial asset or financial liability if:

- 1 it is net-cash settled – the derivative could require the entity to deliver cash or another financial asset, and/or contains a right to receive cash, for the net amount at a specified time other than at liquidation; and/or
- 2 the 'net amount' of the derivative is affected by a variable that is independent of the entity's available economic resources.

More generally here, the IASB believes its proposed approach would result in consistent classification outcomes for similar contractual rights and obligations, whether they be put options written on non-controlling interests or compound instruments with derivative components.

### Insight

The proposals would provide more guidance on the accounting within equity for put options written on equity instruments, for example, on the accounting entries to be made on initial recognition and on expiry or on exercise of the put options.

### Presentation

The Discussion Paper recognises that making a binary classification decision between equity and financial liabilities cannot properly reflect the huge range that exists in the spectrum of financial liabilities that entities issue. It therefore proposes enhancing the way that both financial liabilities and equities are presented.

### Financial liabilities

The Discussion Paper suggests a way of distinguishing financial liabilities with equity-like returns from other financial liabilities by:

- presenting these liabilities separately from other financial liabilities as a separate line item in the statement of financial position
- presenting separately income or expenses resulting from these liabilities in the statement of financial performance – outside the statement of profit or loss in other comprehensive income.

### Equity

The Discussion Paper acknowledges that less disclosure is currently required for instruments that are classified as financial liabilities rather than equity, which may not always be appropriate. It therefore looks at ways to improve the information provided about equity instruments issued by entities.

It therefore looks to require total equity and changes in equity to be disaggregated between ordinary shares and equity instruments other than ordinary shares. For non-derivative equity instruments, this process would follow principles similar to those in IAS 33 'Earnings per share'. For derivative instruments over own equity, the IASB has not decided yet how to attribute the amounts due to such instruments. The Discussion Paper therefore sets out a number of potential ways this could be done.

### Disclosure

The Discussion Paper looks to help users by providing more information about the effects of financial instruments on an issuer's position and performance, and by helping them to understand the rankings of different finance providers. It therefore suggests that issuers of financial instruments should be required to disclose:

- each class of financial liabilities and equity instruments ranked in order of priority on liquidation
- potential dilution of ordinary shares (regardless of whether the effect would be dilutive or anti-dilutive)
- particular contractual terms of financial liabilities and equity instruments, for example, contractual terms that are relevant to understanding the amount and timing features of a financial instrument.

### Grant Thornton International Ltd comment

We believe that it is important for the IASB to consult on whether IAS 32's classification purpose remains fit for purpose, as many questions have been raised over its application since it was issued. Nevertheless, it is important to note (as the IASB has indeed done), that IAS 32's requirements have been applied to the majority of financial instruments without difficulty and that the Standard stood up well to the rigours of the 2007/8 financial crisis.

Our initial task in responding to the publication of the Discussion Paper will therefore be to consult within our network on just how much of a problem the current Standard presents, and whether change is justified. Having done this, we will then consider the detailed proposals.

# Argentina expected to be declared hyper-inflationary in 2018

IAS 29 'Financial Reporting in Hyperinflationary Economies' requires the financial statements of any entity whose functional currency is hyperinflationary to be restated for changes in its general purchasing power. Although discussions are still continuing, we expect Argentina to be declared hyperinflationary in the second half of 2018. Entities with operations in Argentina should therefore start planning for the application of IAS 29 now.

## Requirements of IAS 29

IAS 29 requires the financial statements of any entity whose functional currency is the currency of a hyperinflationary economy to be restated for changes in the general purchasing power of that currency so that the financial information provided is more meaningful.

## Indicators of hyperinflation

The Standard lists factors that indicate an economy is hyperinflationary. One of the indicators of hyperinflation is if cumulative inflation over a three-year period approaches, or is in excess of, 100%. This is often seen in practice as being a particularly significant indicator given that under US GAAP this threshold is considered a 'bright-line' in terms of whether an economy is hyper-inflationary or not. While IAS 29 differs from US GAAP in referencing other indicators of hyper-inflation, there is nevertheless a natural desire for a certain amount of consistency between IFRS and US GAAP in terms of which economies are considered hyper-inflationary.

## The rationale behind IAS 29

The currency of a hyperinflationary economy loses purchasing power so quickly that comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

Consequently, IAS 29 requires the figures included in the financial statements, including all comparative information, to be expressed in units of the functional currency current, in terms of purchasing power, as at the end of the reporting period.



### The mechanics of restatement

IAS 29 requires that amounts in the statement of financial position that are not already expressed in terms of the measuring unit current at the end of the reporting period are restated by applying a general price index.

In summary:

- assets and liabilities linked by agreement to changes in prices, such as index linked bonds and loans, are adjusted in accordance with the agreement
- non-monetary items carried at amounts current at the end of the reporting period, such as net realisable value and fair value, are not restated
- all other non-monetary assets and liabilities are restated
- monetary items are not restated because they are already expressed in terms of the monetary unit current at the end of the reporting period. Monetary items are money held and items to be received or paid in money.

### Application to Argentina

As noted above, an important indicator of hyperinflation under IAS 29 is if cumulative inflation over a three-year period approaches, or is in excess of, 100%.

Initial inflation figures for May 2018 showed that all of the major inflation indices in Argentina exceeded 100% over a cumulative three-year period. This includes the National Wholesale Price Index (WPI), which has shown the lowest rate of inflation in recent times.

While discussions are ongoing, forecasts of inflation indicate that all of the major inflation indices will remain above 100% at the end of 2018. IAS 29<sup>4</sup> states that it is preferable that all entities that report in the currency of a hyperinflationary economy apply IAS 29 from the same date. We expect this to be in the second half of 2018.

### Grant Thornton International Ltd comment

Assuming that Argentina is declared hyper-inflationary in the second half of 2018 as we currently expect, it will have significant consequences for entities in Argentina and for groups outside Argentina that have operations in the country. For example, they will need to:

- adapt accounting systems so as to be able to process the inflationary adjustments
- train staff at almost all levels on the mechanics of adjusting for hyperinflation
- restate comparative amounts in the financial statements.

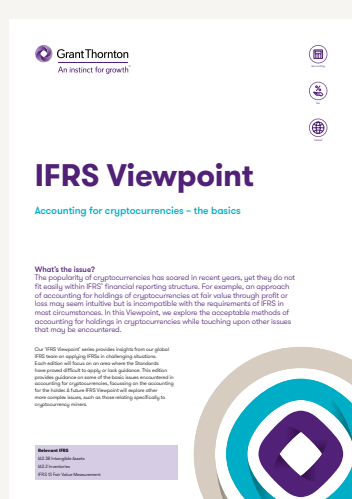
In the meantime, in view of the fact that the three-year cumulative rate of inflation has already topped 100% in the second quarter of 2018, we would recommend that where an entity is preparing interim financial statements for the period ended 30 June 2018 and could be materially affected by the application of IAS 29, it should disclose that fact. In doing so, we would also recommend drawing users' attention to the likelihood that the country will be considered hyper-inflationary in the second half of 2018.

While discussions are ongoing, forecasts of inflation indicate that all of the major inflation indices in Argentina will remain above 100% at the end of 2018.

# New IFRS Viewpoints on crypto assets

The Grant Thornton International Ltd Global IFRS Team has issued two IFRS Viewpoints on the emerging issue of how to account for crypto assets.

## IFRS Viewpoint No.9 'Accounting for cryptocurrencies – the basics'



The popularity of cryptocurrencies has soared in recent years, yet they do not fit easily within IFRS' financial reporting structure. For example, an approach of accounting for holdings of cryptocurrencies at fair value through profit or loss may seem intuitive but is incompatible with the requirements of IFRS in most circumstances. This Viewpoint explores the acceptable methods of accounting for holdings in cryptocurrencies while touching upon other issues that may be encountered.

For reasons explained in the Viewpoint, our view is that in the majority of cases, it will be appropriate to account for holdings of cryptocurrencies in accordance with IAS 38 'Intangible Assets' either at cost or at revaluation. Use of the revaluation method depends on there being an active market for the cryptocurrency in concern.

In some circumstances, it may be appropriate for an entity to account for cryptocurrency assets in accordance with the guidance set out in IAS 2 'Inventories' for commodity broker-traders. IAS 2's default measurement approach is to recognise inventories at the lower of cost and net realisable value. However, the Standard states that commodity broker-traders are instead required to measure their inventories at fair value less costs to sell, with changes in fair value less costs to sell being recognised in profit or loss in the period of the change. Our view is that this will only be appropriate in fairly narrow circumstances where cryptocurrency assets are acquired by the reporting entity with the purpose of selling them in the near future and generating a profit from fluctuations in price or broker-traders' margin.

You can access the publication by going to: <https://www.grantthornton.global/globalassets/1.member-firms/global/insights/article-pdfs/2018/ifrs-viewpoint-accounting-for-cryptocurrencies.pdf>





# IFRS News Special Edition on the Conceptual Framework for Financial Reporting

The Grant Thornton International Ltd Global IFRS Team has published an IFRS News Special Edition on ‘The Conceptual Framework for Financial Reporting’.

In March 2018 the IASB concluded its long-running project by publishing a revised version of its Conceptual Framework. While the Conceptual Framework is not a Standard and will not override or change any existing Standards, it is fundamental that the IASB has a comprehensive and consistent framework which it can use as a basis for developing and revising IFRS Standards.

The revised Conceptual Framework provides much needed guidance on, for example, measurement and reporting financial performance; areas that have not been sufficiently covered in the past. It also updates existing chapters to tailor those to the needs of the IASB.

Although the Conceptual Framework is primarily for the use of the IASB, preparers will find it useful in developing accounting policies for events and transactions for which no Standard applies or when there is a choice of accounting policy.

Our Special Edition of IFRS News explains the key features of the revised Conceptual Framework and provides practical insights into its application and impact.

You can access the publication by going to <https://www.grantthornton.global/en/insights/articles/ifrs-conceptual-framework-for-financial-reporting/>. Alternatively, please get in touch with the IFRS contact in your local Grant Thornton office.

## Grant Thornton responds to European Commission ‘fitness check’ on public reporting by companies

Grant Thornton International Ltd has responded to the European Commission’s Consultation Document ‘Fitness Check on the EU Framework for Public Reporting’.

The consultation covered a number of areas such as non-financial reporting, whether to encourage an integrated reporting framework, how to address the challenges of digitalisation, sustainability, and whether to seek greater harmonisation in financial reporting at national level.

Of particular interest was the section ‘The EU financial reporting framework for listed companies’, which asked constituents about their views on the appropriateness of the EU endorsement process and whether constituents would prefer a modified (‘European’) version of IFRS.

In our letter, we expressed our belief that the adoption of IFRS within Europe has been hugely positive for the EU, providing consistency and transparency with global companies and so helping EU companies to compete on the global stage.

We therefore recommended that no changes should be made to the EU’s process for endorsing new IFRS. Creating European ‘carve-ins’ would in our view run the risk of creating European standards which could potentially isolate Europe from global capital markets and hinder investment. They would also have the likely effect of reducing Europe’s ability to influence the International Accounting Standards Board.

We felt it was important to make these points as the questions raised could have consequences outside of Europe, potentially undermining IFRS’ position as a truly international set of standards which allow comparison between companies around the world. Overall though, we noted in our letter that the current EU Framework for Public Reporting has worked well and is effective and relevant in adding value to the reporting process.

# New Grant Thornton International Ltd Example Interim IFRS Financial Statements released

The Global IFRS Team has published the 2018 version of its 'IFRS Example Interim Consolidated Financial Statements 2018'.

The publication has been reviewed and updated to reflect changes in IAS 34 and in other IFRS that are effective for the year ending 31 December 2018.

In particular, they reflect the adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' which are effective for annual accounting periods beginning on or after 1 January 2018.

You can access the publication by going to <https://www.grantthornton.global/en/insights/articles/interim-consolidated-financial-statements-2018/>. Alternatively, please get in touch with the IFRS contact in your local Grant Thornton office.



## Grant Thornton UK shortlisted for the 'Large Firm Innovation of the Year'



Grant Thornton UK LLP has been shortlisted as a finalist for the 'Large Firm Innovation of the Year' award at the British Accountancy Awards 2018 to be held on 26 September 2018.

These Awards are 'regarded as the industry's most prestigious accolades, pinpointing professional development and highlighting those that have demonstrated excellence in their profession.' They cover practice and industry across the nation, recognising businesses and individuals from large companies and international firms to small companies and independent firms of accountants.

Grant Thornton UK LLP has been shortlisted in the category of Large Firm Innovation of the Year because of the work it carried out to transform its 2017 Annual Report.

In preparing that Annual Report, the UK firm's objective was to be open-minded about changing the usual presentation of information, using different formats and innovating in order to aid the reader's experience, the overall objective being to make the Annual Report more understandable and accessible to users.

By engaging with a range of both internal and external stakeholders, the UK firm was able to understand their interest in the firm's Annual Report and how they might like to see it develop. As a result, Grant Thornton UK LLP applied the following key innovations:

- including narrative explaining the firm's performance alongside the numbers
- restructuring the financial statement notes around the three main areas of 'Operating', 'Investing' and 'Financing', with all information kept together that is relevant to understanding a particular balance
- redesigning each note, incorporating 'at a glance' summaries and integrating previously separate elements (such as the accounting policies) and clearly articulating key estimates and judgements at the start of each note
- using infographics such as bar charts to communicate information visually and enable quicker understanding
- creating an appendix containing information that is less important to understanding the firm's business, which although required, is there as supplementary information to support the overall messages.

The 2017 Annual report is published on the firm's website at <https://www.grantthornton.co.uk/en/about-us/transparency-report>.

## Comment letter submitted on proposed amendments to IAS 8

Grant Thornton International Ltd has responded to the IASB's Exposure Draft ED/2018/1 'Accounting Policy Changes – Proposed amendments to IAS 8' (the ED).

The ED proposes that where a voluntary change in accounting policy arises from an IFRIC agenda decision, an entity is not required to apply it retrospectively to the extent that the cost to the entity of determining either the period-specific effects or the cumulative effect of the change exceeds the expected benefits to users.

In our letter, we express our appreciation that the Board is looking to help entities by introducing a practical solution to the problem that some regulators regard agenda decisions as needing to be applied immediately. Nevertheless we believe that the analysis of costs and benefits is a task for the Board to

undertake when setting accounting requirements rather than for entities when applying those requirements.

We do not therefore support the proposals in the ED to introduce a distinction between voluntary changes in accounting policies arising from agenda decisions published by the IFRS Interpretations Committee and other voluntary changes in accounting policies. Such a distinction would in our view inappropriately elevate the status of agenda decisions compared to other explanatory material issued by the IASB. We would prefer then that the Board makes no changes in this area.

## Spotlight on the Financial Instruments Specialists' Support Group

Grant Thornton's Financial Instruments Specialists' Support Group (FISSG) has been established for the purpose of promoting consistent, high quality application of IFRS in the area of financial instruments across the network.

The Group provides a forum for our member firms to bring their own financial instrument related accounting issues for discussion. It also provides input to the Global IFRS Team on selected issues, including consultation documents published by the IASB. In this quarter's edition, we throw a spotlight on Rahul Gupta, one of the representatives from our US member firm, Grant Thornton LLP.

### Rahul Gupta



Rahul is a Partner in the National Professional Standards Group of Grant Thornton LLP with more than 20 years of public accounting experience in the US and India. Rahul is based in Chicago and assists engagement teams and audit and accounting advisory services clients with

technical accounting issues and monitors current accounting developments, under both US GAAP and IFRS.

Rahul has significant experience in dealing with complex issues in various accounting topics including financial liability versus equity classification, accounting for complex financing arrangements, accounting for derivative instruments and application of hedge accounting, fair value measurements, accounting for investments in debt and equity investments, transfers and servicing of financial assets, consolidations, and lease accounting.

Rahul was a staff member at the US Financial Accounting Standards Board (FASB) from August 2011 through January 2016, where he provided technical depth and practical insight to assist the FASB in improving US GAAP. At the FASB, Rahul was the project manager on the FASB's joint project with IASB on Accounting for Financial Instruments, which resulted in the recent issuance of the final US GAAP on the recognition and measurement of financial assets and financial liabilities and the measurement of credit losses on financial assets.

# Round up

## North America

### Hyperinflationary economies – updated IPTF watch list available

The International Practices Task Force (IPTF) of the Centre for Audit Quality in the US has updated its watch list of countries that might be hyperinflationary.

Under US GAAP, a highly inflationary economy is one that has cumulative inflation of approximately 100% or more over a three-year period. While the requirements of US GAAP differ from IFRS (IAS 29 does not establish an absolute rate at which hyperinflation is deemed to arise but provides a list of characteristics that might indicate hyperinflation), the IPTF's findings are nevertheless considered relevant as a cumulative three-year inflation rate that is approaching or exceeds 100% is viewed as a strong indicator of hyper-inflation under IFRS. In the notes from its May 2018 meeting (available at <https://www.theacaq.org/discussion-document-monitoring-inflation-certain-countries-may-2018>), the IPTF lists countries under the following headings:

- 1a Countries with three-year cumulative inflation rates exceeding 100%
- 1b Countries with projected three-year cumulative inflation rates greater than 100%
- 2 Countries with three-year cumulative inflation rates exceeding 100% in recent years, but with three-year cumulative inflation rates between 70% and 100% in the most recent calendar year
- 3 Countries with recent three-year cumulative inflation rates exceeding 100% after a spike in inflation in a discrete period
- 4 Countries with three-year cumulative inflation rates between 70% and 100%, or with a significant (25% or more) increase in inflation during the last calendar year or a significant increase in projected inflation in the current year.

The IPTF notes that their list is not exhaustive and there may be additional countries with three-year cumulative inflation rates exceeding 100% or countries that should be monitored. This is for example because the sources used to compile the list do not include inflation data for all countries or current inflation data (for example Syria). Further, countries that are not members of the International Monetary Fund (IMF) have not been considered.

### CPA Canada issues guidance on the accounting for cryptocurrencies

The accounting for cryptocurrencies differs widely as IFRS does not currently provide accounting guidance. The Chartered Professional Accountants of Canada (CPA Canada) have now published an introduction to accounting for cryptocurrencies under IFRS.

The publication covers:

- a brief overview explaining what cryptocurrencies are
- a discussion of possible approaches to accounting for cryptocurrencies under existing IFRS
- an update on accounting standard-setting activity related to cryptocurrencies
- a brief summary of the tax implications of transactions involving cryptocurrencies
- supplemental guidance on determining fair value for cryptocurrencies.

## Europe

### **EFRAG issues final endorsement advice on amendments to IAS 19 and IAS 28**

The European Financial Reporting Advisory Group (EFRAG) has issued its final endorsement advice on:

- 'Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)'; and
- 'Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)'.

Further, EFRAG has issued a draft endorsement advice on 'Amendments to References to the Conceptual Framework in IFRS Standards'.

## IASB

In addition to publishing a Discussion Paper on Financial Instruments with Characteristics of Equity (see pages 2-4), and launching a series of webcasts to explain the Discussion Paper step-by-step, the IASB has published:

- an 'Investor Perspective' and other material aimed at supporting the implementation of IFRS 17 'Insurance Contracts'
- a quiz on the revised Conceptual Framework for Financial Reporting
- a webcast on the proposed amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
- illustrative Examples in XBRL for the IFRS Taxonomy 2018
- an 'Investor Update' which features IFRS 16 'Leases' and project updates
- a webcast on IFRS 9 'Financial Instruments' discussing the accounting for financial assets with prepayment features.

Further, the IFRS Foundation has published its Annual Report 2017, providing an overview of the IFRS Foundation's activities during the past year.

## Corporate Reporting

### **Financial Reporting LAB publishes report on blockchain and the future of corporate reporting**

The Financial Reporting Lab (which was launched by the UK Financial Reporting Council in 2011 to provide an environment where investors and companies can come together to develop pragmatic solutions to today's reporting needs) has published its second deep-dive report which explores how different technologies might impact corporate reporting production, distribution and consumption. This report sets out some of the potential uses and the impacts of blockchain on corporate reporting.

A blockchain, or distributed ledger, is a type of shared database creating a permanent record of transactions. It is not under the control of a single participant, but control is distributed across a number of participants in a network, making it robust. All changes made to the data in the blockchain are clear to all participants ensuring both the data and the network are resilient.

The report starts with shedding some light onto the technology behind blockchain, explains why it is important and explores what it can be used for. The report then discusses how corporate reporting is currently structured and considers some potential uses of how blockchain technology could improve the production, distribution and consumption of company information before highlighting some action points for entities that would like to make the most of the blockchain opportunity.

Two appendices provide further details on characteristics that are deemed to be critical for a successful digital reporting framework and on the background of blockchain.

# Effective dates of new IFRS Standards and IFRIC Interpretations

The table below lists new IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2017. Companies are required to make certain disclosures in respect of new Standards and Interpretations under IAS 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors’.

## New IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2017

| Title                         | Full title of Standard or Interpretation                                    | Effective for accounting periods beginning on or after                                 | Early adoption permitted?              |
|-------------------------------|---|--|--|
| IFRS 17                       | Insurance Contracts   | 1 January 2021   | Yes                                    |
| Various                       | Amendments to References to the Conceptual Framework in IFRS Standards      | 1 January 2020   | Yes (but need to apply all amendments) |
| IFRS 16                       | Leases  | 1 January 2019   | Yes                                    |
| IFRIC 23                      | Uncertainty over Income Tax Treatments                                      | 1 January 2019   | Yes                                    |
| IFRS 9                        | Prepayment Features with Negative Compensation (Amendments to IFRS 9)       | 1 January 2019   | Yes                                    |
| IAS 28                        | Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) | 1 January 2019   | Yes                                    |
| IAS 12/IAS 23/IFRS 3/IFRS 11  | Annual Improvements to IFRS Standards 2015–2017 Cycle                       | 1 January 2019   | Yes                                    |
| IAS 19                        | Plan Amendment, Curtail or Settlement (Amendments to IAS 19)                | 1 January 2019   | Yes                                    |
| IAS 40                        | Transfers of Investment Property  | 1 January 2018   | Yes                                    |
| IFRIC 22                      | Foreign Currency Transactions and Advance Consideration                     | 1 January 2018   | Yes                                    |
| IFRS 1/<br>IFRS 12/<br>IAS 28 | Annual Improvements to IFRS Standards 2014–2016 Cycle                       | 1 January 2018<br>However, the amendments to IFRS 12 are effective from 1 January 2017 | IAS 28 – Yes                           |



### New IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2017

| Title              | Full title of Standard or Interpretation   | Effective for accounting periods beginning on or after   | Early adoption permitted?                |
|--------------------|--|--|--|
| IFRS 4             | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)                             | <ul style="list-style-type: none"> <li>a temporary exemption from IFRS 9 is applied for accounting periods on or after 1 January 2018</li> <li>the overlay approach is applied when entities first apply IFRS 9</li> </ul> | N/A                                      |
| IFRS 9             | Financial Instruments (2014)   | 1 January 2018   | Yes (extensive transitional rules apply) |
| IFRS 2             | Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)                                | 1 January 2018   | Yes                                      |
| IFRS 15            | Revenue from Contracts with Customers  | 1 January 2018*  | Yes                                      |
| N/A                | Practice Statement 2: Making Materiality Judgements  | 14 September 2017  | No                                       |
| IAS 7              | Disclosure Initiative – Amendments to IAS 7 Statement of Cash Flows  | 1 January 2017   | Yes                                      |
| IAS 12             | Recognition of Deferred Tax Assets for Unrealised Losses   | 1 January 2017   | Yes                                      |
| IFRS for SMEs      | Amendments to the International Financial Reporting Standard for Small and Medium Sized Entities                         | 1 January 2017   | Yes                                      |
| IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) | Postponed (was 1 January 2016)   | Yes                                      |
| N/A                | Conceptual Framework for Financial Reporting   | Effective immediately  |  |

\* changed from 1 January 2017 following the publication of 'Effective Date of IFRS 15'

## Open for comment

This table lists the documents that the IASB currently has out to comment and the comment deadline. Grant Thornton International Ltd aims to respond to each of these publications.

### Current IASB documents

| Document type  | Title  | Comment        |
|----------------|--|----------------|
| Exposure Draft | Financial Instruments with Characteristics of Equity | 7 January 2019 |



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