STATEMENT
ON IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Final Report

THE BOARD OF THE
INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

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I. Introduction

The International Organization of Securities Commissions (IOSCO) objectives of securities regulation are protecting investors; ensuring that markets are fair, efficient, and transparent; and reducing systemic risk. 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.

IOSCO is accordingly issuing this Statement, based on and in light of the following:

- The International Accounting Standards Board (IASB) issued three new International Financial Reporting Standards (IFRS) which relate to revenue, financial instruments, and leases (collectively, the “new standards”). These new standards are likely to significantly affect the financial statements of many issuers given the financial statement line items affected and the prevalence of transactions within their scope; ¹

- Issuers have already commenced or will soon commence the work necessary to implement the new standards; audit committees are engaged in oversight of issuers’ implementation processes and, similarly, their auditors are planning their work to perform the audit procedures thereon; and

- IOSCO Principle 16 and the IFRS Standards emphasize the need for transparent issuer disclosures relevant to assessing the possible impacts of adopting the new standards and providing investors with timely and decision-useful information.²

Issuers, including their audit committees, and auditors will each play a critical role during the implementation of the three new standards.

II. New Standards

The new standards are likely to significantly affect the financial statements of many issuers globally given the breadth of their applicability, in terms of number of jurisdictions and issuers affected, as well as the prevalence of the transactions within their scope, as highlighted below.

¹ IFRS 15, Revenue from Contracts with Customers, and IFRS 9, Financial Instruments, are effective for annual periods beginning on or after 1 January 2018. IFRS 16, Leases, is effective for annual periods beginning on or after 1 January 2019. However, an issuer’s adoption of the new standards may be affected by jurisdictional decisions regarding either adoption or effective dates.

² See IOSCO Objectives and Principles of Securities Regulation: Principle 16 and see IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, paragraphs 30 and 31.
Revenue from Contracts with Customers

The new revenue standard provides clearer and more detailed principles for revenue recognition and disclosure in a framework that is designed to improve comparability of revenue amounts over a range of industries, companies, and geographical boundaries. The standard can significantly change an issuer’s timing for its recognition of revenue, among other changes.

Revenue is often not only a key performance measure in its own right but also the starting point for other performance measures, such as operating income, net income, and earnings per share; key analytical ratios such as margins, return on equity, and return on assets; and valuation metrics, such as revenue multiples and price-to-earnings ratios. As a result, the new revenue standard has the potential to change not only an issuer’s top line, but also its bottom line and investor analyses that depend on the financial statements.

Financial Instruments

The new financial instruments standard introduces changes to the accounting for credit losses, including the related disclosures. The new financial instruments standard also introduces changes to how financial assets are measured on an ongoing basis to align with the asset’s cash flow characteristics and the business model in which the asset is held.

The new standard 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 expected credit losses for loans and other financial instruments. In measuring expected credit losses under the new standard, issuers will be required to use reasonable and supportable information that is available to them without undue cost or effort, including not only past events and current conditions but also forecasts of future economic conditions.

Leases

The new leases standard changes the previous lease accounting model such that a lessee will now reflect more assets and liabilities arising from its leases on its balance sheet. This can substantially affect key financial ratios, including ratios related to debt covenants or debt to equity ratios. The new leases standard also introduces new disclosure requirements.

III. Implementation of the New Standards

The extent to which the new standards could affect issuer financial statements and related processes should not be underestimated. The new standards may warrant significant system changes and necessitate an issuer’s review of its existing contracts and arrangements (e.g., contracts with customers, financial instruments, and lease arrangements). It is therefore important that issuers conduct an appropriate assessment of the possible impact of the new standards, giving consideration to decisions such as when and how to effect the implementation within the timeframes required. Issuers and their audit committees should set the appropriate tone regarding implementation by creating an environment in which management and employees
from all relevant levels and areas in the organisation combine their respective expertise in performing the required analyses and evaluating the alternatives to arrive at well-reasoned professional judgments on application of the new standards.  

Given the breadth of the changes due to the new standards, now would be the appropriate time for issuers and their audit committees to focus on the possible impact of the new standards on an issuer’s financial reporting. It is also an appropriate time for issuers, including their audit committees, to assess the quality and status of implementation plans so that the implementation of the new standards achieves the financial reporting objectives intended by the IASB. Issuers, their audit committees, and auditors need to be engaged appropriately relative to their respective roles, including ensuring that they have allocated sufficient time and resources, to support high-quality implementation of the new standards.

IV. Disclosure Regarding the Possible Impact of the New Standards

Disclosure regarding an issuer’s financial performance and financial position should be provided in a way that is useful for decision-making by investors. To enhance decision-usefulness, IFRS requires that, prior to a new standard’s effective date, an issuer 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.

Timely progress in implementing the new standards, as described in Section III, will facilitate an issuer’s disclosure of relevant and transparent information regarding its implementation of the new standards and the possible impact that adoption of the new standards will have on its financial statements. Therefore, IOSCO believes the level of an issuer’s disclosures should increase with the progress in its implementation of the new standards, which will occur as their effective dates approach.

During the earliest stages of an issuer’s implementation, investors may find it useful to have qualitative disclosures about which aspects of the new standards may affect the issuer’s financial statements, especially in the absence of sufficiently reliable quantitative information at that time. IOSCO believes quantitative disclosures regarding the possible impacts of the new standards will increase as the issuer moves forward with its implementation plans, in advance of the effective dates of the new standards.

Quantitative estimates related to the possible impacts of adopting the new standards are inherently subject to change; based on their nature as estimates, for example, due to possible future changes in business operations. Issuers should not be reluctant to disclose reasonably estimable quantitative information merely because the ultimate impact of the adoption of the new standards may differ, since such reasonably estimable quantitative information may be relevant to investors even while lacking complete certainty. Similar to other accounting estimates, issuers would disclose that these amounts are estimates.

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3 For ease of reference, the term “audit committee” is used throughout the Statement to refer to a governance body or bodies, if any, with responsibilities for overseeing the financial reporting process of issuers regardless of whether this title is used.
In order for the disclosures to be decision-useful for investors, the qualitative and quantitative disclosures must be timely, issuer-specific, and sufficiently robust and detailed. Further, auditors should consider their responsibilities in relation to evaluating the issuer’s disclosures related to the future possible impact of the new standards.

V. Implementation, Disclosure, and Audit Matters to Consider

IOSCO believes that issuers, including their audit committees, and auditors should consider the following matters as issuers implement the new standards and as auditors perform audit procedures thereon, though what follows it is not an exhaustive listing.  

Implementation

a) Identifying system, process, and any associated internal control changes needed to produce information required under the new standards, including the related disclosure, and developing system implementation plans with appropriate accountability mechanisms.

b) Determining the impact on compliance with financial condition requirements (e.g., loan covenants and regulatory capital requirements), future tax liabilities, the ability to pay dividends, and employee incentive schemes.

c) Considering whether significant accounting judgments and estimates arising from the new standards are being developed and captured sufficiently during the implementation phase as these may be required disclosures in the financial statements once the standards are adopted.  

d) Taking into consideration not only the new standards issued by the IASB but also additional relevant resources as provided by the IASB.

Disclosure

e) Providing disclosure in the notes to the financial statements prior to the effective date of the new standards regarding known or reasonably estimable information relevant to assessing the possible impact that application of the new standards will have on the issuer’s financial statements.

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4 The matters in this Statement may also be relevant in considering the implementation, disclosure, and auditing of other new IFRS Standards that are issued in the future.

5 In addition to specific disclosures required by the new standards (e.g., paragraph 123 of IFRS 15), IAS 1, Presentation of Financial Statements, paragraphs 122 and 125 require disclosure of certain judgments and estimates.

6 IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, paragraphs 30 and 31.
f) Providing disclosure in the Management’s Discussion and Analysis, Operating and Financial Review, or other relevant management commentary if the issuer believes there may be changes in its business practices due to the new standards (e.g., ability to pay dividends, purchase of assets rather than leasing that may impact liquidity metrics) and if the issuer is required to disclose its business practices and related metrics.

g) Depending on the capital market disclosure requirements in each jurisdiction, providing appropriate disclosure of the impact of the new standards that the issuer has not yet adopted in other public disclosure documents (e.g., documents prepared for public offerings of securities).

h) Providing adequate information to investors and analysts about the issuer’s adoption of the new standards and the possible impacts.

Audit

i) Auditors should consider their responsibilities (e.g., determining audit scope) in relation to understanding the issuer’s processes or relying on issuer internal controls to produce the information required by the new standards, including developing the significant accounting judgments and estimates and preparing the related disclosures.

j) Auditors should consider their responsibilities to evaluate the changes to an issuer’s accounting policies, the resulting impact of these changes on the issuer’s financial statements, the issuer’s financial statement disclosures related to this future impact, and the issuer’s disclosure of the ultimate impact in the year of adoption.

This Statement does not affect a jurisdiction’s ability to develop and implement requirements related to the new standards, and certain jurisdictions may already have issued such requirements or may do so in the future. Thus, IOSCO reminds issuers of their obligation to comply with any regulatory requirements and laws to which they are subject. Implementation, disclosure, or auditing of the new standards in accordance with this Statement is not a substitute for that compliance.