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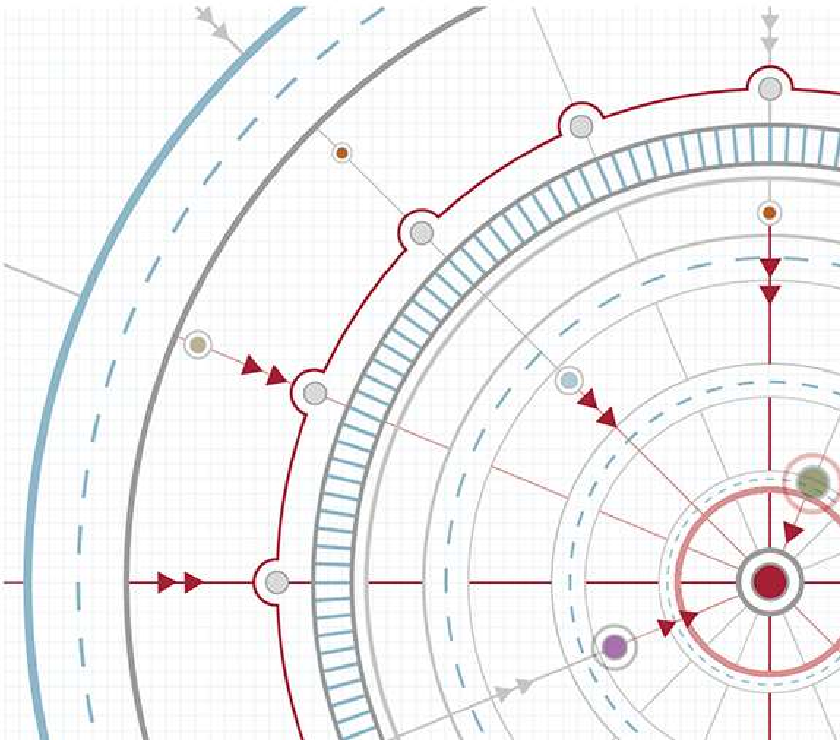

IFRS Foundation

Erkki Liikanen

Chair of Trustees, IFRS Foundation

Helsinki, September 2019

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.

IFRS

Mission

“To develop IFRS Standards that bring transparency, accountability and efficiency to financial markets around the world.

Our work serves the public interest by fostering trust, growth and long-term financial stability in the global economy.”

The move to global standards

1973	International Accounting Standards Committee
1997	Asian Financial Crisis
2000	European Council meeting Lisbon
2000	IOSCO recommends int'l standards
2001	International Accounting Standards Board
2002	EU decides to adopt IFRS Standards
2005	EU companies start using IFRS Standards

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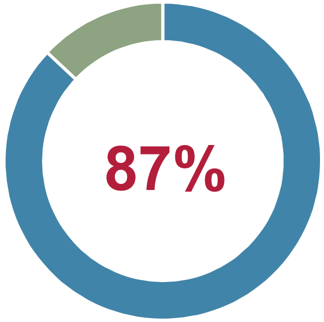
Adoption of IFRS® Standards

= IFRS Standards required

144 of 166 jurisdictions require IFRS Standards for all or most publicly accountable companies



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Structure

Monitoring Board

Who: capital market authorities
What: public accountability

Trustees

Who: 22 individuals
What: governance and oversight
– constitution, due process, strategy, financing, appointments

International Accounting Standards Board

Who: 14 members
What: independent standard-setting (IFRS Standards)

Strategic trends

Globalisation

- Global market for capital
- Ever-greater demand for transparency, accountability and efficiency

Relevance

- Factors relevant to long-term financial performance
- Environmental, social and governance (ESG) reporting

Technology

- Electronic filing
- Digital consumption
- Digital transformation

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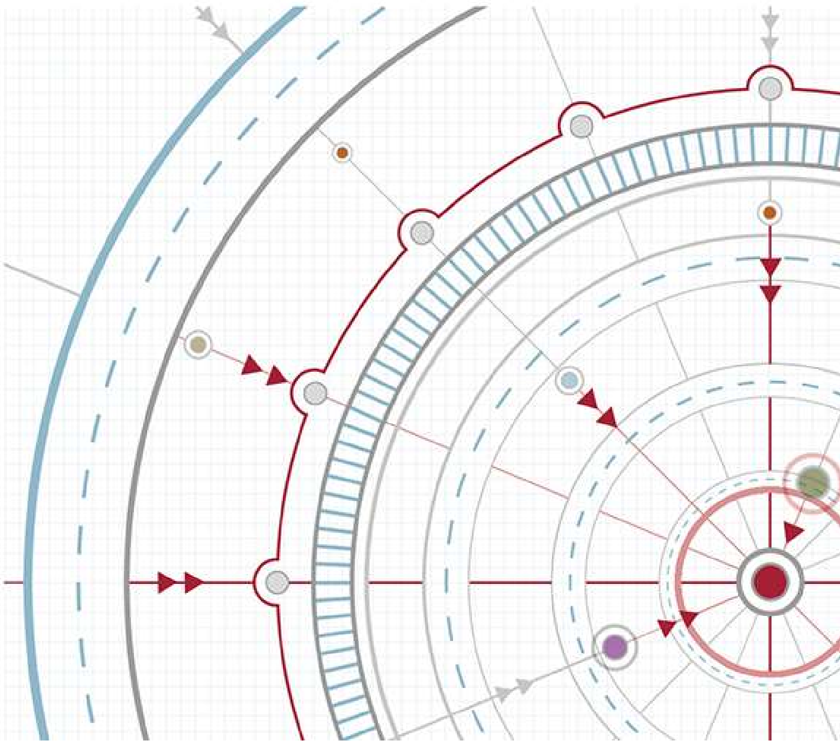

IASB Update

Hans Hoogervorst

Chair, International Accounting Standards Board

Helsinki, September 2019

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- 150 staff
- 40 nationalities
- Canary Wharf, London

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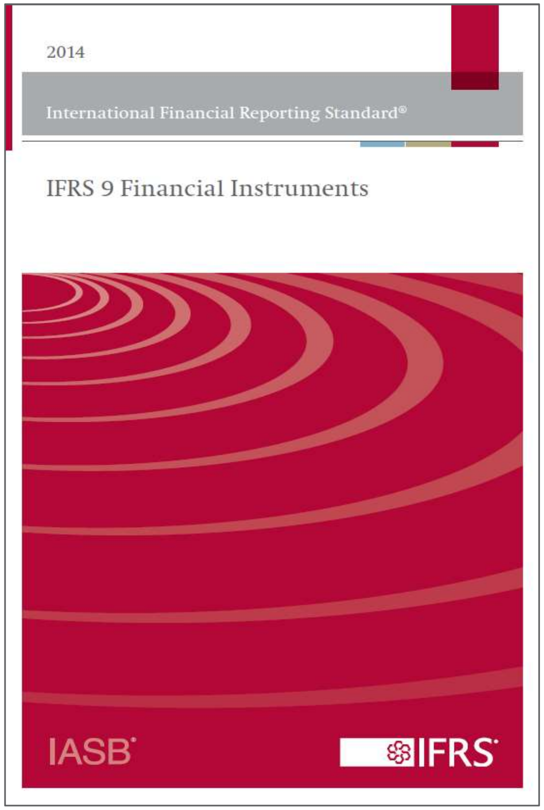
New IFRS Standards

The ‘big 4’

Standard	Effective
IFRS 9 *Financial Instruments*	2018
IFRS 15 *Revenue from Contracts with Customers*	2018
IFRS 16 *Leases*	2019
IFRS 17 *Insurance Contracts*	2022*

* proposed new effective date

IFRS 9 at a glance

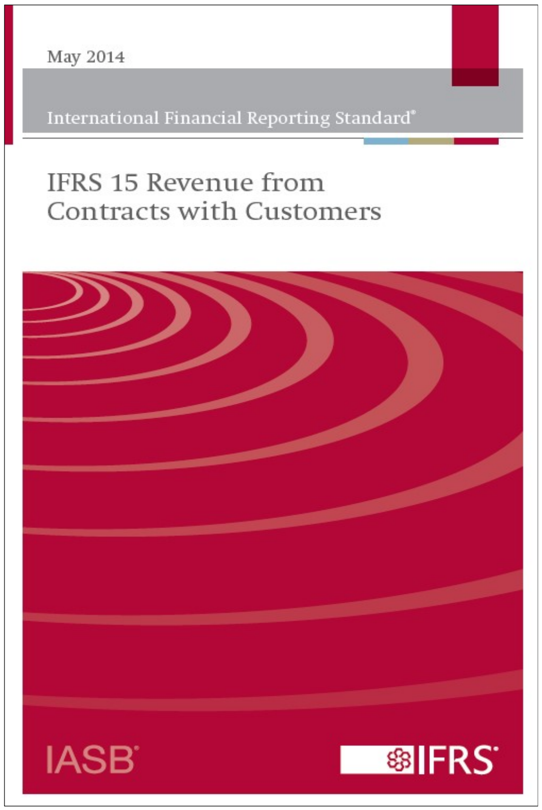


- Issued in 2014
- Effective 1 January 2018
- Replaced IAS 39

Key points:

- Classification and measurement
  - a logical, single classification approach driven by cash flow characteristics and how financial instruments are managed
- Impairment
  - forward-looking ‘expected loss’ model
- Hedge accounting
  - better aligns accounting with risk management

IFRS 15 at a glance

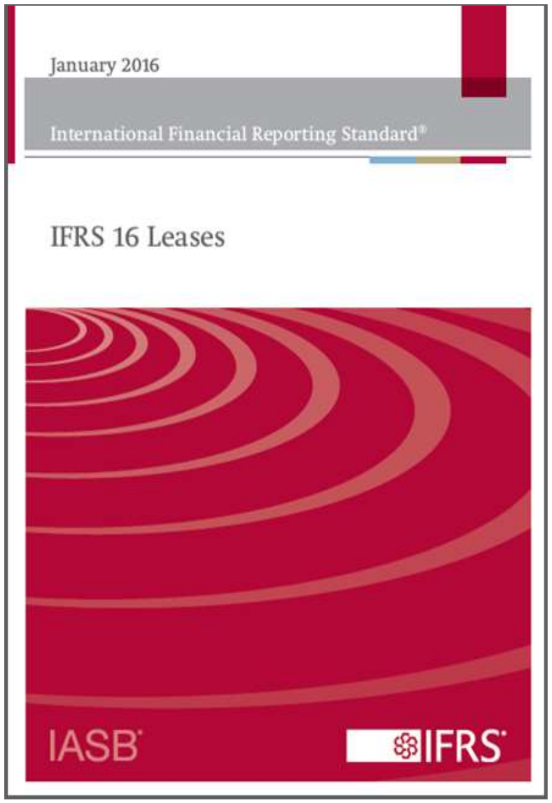


- Issued in 2014
- Effective 1 January 2018
- Replaced IAS 18 and IAS 11

Key points:

- Global framework for all revenue recognition
- Simple core principle: recognise revenue when or as goods/services are transferred to customer
- Increases comparability and enhances disclosures

IFRS 16 at a glance



- Issued in January 2016
- Effective 1 January 2019
- Replaced IAS 17

Key points:

- Brings all leases onto the balance sheet
- Changes lessee accounting substantially; little change for lessors
- Enables comparisons of companies that lease with companies that borrow to buy

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Current work

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Central theme of the Board's work

Better Communication in Financial Reporting

	Financial statements		Information outside the financial statements
Content	Primary Financial Statements	Disclosure Initiative	Management Commentary
Delivery	IFRS Taxonomy		

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Primary Financial Statements

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Main issues the Board is addressing in the PFS project

objective

Targeted improvements to the primary financial statements with a focus on the statement(s) of financial performance

Users: Statements of financial performance are not sufficiently comparable between different companies	Introduce **required and defined subtotals** in the statement(s) of financial performance
Users: Non-GAAP measures can provide useful information, but transparency and discipline need to be improved	Introduce disclosure of **Management Performance Measures (MPMs)**
Users: Level of disaggregation does not always provide the information I need	Introduce **requirements to improve disaggregation**

PFS – Introducing defined subtotals in P&L

	Revenue	16,500
	Changes in inventories of finished goods and work in progress	(1,000)
	Raw material and consumables used	(6,000)
	Employee benefits expense	(4,000)
	Impairment of property, plant and equipment	(500)
	Depreciation expense	(1,200)
	Amortisation expense	(800)
1	**Operating profit**	**3,000**
	Share of profit of **integral** associates and JVs	500
2	**Operating profit and share of profit or loss of integral associates and JVs**	**3,500**
	Changes in the fair value of financial assets	250
	Dividend income	50
	Share of profit of **non-integral** associates and JVs	100
3	**Profit before financing and income tax**	**3,900**
	Interest income from cash and cash equivalents	100
	Expenses from financing activities	(1000)
	Unwinding of discount on pension liabilities and provisions	(100)
	Profit before tax	2,900

Operating

Investing

Financing

Management performance measures (MPMs)

Disclosure in the notes of measures of profit not defined by IFRS Standards

Complements IFRS-defined totals or subtotals and in management's view **communicates** an entity's **performance**

Same measure must be used in public communications with users **outside financial statements**

Must **faithfully represent** the financial performance of the entity to the users

Accompanied by disclosures to **enhance transparency,** in a **single note** —including a **reconciliation** to the closest IFRS-defined total or subtotal (see example on next slide)

PFS – Disaggregation

General	• Improved principles, definitions and guidance on aggregation and disaggregation (eg on ‘other’ balances)
Unusual items	• **Definition of unusual items**: ‘income or expenses with limited predictive value because it is reasonable to expect that similar items will not arise for several future annual reporting periods. Similar items are income or expenses that are similar in type and amount.’ • Requirement: note disclosing **unusual items**, **attributed to line items** in the statement(s) of financial performance

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Management Commentary

What is management commentary?

- A narrative report that gives context for the financial statements and additional insight into the company's long-term prospects
- Sits within the boundaries of financial reporting and is aimed at primary users of financial reports—existing and potential investors, lenders and other creditors

Environmental, social and governance (ESG) matters—normally part of wider corporate reporting—are discussed in management commentary if necessary for primary users to make economic decisions

Project focus

Why revise?

Developments in narrative reporting

Gaps in current reporting practice

Increasing need for additional information

Focus of revision

Meet primary users' information needs

Retain a principles-based approach but expand the guidance to:

- consolidate innovations
- address gaps in reporting
- support rigorous application

Particular emphasis on:

- company-specific matters
- intangibles and ESG matters
- matters that underpin long-term success
- coherent discussion linked to strategy

Intended to be compatible with jurisdictional requirements and subject-matter frameworks (eg TCFD, SASB)

Sustainability reporting

- 230+ corporate sustainability standards*
- 80+ sectors

Sustainability reporting			IASB's role
	Companies' impact on public good	Seeks to promote change by requiring companies to demonstrate how they contribute to a better world by engaging in environmentally sustainable activities	None
	Companies' ability to sustain financial performance	Seeks to inform investors about the impact of sustainability issues on a company's future cash flows	Management Commentary

*Source: Financial Times

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IFRS 17 *Insurance Contracts*

IFRS 17 – main improvements introduced

More useful and transparent information	• Current assumptions regularly updated • Options and guarantees fully reflected • Discount rates reflect characteristics of the insurance liability – risks not matched by assets will be reflected in the accounts
Consistent recognition of revenue and profits for insurance services	• Revenue recognition more consistent with IFRS 15 • Profits recognised as the insurance coverage is provided • Additional metrics to evaluate performance

Easing IFRS 17 implementation

Deferral of the effective date by one year IFRS 17 IFRS 9	**Additional scope exclusions** Loans Credit cards	**Allocation of acquisition costs to expected contract renewals**	**Attribution of profit to service relating to investment activities**
Extension of risk mitigation option	**Reduced accounting mismatches for reinsurance**	**Simplified balance sheet presentation**	**Additional transition reliefs** Business combinations Risk mitigation—transition date Risk mitigation—fair value approach

Timeline

May 2017	Nov 2018- April 2019	June 2019	Mid 2020	January 2022
IFRS 17 issued	Board decided to amend IFRS 17 to aid implementation	Exposure Draft of proposed amendments to IFRS 17	Expected finalisation of amendments to IFRS 17	IFRS 17 is effective

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Goodwill and Impairment

Goodwill and Impairment

Problems

Post-implementation review of IFRS 3:

1. Impairments not timely ('too late' issue)
2. Impairment test costly
3. Users need information to assess subsequent performance of acquisitions

Goodwill and Impairment (continued)

Tentative decisions to date

1 Impairments not timely ('too late' issue)

- Retain impairment-only model and not reintroduce amortisation of goodwill
- Present a sub-total or memo line on balance sheet for total equity before goodwill

2 Impairment test costly

Simplify impairment test process:

- permit relief from mandatory annual quantitative test
- include restructuring/enhancement cash flows in value in use estimates
- allow post-tax inputs in value in use estimates

3 Information on subsequent performance

Improve disclosures to explain:

- strategic rationale and key objectives for acquisition (replacing primary reasons)
- post-acquisition performance – are key objectives being achieved?

Next steps

- Discussion Paper expected around end of 2019

Get involved

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