



Crowne Plaza Hotel, Belfast

15 November 2018

Deloitte
Financial Reporting
plus



Welcome

Glenn Roberts, Partner, Deloitte (NI) Ltd

15 November 2018

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Setting the scene



	Session 1	Presenter
9.00	Welcome	Glenn Roberts
9.15	Economic Overview and Outlook	Richard Johnston Ulster University
9.45	Reflections on Brexit	David Carson
10.00	IFRS Update	Gareth Martin Dawn Johnston
10.30	Coffee break	
11.00	FRS 102	Jason Starbuck Grace Cartin
11.15	Corporate Governance	Ross Boreland
11.30	Tax Update	Brian Birt Jane Foy Chris McClenahan
12.00	Cyber Risk: The good, the bad and the remedy	Ross Spelman
12.20	Closing Comments	Dawn Johnston
12.30	Lunch and Networking	



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Reflections on Brexit



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T: 01 417 2513

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Brexit and what it means
for your business at
www.deloitte.ie/brexit

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IFRS Update

Dawn Johnston and Gareth Martin

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IFRS Update

IFRS 9

Financial instruments

Effective for periods beginning on or after 1 January 2018

IFRS 15

Revenue

Effective for periods beginning on or after 1 January 2018

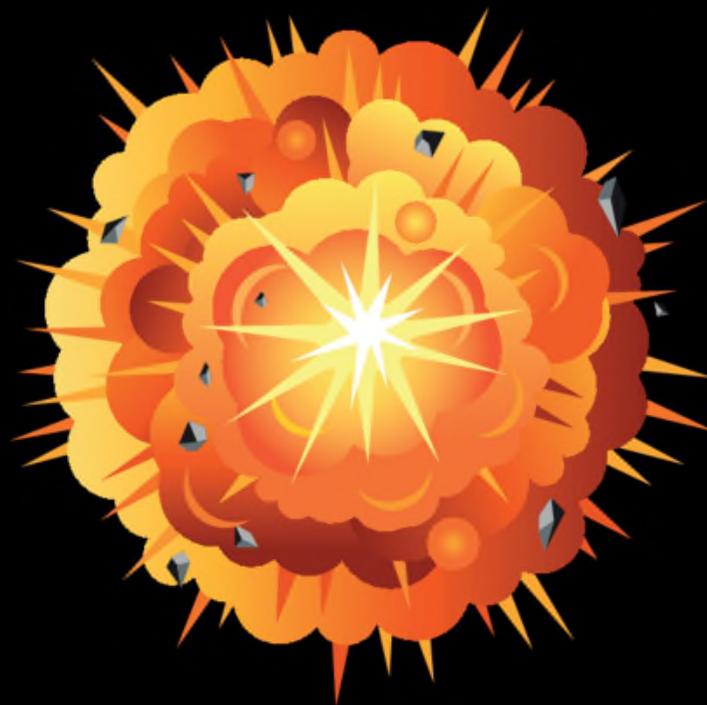
IFRS 16

Leases

Effective for periods beginning on or after 1 January 2019

IFRS and other developments

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IFRS 9 – Financial instruments

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IFRS 9 Overview

Applicable for periods beginning on or after 1 January 2018

TRANSITION
IS COMPLEX

Three areas of change: classification and measurement, impairment model for financial assets, and general hedge accounting

Financial instruments
Initial and subsequent measurement considerations

Financial assets

- Two classifications: amortised cost and fair value
- Classify at the time of initial recognition
- Different treatment of gains and losses
- There are options and elections to be made

Financial liabilities

Two measurement categories: FVTPL and amortised cost

Equity investments

- Typically held at fair value through the P&L
- Option of FVTOCI (unless held for trading)

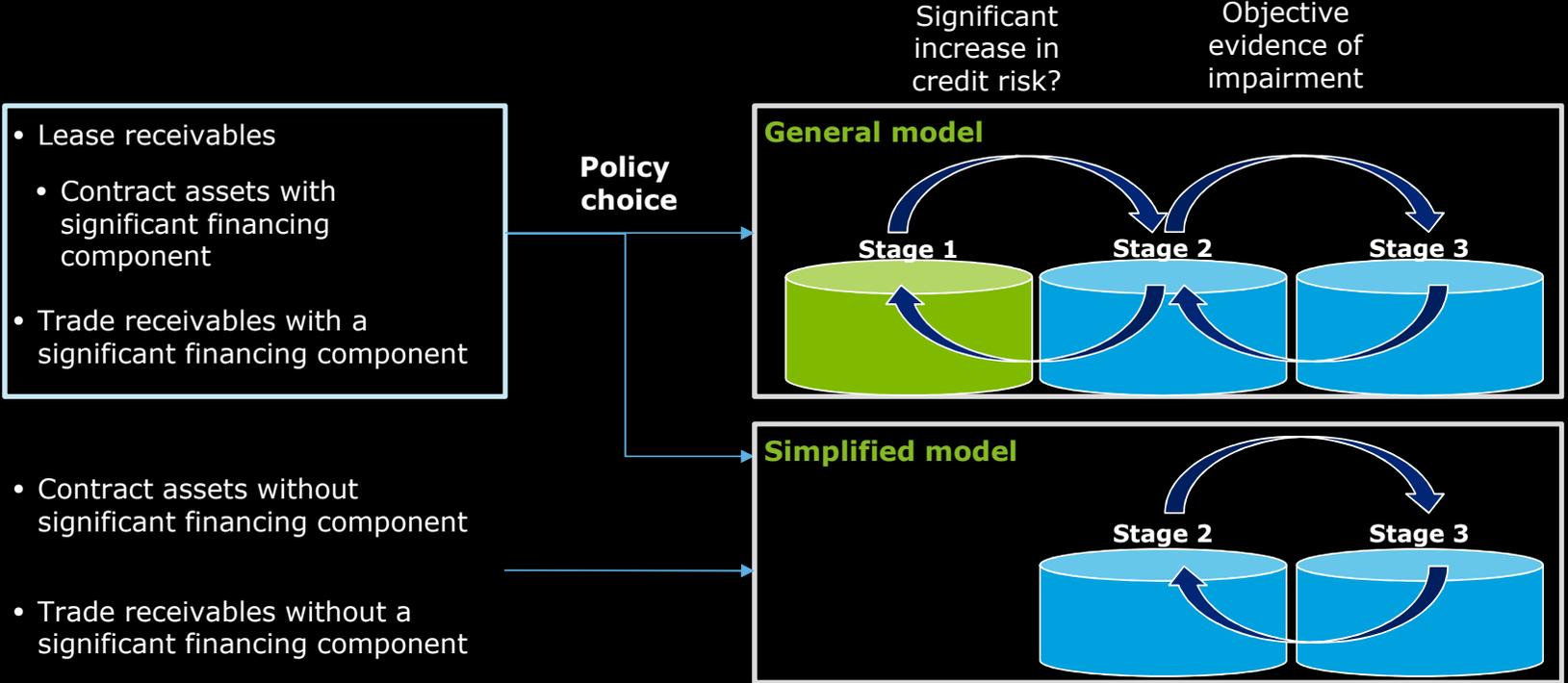
Hedge accounting

Hedge accounting requirements optional

DON'T HAVE TO RESTATE COMPARATIVES

**FRS 102
CHOICE
ALREADY**

Overview of IFRS 9 Impairment for Corporates



Financial assets in scope of IFRS 9

Loan commitments (unless at FVTPL)

Financial guarantees (unless at FVTPL)

Contract assets (IFRS 15)

Trade & lease receivables

A 5 step approach is required for calculating the impact of “Simplified Approach” for IFRS 9



Step 1 Determine the **appropriate groupings** of receivables into categories of shared credit risk characteristics



Step 2 Determine the **period** over which historical loss rates are obtained



Step 3 Determine the **historical loss rates**



Step 4 Consider **forward looking macro-economic factors** and adjust historical loss rates to reflect relevant future economic conditions



Step 5 **Calculate** the expected credit losses



Step 1: Determine the appropriate groupings of receivables into categories of shared credit risk characteristics

IFRS 9 does not provide any **specific guidance** on how to group and **judgement** will be **required**.

An example of the type of groupings:

- geographical region
- product type
- customer rating and
- type of customer (such as wholesale or retail)

Geography 1				Geography 2			
Wholesale customer		Retail Customer		Wholesale customer		Retail Customer	
Product A	Product B	Product A	Product B	Product A	Product B	Product A	Product B



Step 2 Determine the period over which historical loss rates are obtained

Once groups are identified, **historical loss data** needs to be **collected** for each sub group

Period should be reasonable – not too long, not too short. **Two to five years is a good benchmark**

Period is required to **best represent future period outcome**



Step 3 Determine the historical loss rates

You must determine historical loss rates for each group divided into each **past-due categories** based on observable data from the determined period

You will need to **identify when a customer paid** their credit sales invoice

This information is then **sorted into the different timeframes** as per the table below

	Sales that reach the aging group	Amount received during the aging grouping	Sales that reach the next aging grouping
0 days overdue	£10,500,000	£5,000,000	£5,500,000
1 – 30 days overdue	£5,500,000	£2,750,000	£2,750,000
31 – 60 days overdue	£2,750,000	£1,350,000	£1,400,000
61 – 90 days overdue	£1,400,000	£750,000	£650,000
>90 days overdue	£650,000	£525,000	£125,000
Never paid - written off	£125,000	-	(written off)

Step 3 Determine the historical loss rates – continued

The historical loss rate is calculated below by taking **total credit loss** and **dividing** it by the **credit sales** amounts that reach each aging grouping.

	0 days past due	1-30 days past due	31-60 days past due	61-90 days past due	More than 90 days past due
Balances Outstanding	£10,500,000	£5,500,000	£2,750,000	£1,400,000	£650,000
Total Credit Loss	£125,000	£125,000	£125,000	£125,000	£125,000
Historical loss rate	1%	2%	5%	9%	19%

You will need to **repeat** this exercise for **each one of the sub-groups it identified in Step 1**.

Historical loss rates calculated above serve as **a good starting point** for the estimate of expected credit losses under IFRS 9.



Step 4 Consider forward looking macro-economic factors and conclude on appropriate loss rates

The rates identified in step 3 represent historical data.

The rates are a **starting point** but **not necessarily the final rates** that should be applied.

This will be an area of **significant judgement** and will be a function of **reasonable** and **supportable** forecasts of future economic conditions.

Example:

There is predicted downturn in the economy due to predicted rise in unemployment. The last time this occurred receivable losses increased by on average 20%



Step 4 Consider forward looking macro-economic factors and conclude on appropriate loss rates – continued

Updating historical loss rates for forward looking information	Current	30 days past due	60 days past due	90 days past due	>90 days past due
Calculated historical loss rate	1%	2%	5%	9%	19%
Forward looking multiplier	+20%	+20%	+20%	+20%	+20%
Historical loss including forward looking multiplier	1.2%	2.4%	6%	10.8%	22.8%

Once the **rate is determined** in Step 3 and **adjusted accordingly** in Step 4, the rate then will be used to **calculate** the **expected credit loss**.



Step 5 Calculate the expected credit losses

The **expected credit loss** of each sub-group determined in Step 1 should be calculated by **multiplying** the current **gross receivable balance** by the **loss rate**.

Example:

Trade Receivable as at 31 December 2018 of £1,652,000

Aged analysis as follows:

	0 days past due	1-30 days past due	31-60 days past due	61-90 days past due	> 90 days past due	Total
Balance Outstanding	£875,000	£460,000	£145,000	£117,000	£55,000	
Expected Credit Loss Rate	1.2%	2.4%	6%	10.8%	22.8%	
Expected Credit loss allowance	£10,500	£11,040	£8,700	£12,636	£12,540	£55,416

Resources

IFRS in Focus Newsletter

Heads Up Newsletter

FRC Thematic review on the impact of IFRS 9

**A Closer Look – applying the expected credit loss model
to trade receivables**

Deloitte comment letter – Hedge Accounting

Deloitte e-learnings on IFRS 9

TRG Snapshot

<https://www.iasplus.com/en/standards/ifrs/ifrs9>



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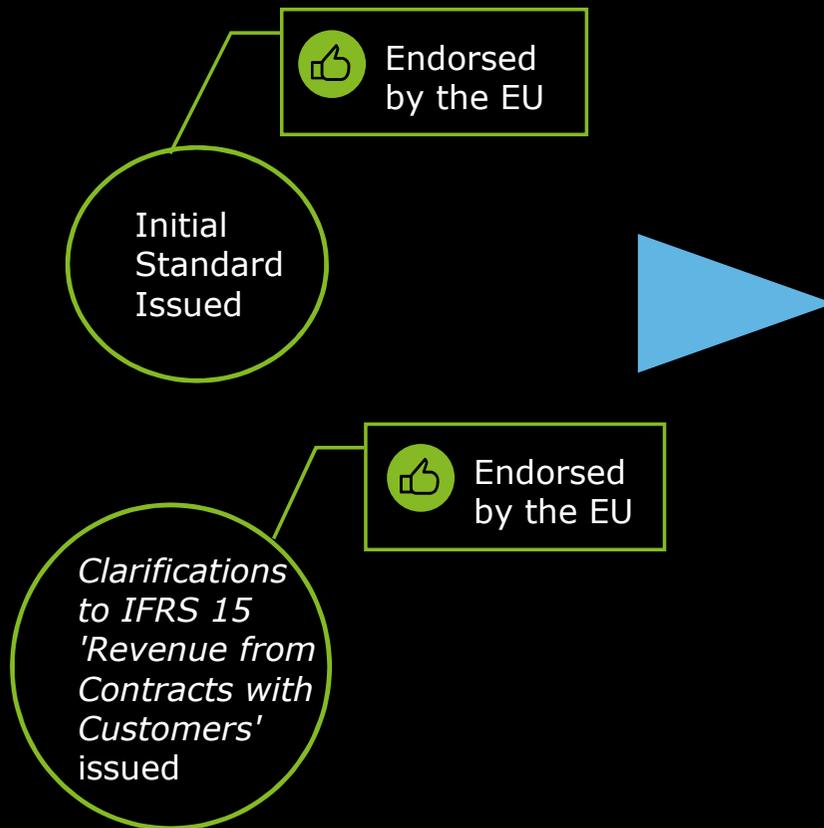
**IFRS 15 Revenue from contracts
with customers**

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The New Revenue Standard

Where we are...

The Standard



The Five Step Model Framework



STEP 1 Identify the contract with the customer



STEP 2 Identify the performance obligations in the contract



STEP 3 Determine the transaction price



STEP 4 Allocate the transaction price to the performance obligations



STEP 5 Recognise revenue when (or as) each performance obligation is satisfied

The Revenue Standard (IFRS 15)

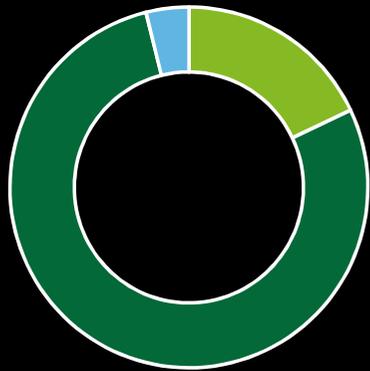
More judgement...

Topic	IFRS 15 requirement	General impact
Sales commissions	Contract costs	May lead to a decrease in expenses due to their capitalisation and amortisation
Royalties	Variable consideration / Performance obligations	Revenue recognition may be accelerated due to requirement to estimate royalties each month end/year end rather than wait until royalty report is received
Upfront fees	Performance obligation / Recognition	Usually at or near inception and non-refundable. Does the fee relate to a transfer of promised goods or services or not?
Warranties	Performance obligation	The IFRS 15 v IAS 37 dilemma! Is there a separate performance obligation, i.e. where the customer has option to acquire separately or if deemed an additional service?
Software	Performance obligation / Transaction price / Recognition	Generally lead to increase in upfront revenue, once the fair value of the license was determined
Taxation		Impact of prior year adjustment generally spread over 5 years for tax purposes

The Revenue Standard (IFRS 15)

What companies are saying...

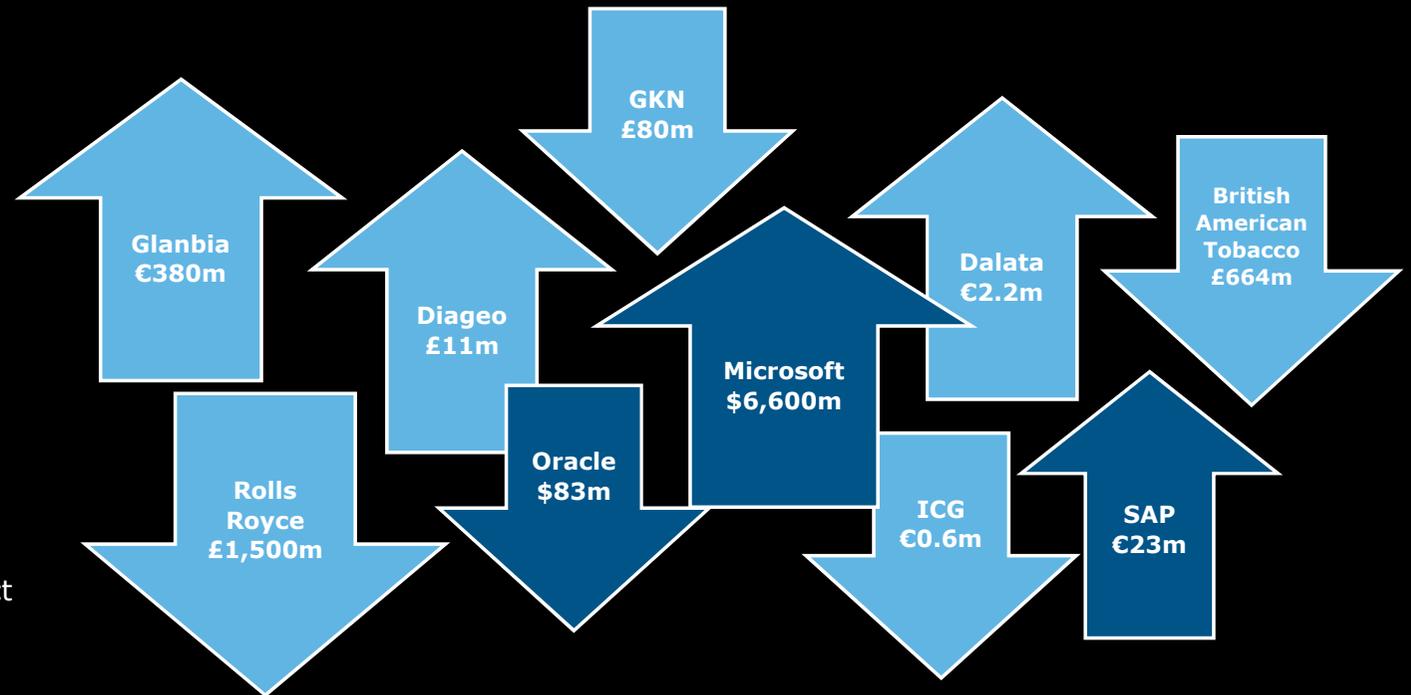
ISE & FTSE Companies



■ Impacted

■ No material impact

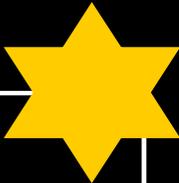
■ Not applicable



Overall: Most companies have disclosed no material impact to profit as a result of adopting IFRS 15

The Revenue Standard (IFRS 15)

Disclosures



Disclosures About Contracts with Customers

Disaggregation of revenue	Information about contract balances	Remaining performance obligations	Information about performance obligations
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FRS101 Reduced Disclosure Framework

Certain reduced disclosures are available under FRS101

Disclosures about Significant Judgments and Estimates

Description of significant judgments	Transaction price, allocation methods and assumptions
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Other Required Disclosures

Policy decisions – time value of money & costs to obtain a contract	Contract costs
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Resources

IFRS in Focus Newsletter

Heads Up Newsletter

IFRS Industry Insights on the impact of IFRS 15

**Implementing IFRS 15 – A practical guide to
implementation issues**

Roadmap to applying the new revenue recognition standard

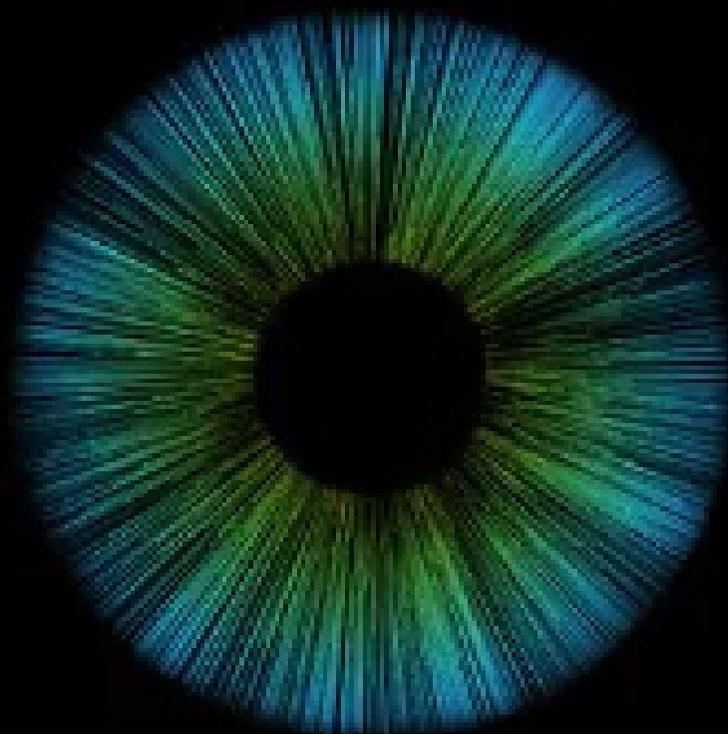
Deloitte e-learnings on IFRS 15

TRG Snapshot

<https://www.iasplus.com/en/collections/revenue>



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**Impact on your balance sheet - IFRS 16
Leases**

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Key Highlights



New lease model
and revised
definition of lease



Lessor accounting
largely unaffected



Effective date: 1
January 2019



Most leases
brought on
balance sheet



Partial convergence
with US GAAP



IFRS 16 versus IAS 17

Transition options

Incremental borrowing rate

Lessees and lessors are permitted to grandfather assessments regarding whether a contract existing at the date of initial application contains a lease.

Modified retrospective approach
For leases previously identified as operating leases

Full retrospective approach
No reliefs available

Leases ending within 12 months of the date of initial application

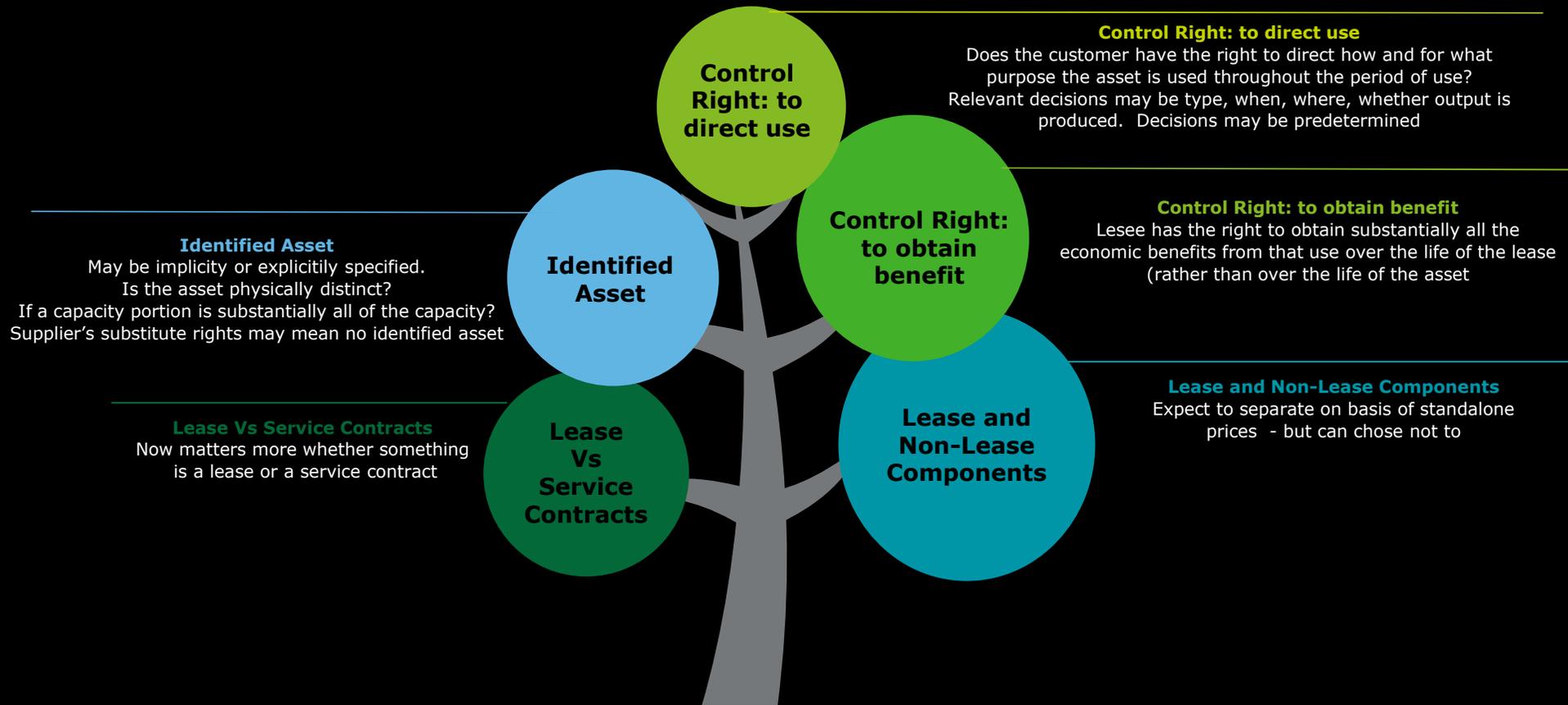
Apply a single discount rate to a portfolio of leases

Use hindsight in determining the lease term

Adjust the right of use asset by the amount of provision for onerous leases

Exclude initial direct costs

Definition of a lease - overview



Lessee accounting

The discount rate

Interest rate implicit in the lease

The rate of interest that causes the present value of:

- The **lease payments** and
- The **unguaranteed residual value** to equal the sum of
 - The **fair value** of the **underlying asset** and
 - Any **initial direct costs** of the lessor

Incremental borrowing rate

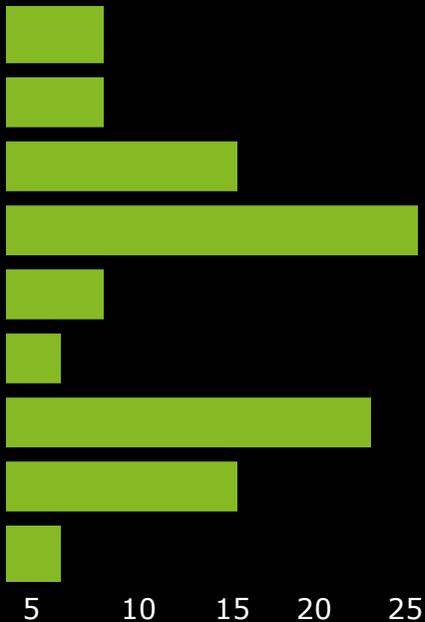
The rate of interest that a **lessee** would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the **right-of-use asset** in a similar economic environment

Determining appropriate discount rates

- The interest rate implicit in the lease should be used if it can be readily determined, otherwise, use the incremental borrowing rate
- Determining the rate implicit in the lease requires knowledge of the underlying asset's residual value and its fair value; information unlikely to be readily available to lessees

Client Survey October 2017 – Implementation Challenges

Revision of leasing strategy
Stakeholder impact
Potential impact on financial results
Calculation of the discount rate
Consideration of transitional reliefs and how to apply them
Consideration of recognition exemptions and practical expedients
Having systems capable of capturing all required information
Identifying all leases that meet the definitely of a lease
Other



Discount Rate



IT Systems

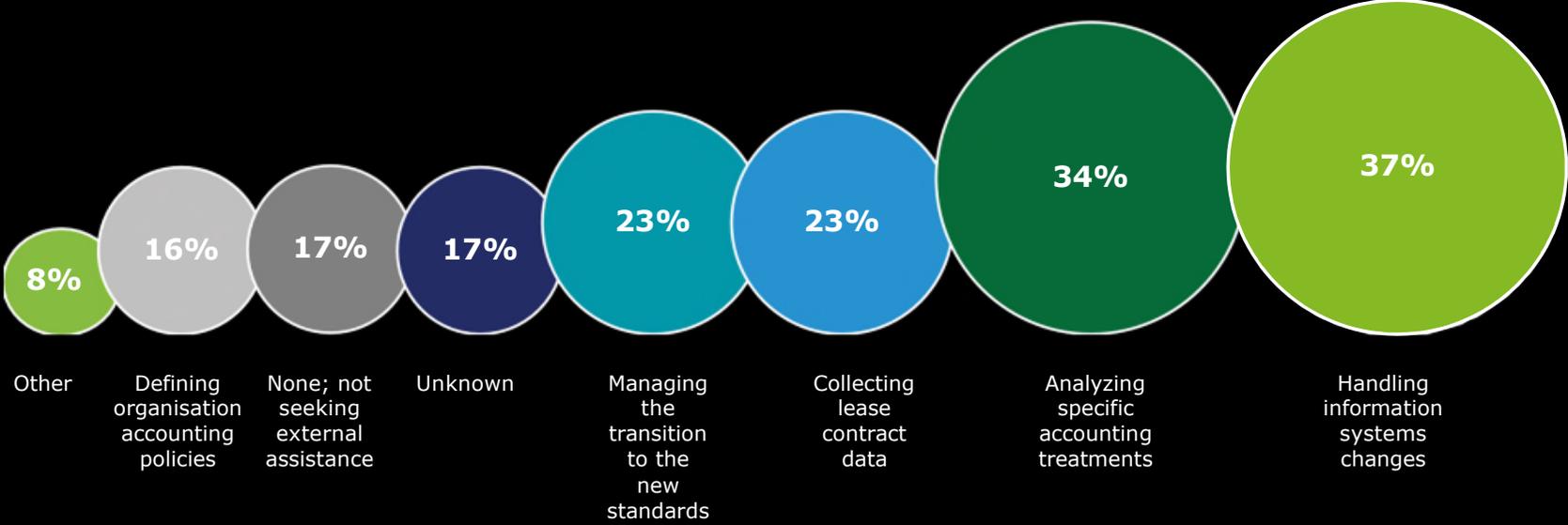


Lease Identification



Organisations are looking for external service providers to assist with a variety of tasks related to the adoption of the new leases standards

Which of the following areas are you planning to use external service providers to assist with your transition?*



*respondents could select multiple answer choices

Key Considerations



Operational changes: systems, training etc.



Changes to KPIs



Compliance with loan covenants



Compensation arrangements

Terms and conditions of new lease contracts



Procurement strategy:
lease or buy?



Cost of borrowing



Keep up to date

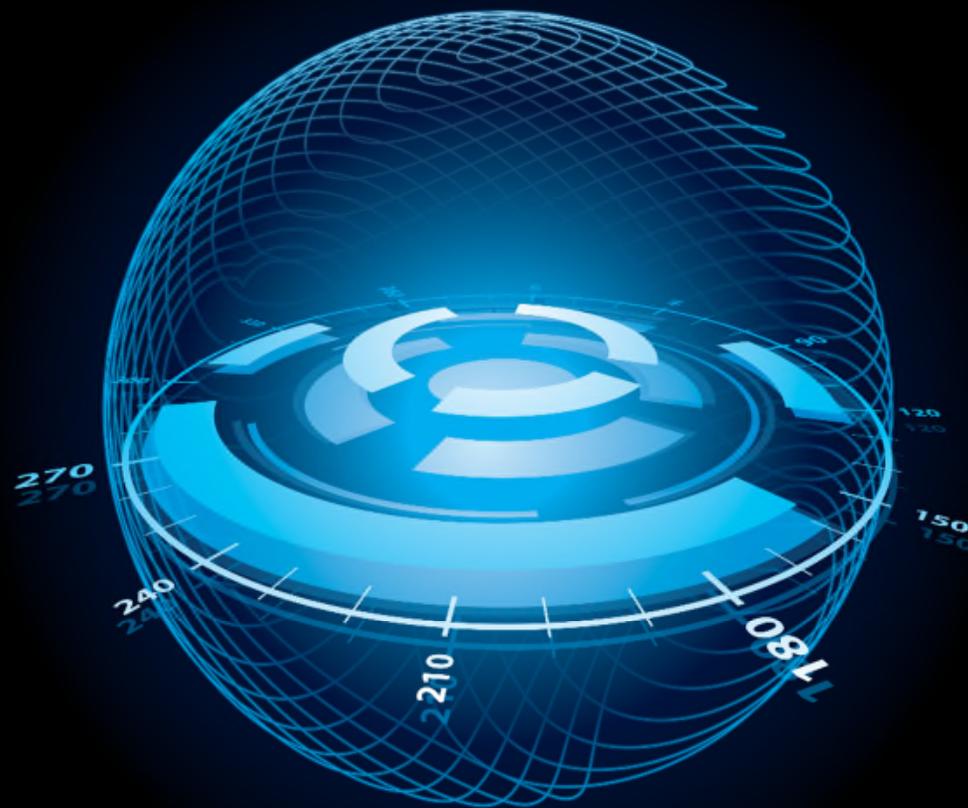
Additional IFRS 16 resources on IAS Plus:

- <https://www2.deloitte.com/ie/en/pages/audit/articles/global-AA-IFRS16-ASC-842-2018-client-readiness-survey.html>
- [A guide to the incremental borrowing rate — Assessing the impact of IFRS 16 'Leases'](#) 19
Oct 2017
- [IFRS model financial statements 2017 — Appendix 1: Early adoption of IFRS 16 'Leases'](#) 10
Aug 2018

e-learning:

- [IFRS 16 Leases](#) (basic)
- [IFRS 16 Leases](#) (advanced)

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**Insights into IFRS and other
developments for 2018 and beyond**

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IFRS: new for 2018 Annual Reports and Beyond

New Interpretations and amendments – 2018



Endorsed

EU/IASB Effective Date

IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016)	1 January 2018
IFRIC 23 Uncertainty over Income Tax Treatments (issued on 7 June 2017)	1 January 2019
Amendments to IAS 40: Transfers of Investment Property (issued on 8 December 2016)	1 January 2018
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016)	1 January 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016)	1 January 2017 / 1 January 2018
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016)	1 January 2018
Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on 12 October 2017)	1 January 2019

IFRS: new for 2018 Annual Reports and Beyond

New Interpretations and amendments – 2018

<i>Not yet endorsed</i>	<i>EU/IASB Effective Date</i>
IFRS 17 Insurance Contracts (issued on 18 May 2017)	1 January 2021
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017)	1 January 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017)	1 January 2019
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018)	1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)	1 January 2020
Amendment to IFRS 3 Business Combinations (issued on 22 October 2018)	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018)	1 January 2020

For further information: www.iasplus.com

Select UK channel

The screenshot shows the UKAccountingPlus website interface. At the top left is the Deloitte logo. To the right, it says 'UKAccountingPlus' with a dropdown menu for 'United Kingdom (English)'. Below this is a navigation bar with links for Home, News, Publications, Standards, Governance, Other regulatory, Projects, and Resources. A search bar is located on the right side of the navigation bar. The main content area features a green header: 'All you need on UK Accounting, Reporting & Corporate Governance'. Below this are three tabs: 'Latest news', 'Latest publications', and 'Latest meetings'. The 'Latest news' tab is active, displaying three articles. The first article is 'Presentation on the EU fitness check at the October 2018 IFASS meeting', published on 03 Oct 2018. The second is 'Annual report insights 2018 — Surveying FTSE reporting', published on 28 Sep 2018. The third is 'A Closer Look — Applying the expected credit loss model to trade'. On the right side, there is a 'Guide to revenue standard' article with a thumbnail image of a tree. Below that is an 'Important dates' section listing several events: 'Comment deadline for CIPFA/LASAAC consultation on a new Code of Practice on Local Authority Accounting' (08 Oct 2018, London), 'EFRAG webinar on FICE' (12 Oct 2018), 'October 2018 IFRS Foundation Trustees meeting' (16 Oct 2018 - 18 Oct 2018), and 'Comment deadline for updated draft SORP for Limited Liability Partnerships'.



Coffee break