

New standards

Tell the right story in your IFRS disclosures

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Manage stakeholder expectations

Now that the new standards on revenue recognition and financial instruments are finally effective, corporates and financial institutions alike are gearing up to make their first disclosures.

These pre-implementation disclosures are your opportunity to tell the story of the change: the estimated effects on revenue, profit or loss, equity, the key calculations and assumptions you are making, the expected impact going forward.

But you'll also need to start getting your head around the new disclosure requirements contained in the new standards, and make sure that you're going to have the right information available.

Embrace transparency

It's vital to bring analysts and shareholders on board by giving them a full picture of your understanding of the effects of the new standards in your 2017 year-end accounts. Simply saying "we are adopting the standards in 2018 and the new numbers will follow" is unlikely to be acceptable.

Further, to meet stakeholder expectations, you need to go beyond the technical requirements of the new standards and embrace the spirit of transparency.

Corporates gearing up

For corporates, the key focus will be on the revenue recognition standard. My sense is that many corporates are reasonably well advanced in their preparations. Sectors that will be most affected, like telecoms and real estate development, have long known that they will have some important changes to explain, with significant changes in the profile of revenue.

In other sectors, however – e.g. services and outsourcing – the effects emerging are larger than first thought, so there is some work here to get ready and explain.

Corporates that carry a limited range of financial instruments will find the disclosure task around IFRS 9 is lighter, relatively speaking.

Banks face financial instruments challenge

For banks, it's the other way around entirely. Generally, the revenue standard poses a far smaller challenge than the financial instruments standard.

Indeed, the situation with financial instruments is, I think, unique in the history of the adoption of new reporting standards. The task is more complex than any that's been undertaken before. Even large banks with extensive resources are finding calculations of expected losses difficult.

This means that the heat is on to get ready for disclosures in the 2017 financial statements, which will be published at the end of February or in early March.

Balancing precision and granularity

For banks, getting to 'the number' involves making comprehensive calculations across numerous portfolios. There are myriad assumptions and parameters involved. What is the right level of granularity in disclosures? As this the first time anyone has done it, no one is completely sure.

The expectations of the regulators are high – the European regulator, ESMA, is expecting detailed disclosures in your 2017 year-end accounts. But I'm wondering if all banks will be in a position to meet these expectations, given the volume of work involved in producing such comprehensive disclosures. Some may buy a little more time by releasing a more extensive document just before the Q1 trading update.

Economic backdrop must not induce complacency

I'm also mindful that we're operating in generally benign economic conditions, so banks' incurred losses for 2017, and expected losses for 2018/19, may be relatively low – certainly, lower than envisaged when IFRS 9 was first published. This is good news, but it would be wrong to allow any complacency to creep in.

Although the quantitative impact of IFRS 9 may seem small today, you'll still need to go through the full analysis and implementation. In the coming years, economic conditions could change and expected losses become significantly higher, so it's essential that calculations and disclosures are done with sufficient rigour and detail to properly equip banks to report in the future.

Don't underestimate the task ahead

Looking to the near future, you'll also want to get your head around the new disclosure requirements contained in the new standards – particularly if you report on a quarterly basis.

More detail is required under both standards, and so you'll want to make sure that you have access to the right information, or else make the necessary changes to your systems and processes.

These disclosures will be the subject of a future IFRS blog.

Boards need to step up

Whether you are a bank or a corporate – is your board prepared?

They will need to step up their understanding of the standards' impacts so that they can tell the right story in their own words. It's important to spend time making sure the board is fully equipped to do this.

About the author

Dick provides technical accounting advice to financial institutions and corporates in the Netherlands and globally on the application on IFRSs 9 and 15.