Are you ready for accounting change?
The changing accounting landscape
Lessons learned from implementation

1. High level accounting policy comparisons between the old and new standards are ineffective.

2. Diagnostic projects and parallel runs take longer than expected.

3. Detailed contract reviews are critical.

4. Even if no change is anticipated, a considerable amount of work is required to analyse contracts, consider the requirements and conclude on the impact of the change.

5. Significant management judgement and accounting estimates are required to implement the accounting changes.

6. IT systems and processes often require improvement. Historic data may require validation and clean up. Additional data may be required for impairment models.

7. Significantly increased disclosure requirements require additional effort from finance teams, even where no other significant changes from implementation is expected.

8. Collaboration between finance, tax, IT, risk and legal is essential to avoid duplication of effort.

9. The establishment of a project structure and governance processes are critical to the success of the project.

10. Early stakeholder engagement, education and communication about the accounting changes are important to manage market expectation.
Are you ready for accounting change?

The changing accounting landscape

**IFRS 15 - Revenue from contracts with customers**

IFRS 15 creates a single source of revenue guidance and will affect most companies across various industries. IFRS 15 will affect the recognition, measurement and disclosure of revenue for many entities. Revenue is often the most important financial performance indicator for entities.

IFRS 15 is required for annual periods beginning on or after 1 January 2018 and is a significant change in approach from current IFRS. The standard is applied retrospectively, but can be adopted without restating comparatives.

**IFRS 9 - Financial instruments**

IFRS 9 contains substantial changes from the current financial instruments standard (IAS 39) with regards to the classification and measurement, impairment and hedge accounting requirements, which will impact many entities across various industries. Key performance measures such as impairment expense, interest income and fair value gains and losses will be impacted. In addition, the balance sheet presentation of a number of financial assets may be affected.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The standard is applied retrospectively, but can be adopted without restating comparatives. As the use of hindsight is not permitted, most entities will apply the standard without restatement.

**IFRS 16 – Leases**

IFRS 16 requires lessees to recognise assets and liabilities for most leases on their balance sheet, regardless of the industry in which the entity operates. Most operating leases will be recognised as a ‘right-of-use’ asset on balance sheet with a corresponding liability, which is a significant change for many entities. For lessors, there is little change to the existing lease accounting (IAS 17).

IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

A crowded implementation timeline

<table>
<thead>
<tr>
<th>Year</th>
<th>IFRS 15</th>
<th>IFRS 9</th>
<th>IFRS 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>Design, build, test</td>
<td>Design, build, test</td>
<td>Design, build, test</td>
</tr>
<tr>
<td></td>
<td>Deploy and parallel run</td>
<td>Deploy and parallel run</td>
<td>Deploy and parallel run</td>
</tr>
<tr>
<td>2018</td>
<td>First reporting period under IFRS 15</td>
<td>First reporting period under IFRS 9</td>
<td>First reporting period under IFRS 16</td>
</tr>
<tr>
<td>2019</td>
<td></td>
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</tbody>
</table>
How will your business be affected?

This is not just an accounting change. As a result of the potential wide-ranging impact of IFRS 15, IFRS 9 and IFRS 16, the implementation process should be comprehensive. Several functions outside of the traditional finance function would also need to be involved in implementation, including IT, tax, legal, sales, marketing, human resources, investor relations and the executive management.

Entities will need to identify any necessary changes to policies, procedures, internal controls and systems to ensure that transactions in the scope of the new standards are appropriately evaluated. In addition, entities will need to plan for the significantly expanded disclosure requirements.
Some of the financial statements changes that companies can expect:

- Changes in the timing of the recognition of revenue.
- Changes in the timing of the recognition of items such as impairment, interest income and fair value gains and losses for financial instruments.
- The classification and measurement of financial instruments on the balance sheet will be different.
- Existing operating lease expenses will be replaced with amortisation and interest charges.
- The balance sheet will be grossed up for 'right-of-use' assets and corresponding liabilities for operating leases previously reflected off-balance sheet (for lessees).
- EBITDA, operating profit and profit before tax will be impacted as a result.
- The timing of tax and deferred tax will be impacted.
- EPS and HEPS will likely be impacted.
- Executive and management performance KPI's may be affected.
- Share-based payment schemes and other performance incentives may need to be reassessed.
- Opening balance sheet adjustments will arise on adoption date.
- There will be significantly increased disclosure requirements to comply with.

Some of the other changes that companies can expect:

- Investor relations will need to be carefully managed.
- The executive, finance team and other staff may require training.
- Changes to legal contracts may be required.
- IT systems will need to be updated for the changes.
- An assessment of the completeness and integrity of historical data may be required.
- Impairment models may require significant redesign and rebuilding.
- Forward-looking data for impairment models needs to be sourced and validated.
- Hedging models may require reassessment if the new hedge accounting requirements are adopted.
- Regulatory capital models may require reassessment (for banks).

Key:
- IFRS 15
- IFRS 9
- IFRS 16
**Financial statement impact - IFRS 15, IFRS 9 and IFRS 16**

### Income statement impact

<table>
<thead>
<tr>
<th></th>
<th>IFRS 15</th>
<th>IFRS 9</th>
<th>IFRS 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>*</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>- From contracts with customers</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Interest income</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating costs (excluding depreciation and amortisation)</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Contract costs</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>- Impairment charges</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Fair value movements</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>- Operating lease expense</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>EBITDA</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Operating profit</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Finance costs</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Profit before tax</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>EPS / HEPS</td>
<td></td>
<td>✓</td>
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</tbody>
</table>

### Balance sheet impact

<table>
<thead>
<tr>
<th></th>
<th>IFRS 15</th>
<th>IFRS 9</th>
<th>IFRS 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Financial assets</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>- Available-for-sale investments (IAS 39)</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>- FVOCI* assets</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>- FVTPL** assets</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>- Loans and advances</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>- Trade and other receivables</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Intercompany loans and advances</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>LESS: Provision for expected credit losses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Right of return asset (inventory)</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Contract costs</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Right-of-use asset</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Deferred revenue</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Provision for loan commitments***</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Lease liability ***</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Deferred tax</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Off-balance sheet obligations***</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*FVOCI - Fair value through other comprehensive income  
**FVTPL - Fair value through profit and loss  
*** Items that were previously accounted for as off-balance sheet are now required to be accounted for under the new expected credit loss model and lessee accounting model.
How can we help?

IFRS 15, IFRS 9 and IFRS 16 represents a significant change for most entities. The implementation date is fast approaching, leaving little time for clients to prepare. We have a number of tools available to assist you to plan, design a solution and implement the changes.

1. **Training and workshops**

   Tailored IFRS 15, IFRS 9 and IFRS 16 training and workshops for audit committee, board of directors or finance team.

2. **A gap analysis**

   An analysis of the requirements of IFRS 15, IFRS 9 and IFRS 16 in the context of the entity's business to identify the potential areas of impact.

3. **Detailed implementation support**

   We have a number of tools to assist you to plan, design a solution and implement the changes. Detailed implementation support can be provided for the following aspects:

   - Assisting with your accounting change roadmap and program governance framework.
   - Data migration and IT systems support
   - Controls impact assessment
   - Reporting and disclosures
   - Tax impact assessment
   - Regulatory change

   This can be done individually for IFRS 15, IFRS 9 and IFRS 16 or can be combined into a single implementation project.

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