

Technical Alert: 3/2018

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Subject: IASB & EFRAG updates and recent publications

Highlights

- **IASB Update**
 - IASB amends definition of business in IFRS 3 *Business Combinations*
 - **EFRAG Update**
 - Endorsement of IFRIC 23 *Uncertainty over Income Tax Treatments*
 - **Recent Publications**
 - IFAC Global Survey Reveals Digital Transformation, Talent Management as Key to Growth for Small Accounting Firms
 - IFAC report outlines keys to sound governance
 - Accounting Education Insights, Articles on Professional Skepticism
 - Accountancy Europe Survey on Key Audit Matters in the European Banking Sector
 - Financial Stability Board report on *Crypto-asset markets: Potential channels for future financial stability implications*
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IASB Update



IASB amends definition of business in IFRS 3 *Business Combinations*

The IASB has issued narrow scope amendments to IFRS 3 to improve the definition of business. The amendments will assist companies in determining whether a transaction is a business combination or an asset acquisition. Differentiating between a business and a group of assets is important because an acquirer recognises goodwill only when acquiring a business.

There have been modifications to the Appendix A *Defined terms*, the application guidance, and the illustrative examples of IFRS 3. IASB's amendments include:

- Clarifying that to be considered a business, an acquired set of activities and assets (a set) must include, at a minimum, an input and a substantive process that together contribute to the ability to create outputs.
- Removing the requirement that a set is a business if market participants can replace the missing elements and continue produce outputs
- Adding an optional concentration test that allows a simplified assessment of whether an acquired set of activities and assets is not a business.
- Revising the definition of outputs to focus on goods and services provided to customers and to remove the reference to the ability to reduce costs
- Adding guidance to help determine whether a substantive process has been acquired

The IASB proceeded with these amendments after receiving comments in the post-implementation review (PIR) of IFRS 3 where constituents had identified some challenges in concluding whether they have acquired a business or a group of assets. The IASB Board is also working on another project related to the feedback received from the PIR in which it is exploring potential improvements to the accounting of goodwill.

Companies are required to apply the amended definition of a business to acquisitions that occur on or after 1 January 2020. Earlier application is permitted.

The European Financial Reporting Advisory Group (EFRAG) has included the Amendments to IFRS 3 in its [EU endorsement status report](#). Endorsement in Europe is expected in 2019.

EFRAG Update



Endorsement of IFRIC 23 *Uncertainty over Income Tax Treatments*

The European Union has published a Commission Regulation endorsing IFRIC 23 *Uncertainty over Income Tax Treatments*. The Amendments are effective for annual periods beginning on or after 1 January 2019.

The Amendments provide guidance on accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments.

Link to the publication in the Official Journal of the European Union: [Commission Regulation \(EU\) 2018/1595 of 23 October 2018](#).

Recent Publications



IFAC Global Survey Reveals Digital Transformation, Talent Management as Key to Growth for Small Accounting Firms

IFAC (International Federation of Accountants) conducted a survey¹ to track important developments and trends that small- and medium-sized practices (SMPs) are facing. The survey was designed to be completed by senior SMP professionals, whose clients are predominately small- and medium-sized entities (SMEs). IFAC received more than 6,000 responses, representing 150 countries.

The survey found that SMP professionals use technology to better serve the needs of their clients and retain top talent.

In addition, over quarter of SMPs plan to allocate more than 10% of practice revenue over the decade to invest in technology, i.e. develop in-house expertise in IT and use cloud options for client's interface and servicing.

Retaining talent is a challenge for SMPs. According to the survey, the majority (54%) have difficulty attracting next generation talent. Talent management initiatives include flexible working hours or work days and technical training programs.

¹ <https://www.ifac.org/system/files/publications/files/IFAC-Global-SMP-2018-SUMMARY.pdf>

The survey also reveals that audit firms use data analytics as a new service offering to provide business insights to their clients. Most of the respondents (86%) provide some form of advisory consulting service, 51% of anticipate moderate or substantial revenue growth over the next 12 months.

Finally, according to the survey, the top global challenges that SMPs are facing are:

- Pressure to lower fees
- Attracting new clients and retaining existing ones
- Differentiating from competition
- Keeping up with regulations and standards



IFAC report outlines keys to sound governance

Distinct roles of internal audit and finance function provide crucial support

The Institute of Internal Auditors (IIA) and IFAC (the International Federation of Accountants) published a report in September 2018 about the crucial support that the distinct roles of internal audit and finance function provide. The report "[United, Connected and Aligned - How the Distinct Roles of Internal Audit and the Finance Function Drive Good Governance](#)", gathers intelligence from eleven governance experts and thought leaders who share their knowledge and experiences on effective governance.

The paper examines the role of the both internal audit and the finance function in maintaining a sound system of corporate governance. The report identifies several key requirements for effective governance, including:

- An ethical corporate culture that empowers effective leaders throughout the organization to carry out good governance processes;
- Effective communication and collaboration among the various roles; and
- Requisite competencies for internal audit and the finance and accounting functions to earn stakeholder support and respect.

Most frequently, good governance was defined by the experts as representing the interests of stakeholders by setting suitable objectives and driving a culture that supports them. It was also identified that good governance necessitates a balance of four pillars: an effective board, competent (general and financial) management, a sound internal audit function, and independent external auditors. If any of these lines is missing or is not working properly, this could lead to the deterioration of the organization.



Accounting Education Insights, Articles on Professional Skepticism: Unconscious Bias and Professional Skepticism

The International Auditing and Assurance Standards Board (IAASB), International Ethics Standards Board for Accountants (IESBA), and the International Accounting Education Standards Board (IAESB) established the Professional Skepticism Working Group in 2015 to explore how the boards could contribute to strengthening the understanding and application of the concept of professional skepticism.

As part of the IAESB's focus on professional scepticism, the article *Unconscious Bias and Professional Skepticism* was published which examines the underlying theory of how unconscious bias arises; the relevance of implicit or unconscious bias on professional skepticism; the various components of, mitigations for, professional skepticism; and practical tips on reducing professional accountants' unconscious bias. You may access this [here](#) after registering to IFAC's website.

A second article *How can we become better skeptics* examines what it takes to become a good sceptic and how we can develop or enhance areas that underpin skepticism. You can access the publication [here](#) after registering to IFAC's website.

Accountancy Europe survey on Auditor reporting of key audit matters in the European Banking sector

Audit quality is a matter of high importance to people to be able to rely on company information and have trust in markets. Communicating key audit matters (KAMs) in the auditor's report is a relatively recent requirement to support the quality of audits. By communicating KAMs, a company meets the growing demand of investors and stakeholders for more transparency and insight in the audit process.

This survey provides insights on auditor's reporting on KAMs for more than 60 European banks. It gives good practice examples of KAM reporting. The survey analyses the overall outcome and assesses the value- added to the



auditor's report, following the first year of KAM reporting requirement across Europe.

In a nutshell, auditors are now producing more informative and insightful reports to contribute to the sector's public trust and stability.

You may access the survey [here](#).

Financial Stability Board report on Crypto-asset markets

Potential channels for future financial stability implications

The Financial Stability Board (FSB) has produced a report in October 2018 to assess the implications of the crypto-assets for financial stability. It has concluded that crypto assets do not pose a threat to global financial stability at present, but vigilant monitoring is needed.

FSB notes that total market capitalization on crypto assets such as bitcoin, has reached an estimated \$830 billion on 8 January 2018. However, this amount has fallen to \$210 billion as of 4 October 2018 which is about 0.9% of the market capitalisation of the Standard & Poor (S&P) 500 and 2.8% of the global value of gold. This shows that the market capitalisation of crypto-assets is small compared with the global financial system.



The FSB further remarks that crypto-assets raise policy concerns such the need for consumers and investors protection and anti-money laundering and combating financing terrorism (AML/CFT) regulation and supervision. Also, it notes that if crypto assets evolve in the future, this may have implications for financial stability, i.e. could have confidence effects and reputational risks to financial institutions and their regulators.

Click [here](#) to access the report.