



# The development and current status of IFRS

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# Agenda



**01** IFRS History/Principals/Conceptual framework



**02** IFRS 3: Business Combinations



**03** IFRS 10: Subsidiaries



**04** IFRS 11: Joint Arrangements



**05** IFRS's Challenges





# IFRS History

The IFRS Foundation is a not-for-profit, public interest organization established to develop a single set of high-quality, understandable, enforceable and globally accepted accounting standards—IFRS Standards.

IFRS Standards are set by the IFRS Foundation's standard-setting body, the International Accounting Standards Board (IASB).





# IFRS Milestone

**1973**

- Major Professional accounting bodies agree to adopt International Accounting Standards for cross-border listings

**1989**

- IASC publishes the first international 'conceptual framework'.

**2001**

- The IASB holds its first meeting, announces initial technical agenda, adopts IASC Standards

**2007**

- More than 100 countries now require or permit use of IFRS Standards

**2013**

- Accounting Standards Advisory Forum (ASAF) is established

**2015**

- China affirms its commitment to achieve full convergence with IFRS Standards

**2018**

- Revised Conceptual Framework for Financial Reporting issued



# IFRS Principals

Transparency



Full and fair  
consultation



Accountability



# What is transparency?



the IASB conducts its standard-setting process in a transparent manner as follow:

- Meetings
- Papers and observer access
- Publications, meetings and the ballot process
- Drafts for editorial review

# What is full and fair consultation ?



full and fair consultation — considering the perspectives of those affected by IFRS globally

- Minimum safeguards
- Comply or explain steps
- IFRS Advisory Council
- Securities and other regulators
- Consultative groups
- Fieldwork
- Public hearings

# What is accountability?

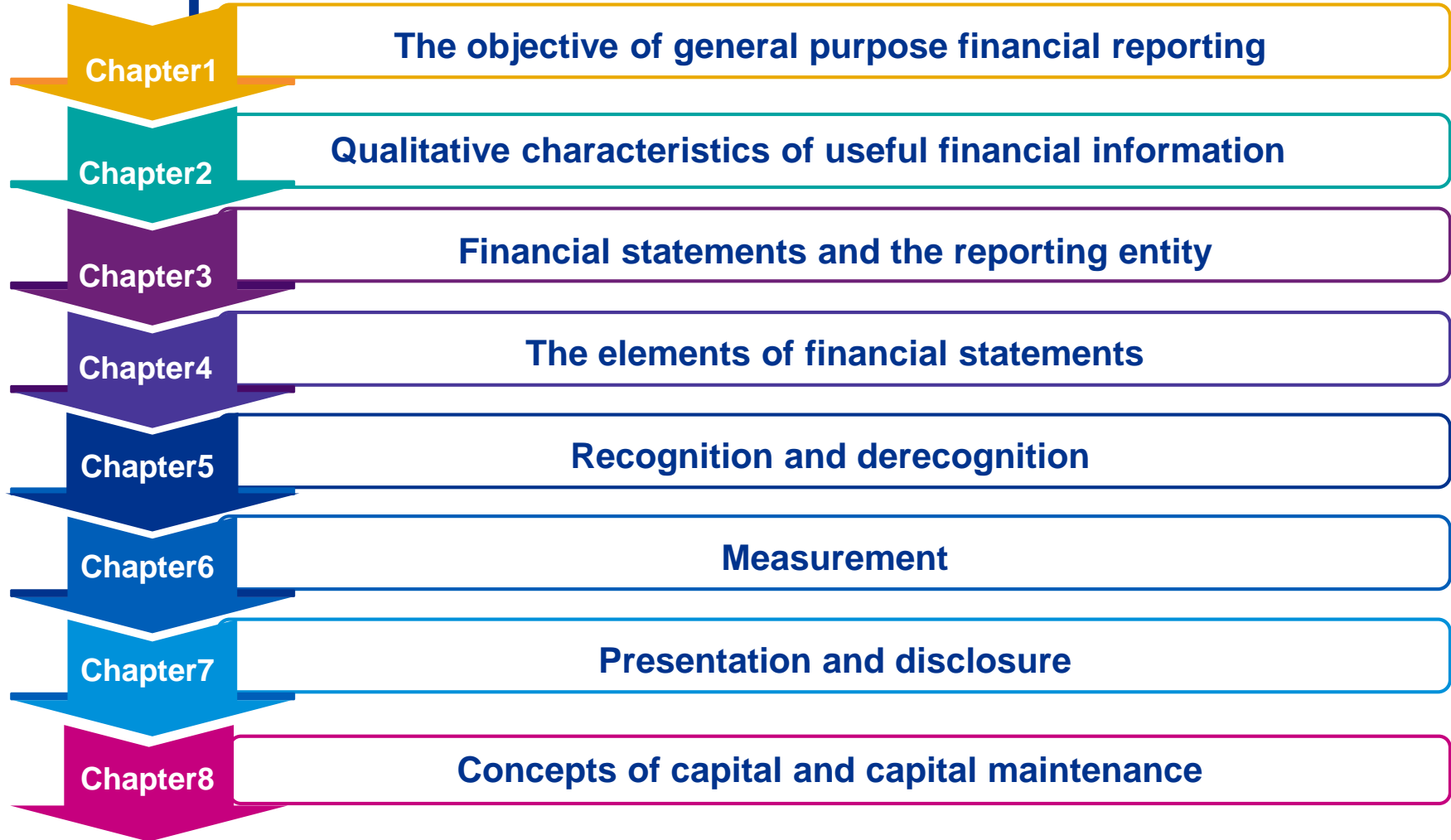


accountability—the IASB analyses the potential effects of its proposals on affected parties and explains the rationale for why it made the decisions it reached in developing or changing a Standard.

- Effect analysis
- Basis for conclusion and dissenting opinions



# IFRS's Conceptual framework chapters







# Business Combinat ion





# What is a business combination?



- A **business combination** is a transaction or other event in which an acquirer obtains **control** of one or more **businesses**

# What is a business?

**A business is an integrated set of activities and assets capable of being managed to provide a return to investors via dividends, lower costs or other economic benefits**



**Inputs**



**Processes**



**Ability to create  
outputs**

**Rebuttable presumption that a group of assets  
in which goodwill is present is a business**



# A question for you: Definition

- Lila-Production acquires a production plant (machines and tools) and some inventory from a third party
- Lila-Production integrates its existing production line into the production plant but does not take over employees, operational processes and distribution networks



Is this transaction a business combination?

1. Yes, the acquired set is a business
2. No, the acquired set is NOT a business

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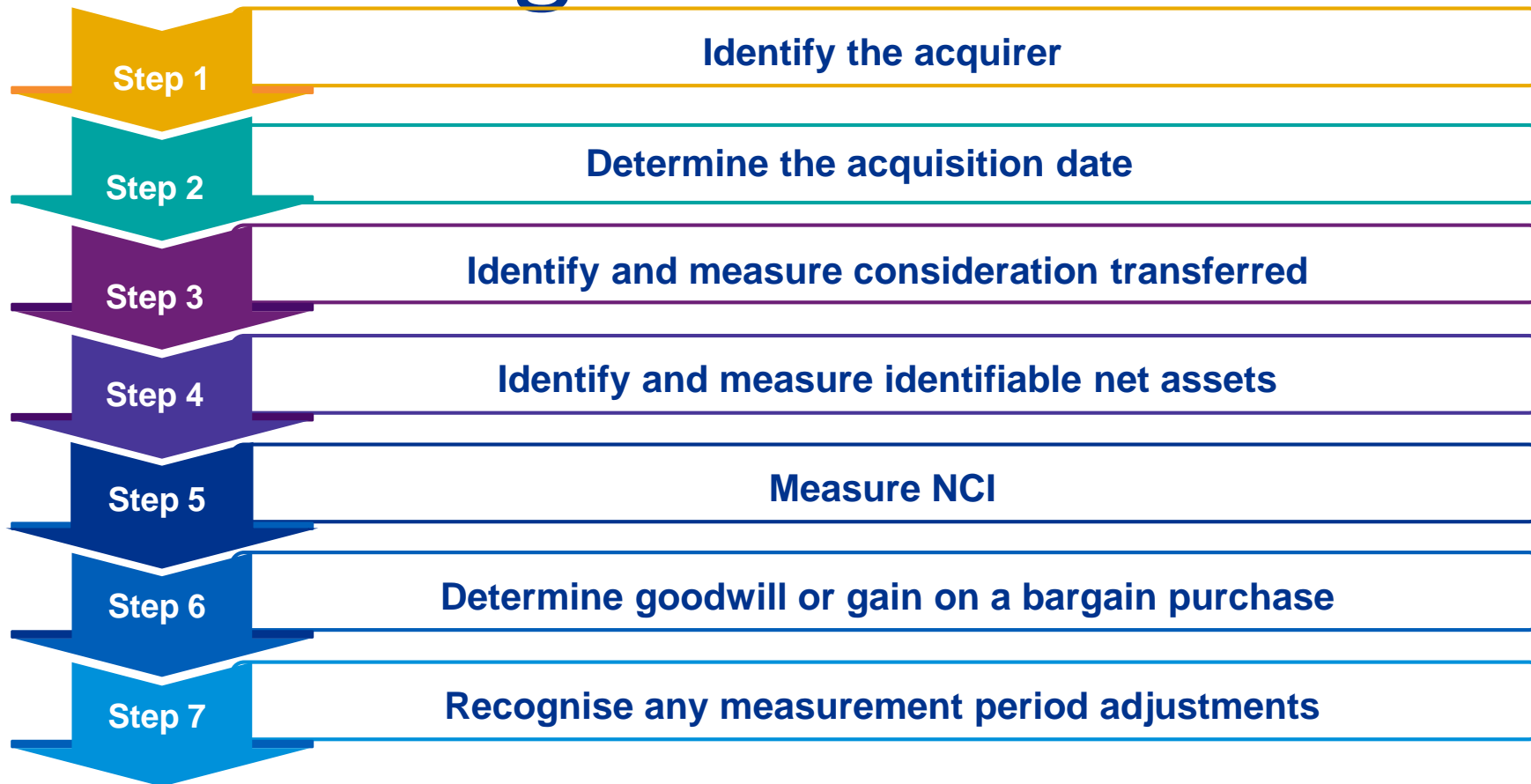


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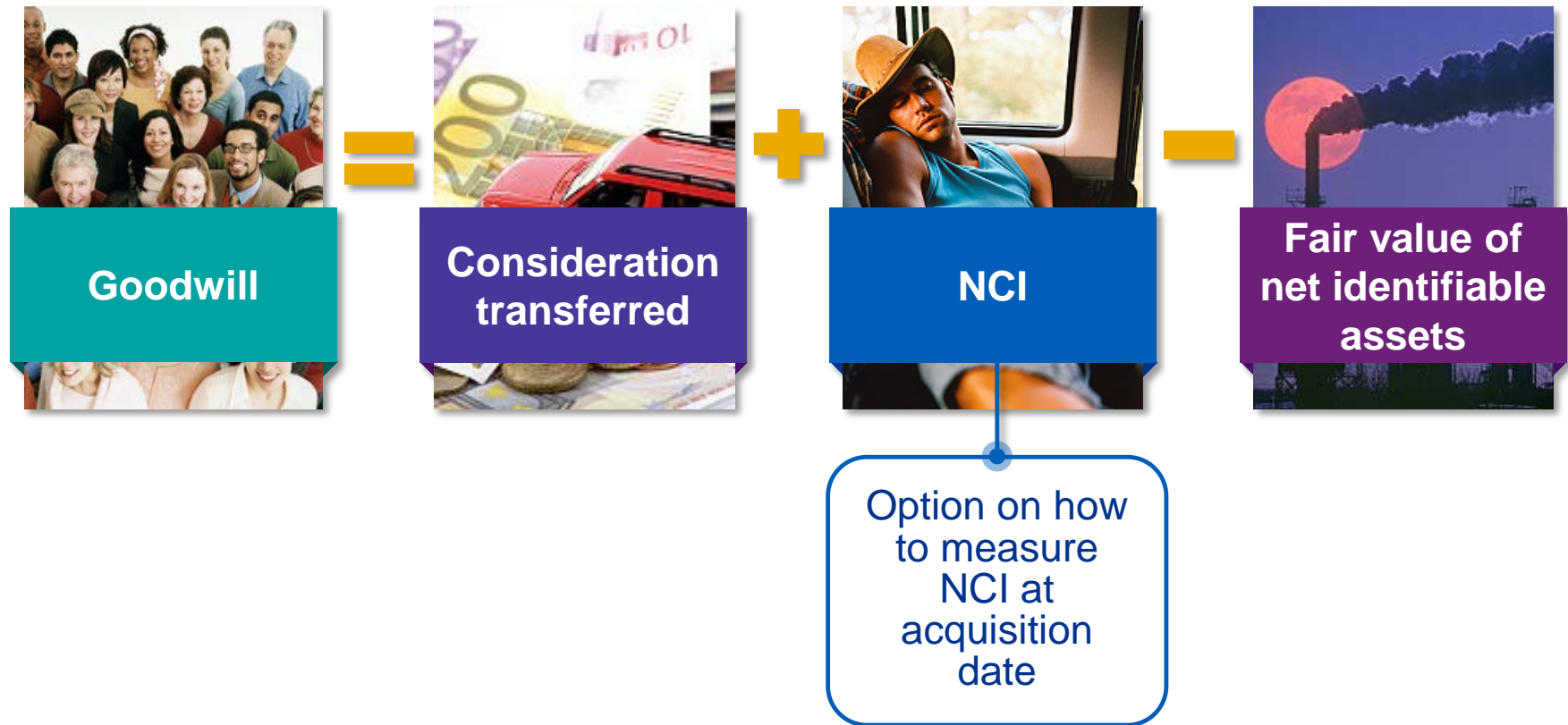


# Steps to acquisition accounting



NCI = non-controlling interests

# Overview of the acquisition method







# Subsidiaries

## IFRS 10





# Consolidated financial statements (recap)

Control



Consolidation

Joint



Depends on type  
of  
joint  
arrangement

Significant  
influence



Equity method

No control



Financial asset



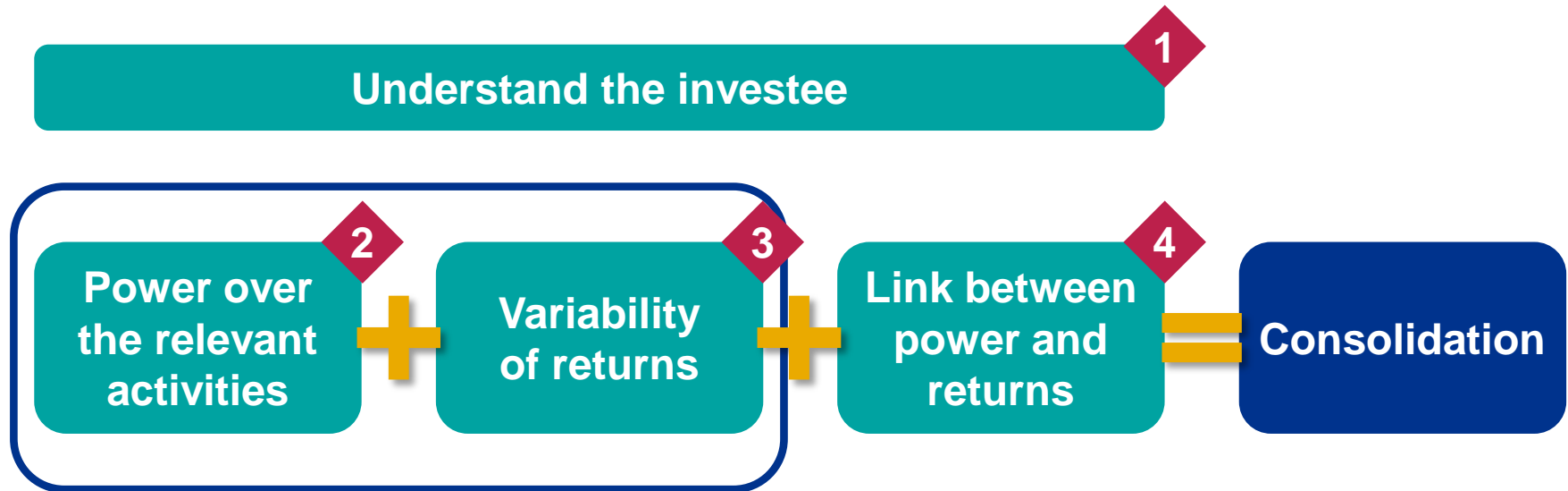
# IFRS 10

**Exceptions from preparing consolidated financial statements\***

**Determination of investees  
to be consolidated  
(Single control model)**

**Consolidation procedures**

# Determine if investor controls investee (IFRS 10)



To have **power**, it is necessary for investor to have **existing rights** that give it **current ability** to direct activities that significantly affect investee's returns (i.e. the **relevant activities**).

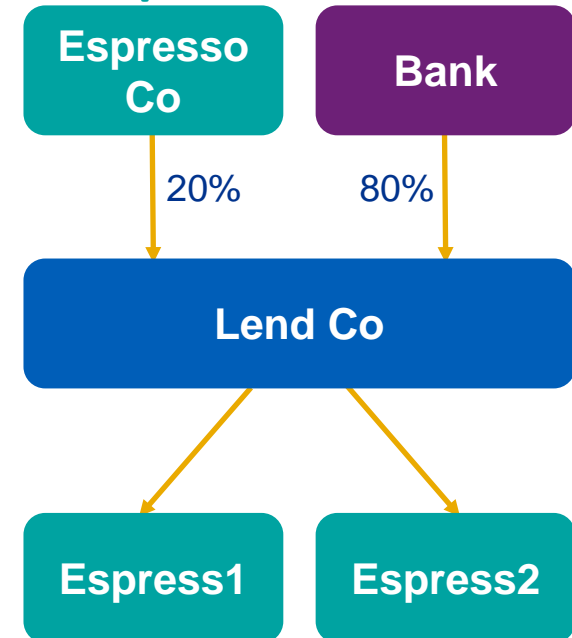


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# A question for you: Structured entities

- Espresso Co has decided to start operating partly through a franchise network.
- To help start operations, a structured entity is nominally capitalised (Lend Co has no real equity), 80% by Bank and 20% by Espresso Co, and debt financed by Bank.
- Lend Co provides loans to franchisees based on their business needs as determined by Espresso Co.
- Bank services the loans on a day-to-day basis.

## Recap



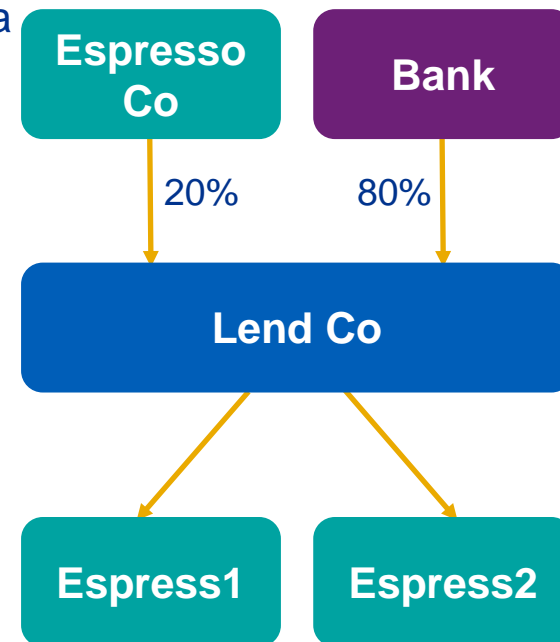
Who consolidates Lend Co?

1. Espresso Co
2. Bank
3. It depends

2

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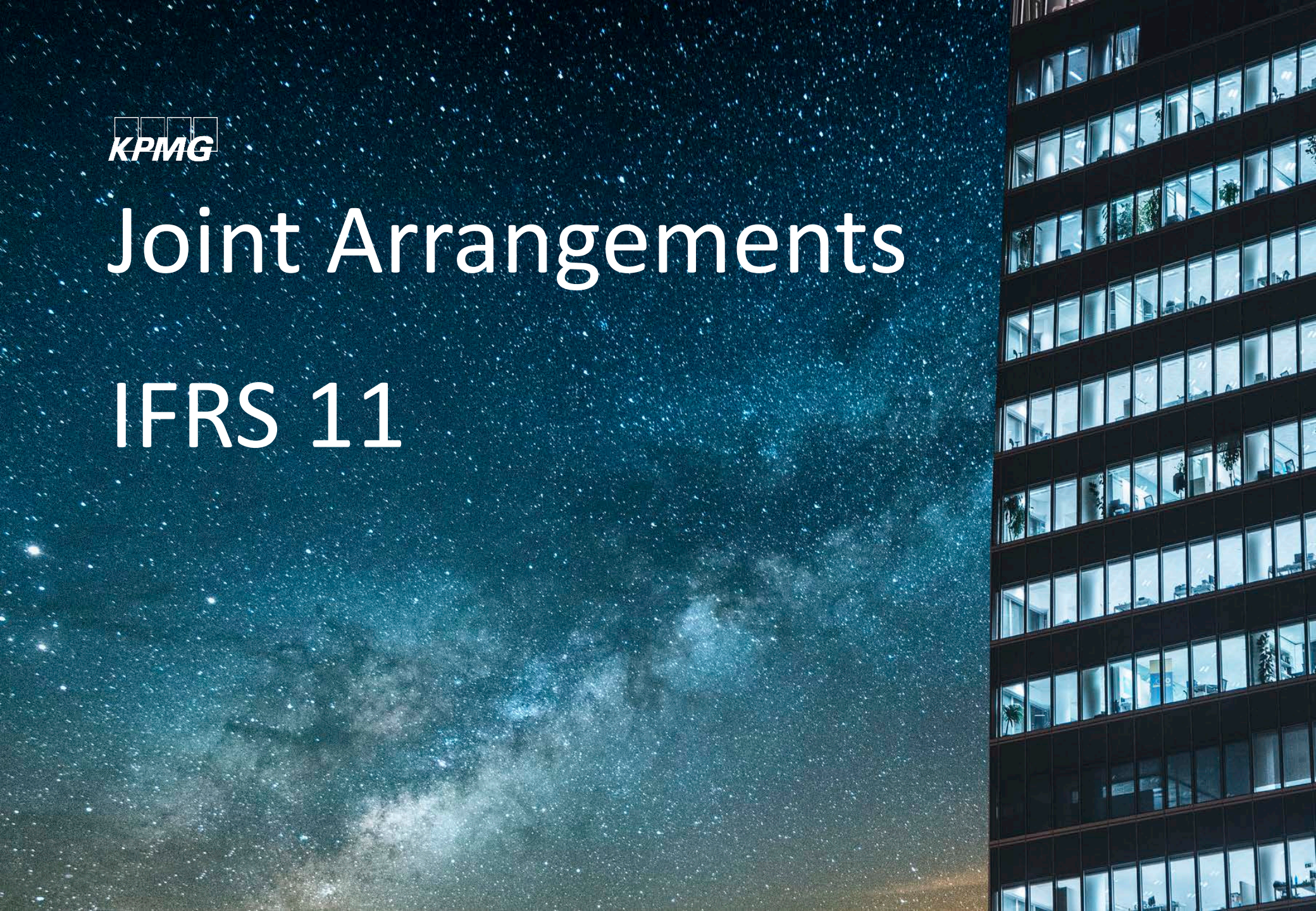
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# Joint Arrangements

## IFRS 11





# What is a joint arrangement?

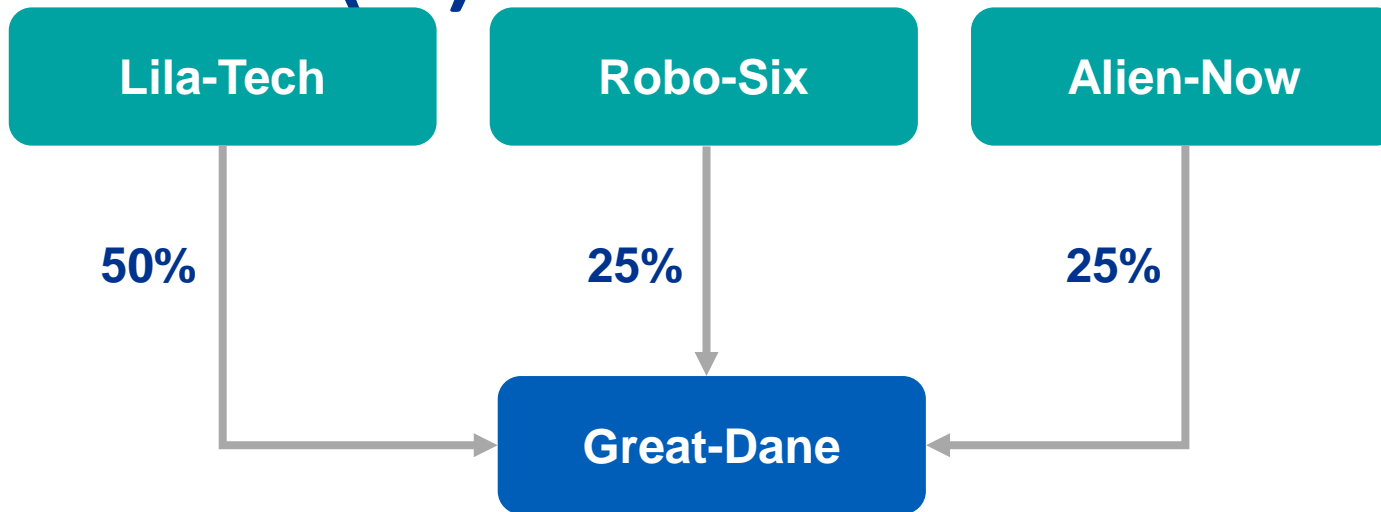
## Joint arrangement

- ‘An arrangement where 2 or more parties have **joint control**’

- ‘The contractually agreed sharing of control of an arrangement, which exists only when decisions about relevant activities require the **unanimous** consent of the parties sharing control’

## Joint control

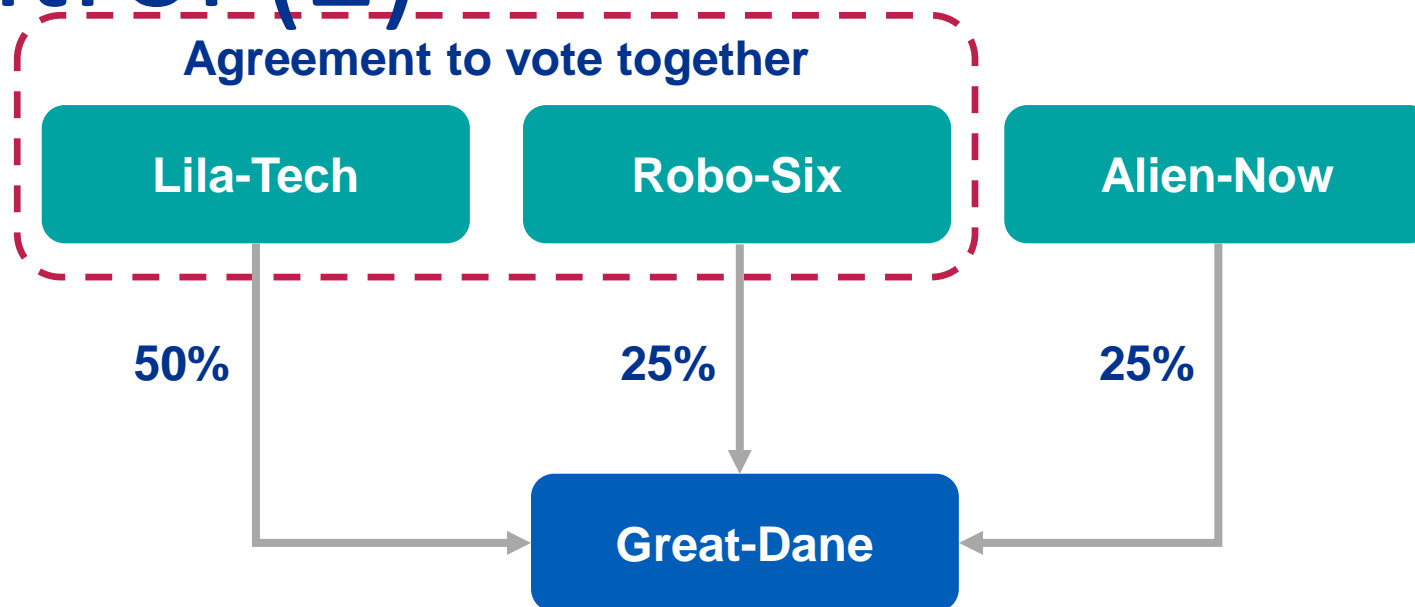
# A question for you: Joint control (1)



Assuming that decisions over relevant activities require a 75% vote, would Great-Dane be a joint arrangement?

1. Yes
2. No

# A question for you: Joint control (2)

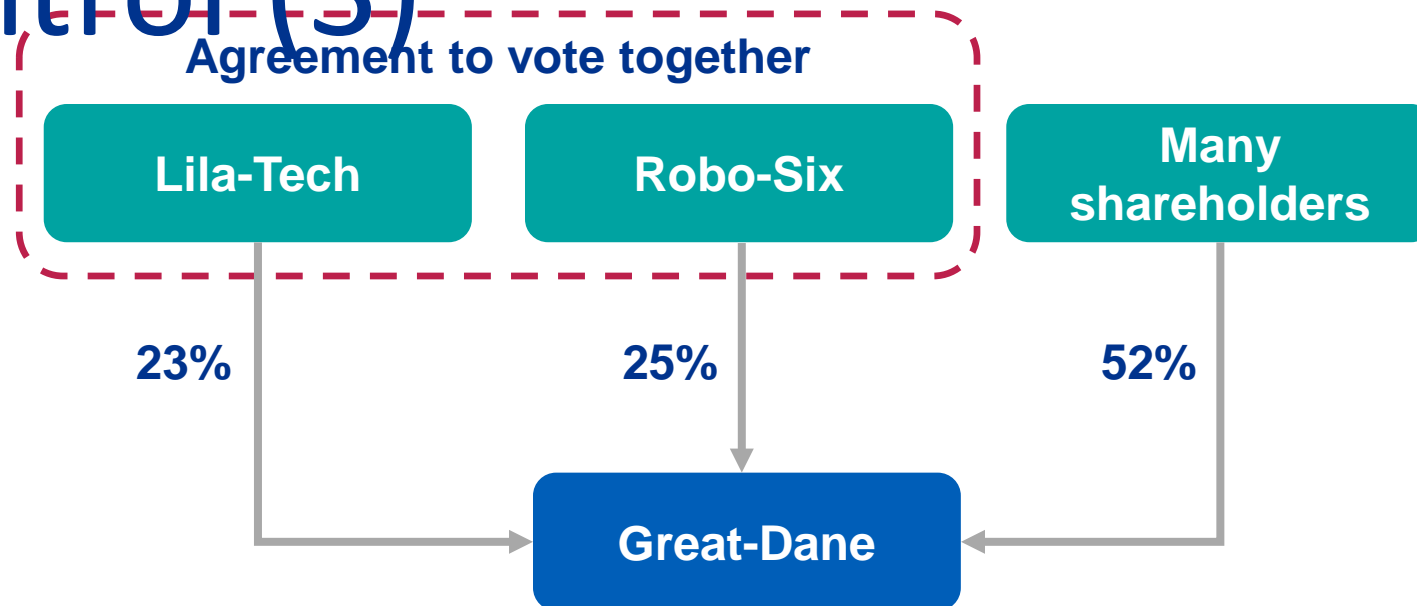


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1. Yes
2. No



# A question for you: Joint control (3)



Total shareholder attendance at Great-Dane meetings is usually 80%. Assuming that decisions over relevant activities require a majority vote ( $>50\%$ ), would Great-Dane be a joint arrangement?

1. Yes
2. No
3. It depends

# Classifying joint arrangements



**Joint operation**



Rights to assets and  
obligations for liabilities

**More common**



**Joint venture**

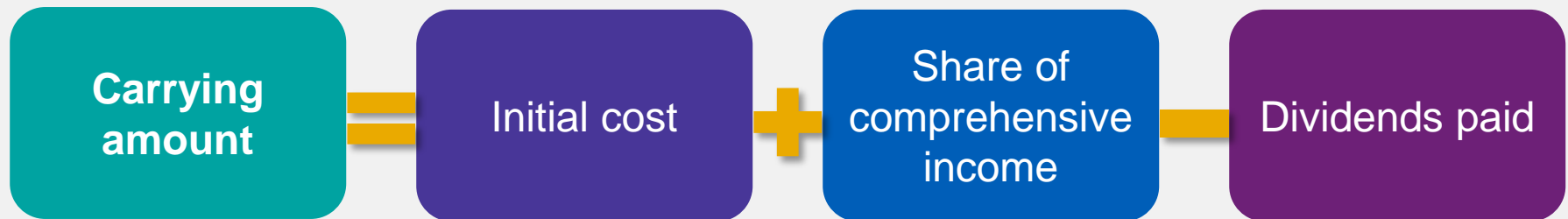


Rights to net assets

# Accounting as joint venturer

What method of accounting is this?

Consolidated balance sheet



## Consolidated statement of comprehensive income

- Recognise share of profit/loss after tax in one line
- Recognise share of investee's other comprehensive income







# IFRS's Challenges





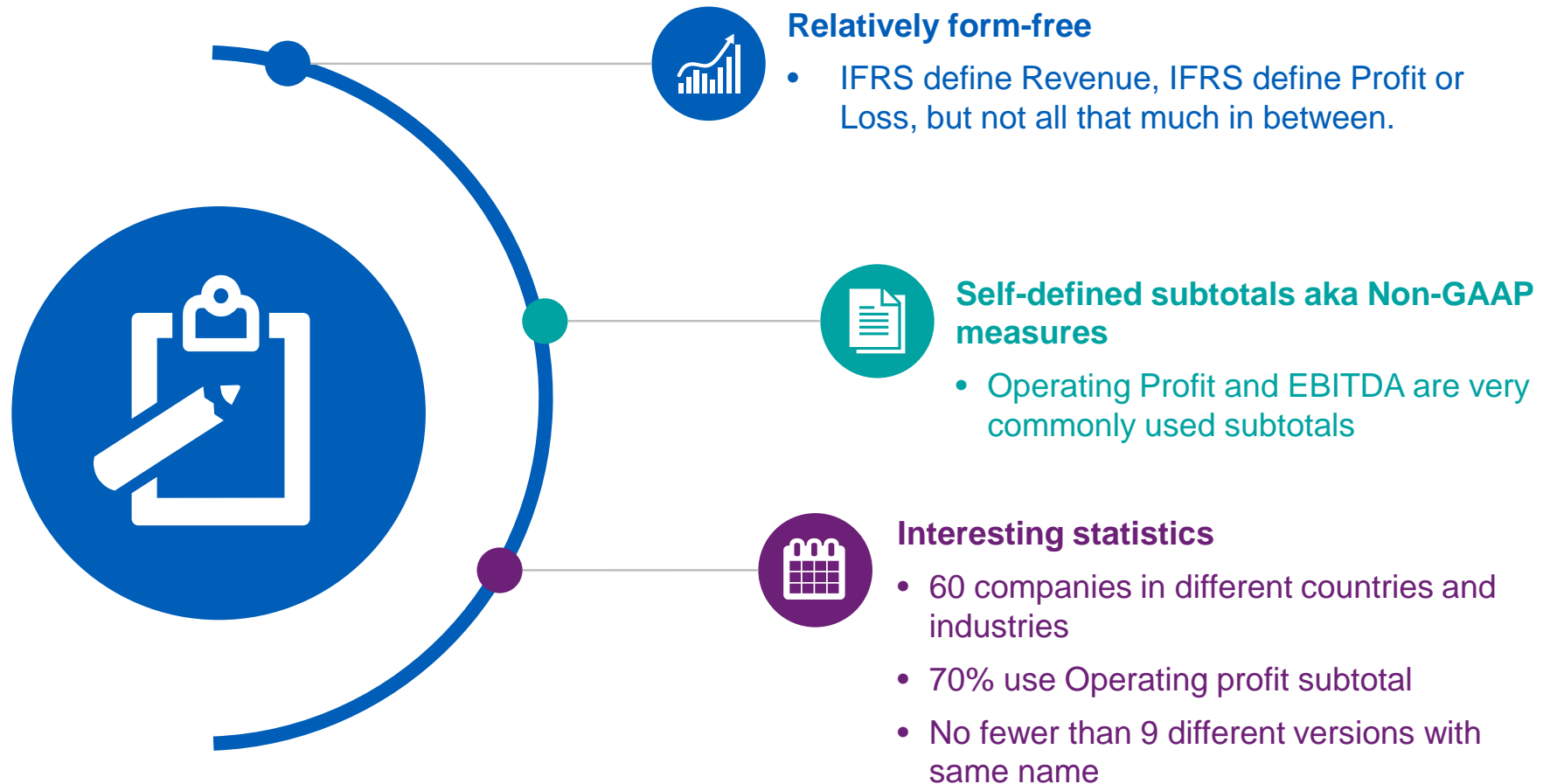
# Challenges IFRS is facing



- **Primary financial statements**  
**Ex. Non-GAAP measures**



# IFRS income statement



# what are IFRS proposing to do?



**New subtotals**



**Management  
performance  
measures**



**Disaggregation and  
unusual items**



# Thanks!

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