

Is there a need to change accounting standards with evolving technology?

Presentation by **Stephen Beach**
Principal, PwC
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1

How have

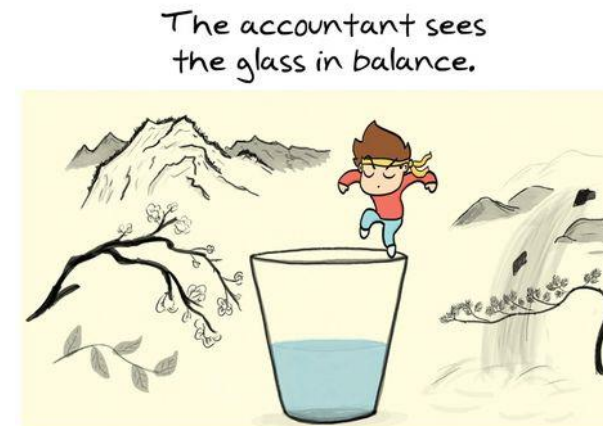
Accounting

standards

developed

History of accounting standards development

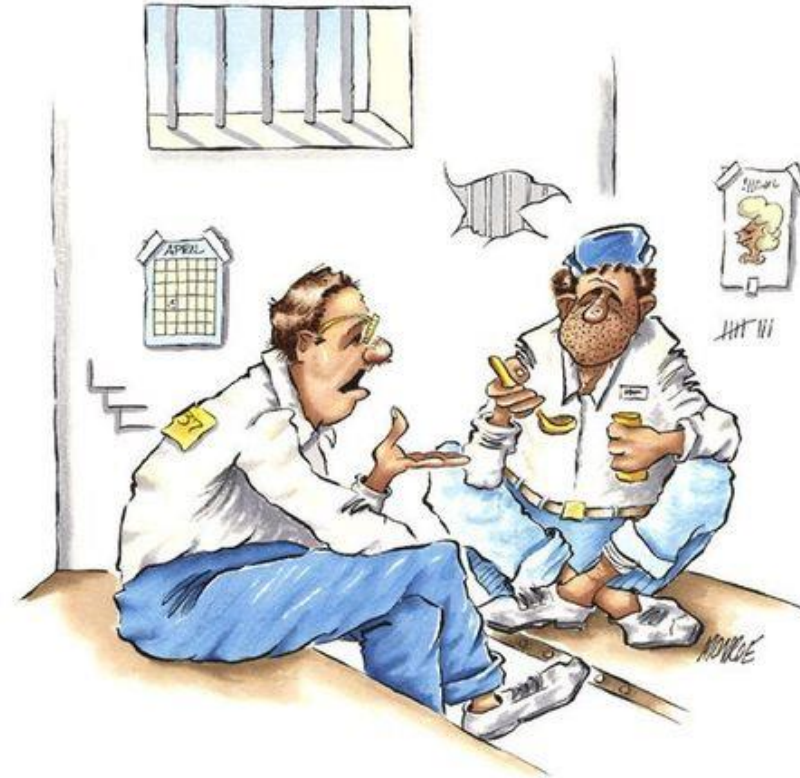
- No changes in the conceptual framework from 1989 to 2018 despite major economic, societal and technology changes
- Up to 1989
 - mainly national GAAP
 - limited international acceptance of IAS
 - 31 IAS issued
- 1989 framework focused on the definition of assets and liabilities
 - control over assets rather than ownership
 - present obligation for liabilities
 - historical cost model with no use of the term fair value



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History of accounting standards development

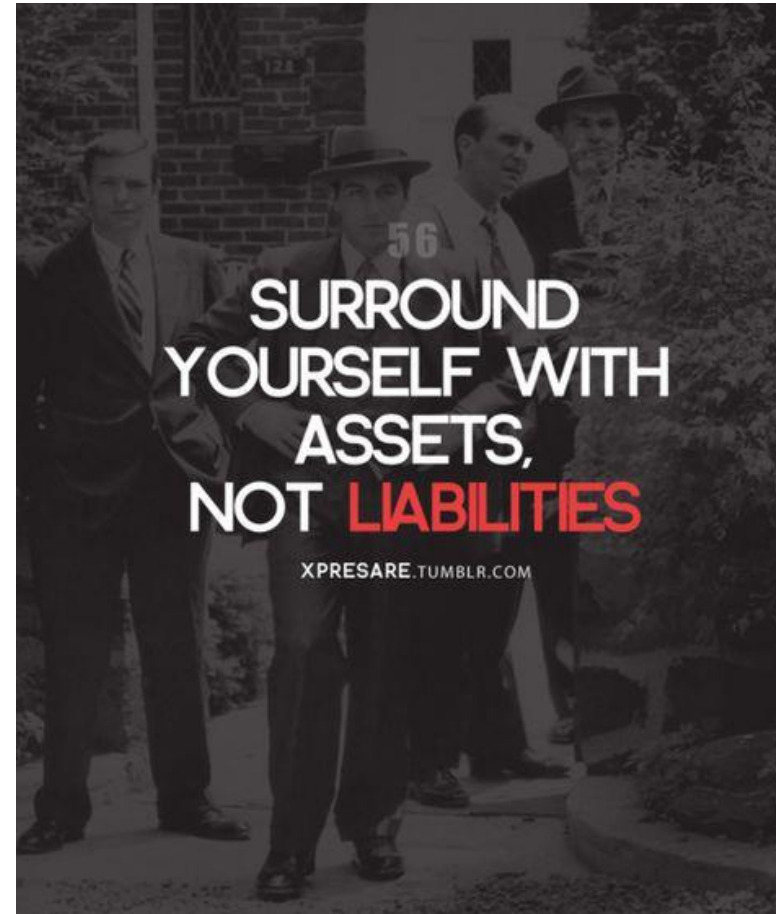
- In 2001 – IASC became IASB
- IFRS started to replace IAS
- Standards development reflected the optimism and economic booms of the late 1990's and early 2000's
- Increased global acceptance of IFRS and convergence with USGAAP
- Caught short by the 2008 GFC
 - IFRS 9 - increased conservatism in provisioning
 - IFRS 15 – increased transparency and detailed guidance to achieve consistency treatment of revenue
 - IFRS 16 – bringing more liabilities onto the balance sheet



"TO MAKE A LONG STORY SHORT, THE GENERALLY ACCEPTED ACCOUNTING PRACTICES WEREN'T AS GENERALLY ACCEPTED AS I THOUGHT."

History of accounting standards development

- 2018 – an updated conceptual framework
- Prudence reinstated as a component of neutrality
- New definitions of assets and liabilities – reference to the expected inflow or outflow of economic benefits removed
- Recognition criteria removed the probable test or require a cost or value that could be reliably measured
- Focus on providing information about assets and liabilities, and their impact on income and expenditure, that is useful, relevant and a faithful presentation



2

Impact

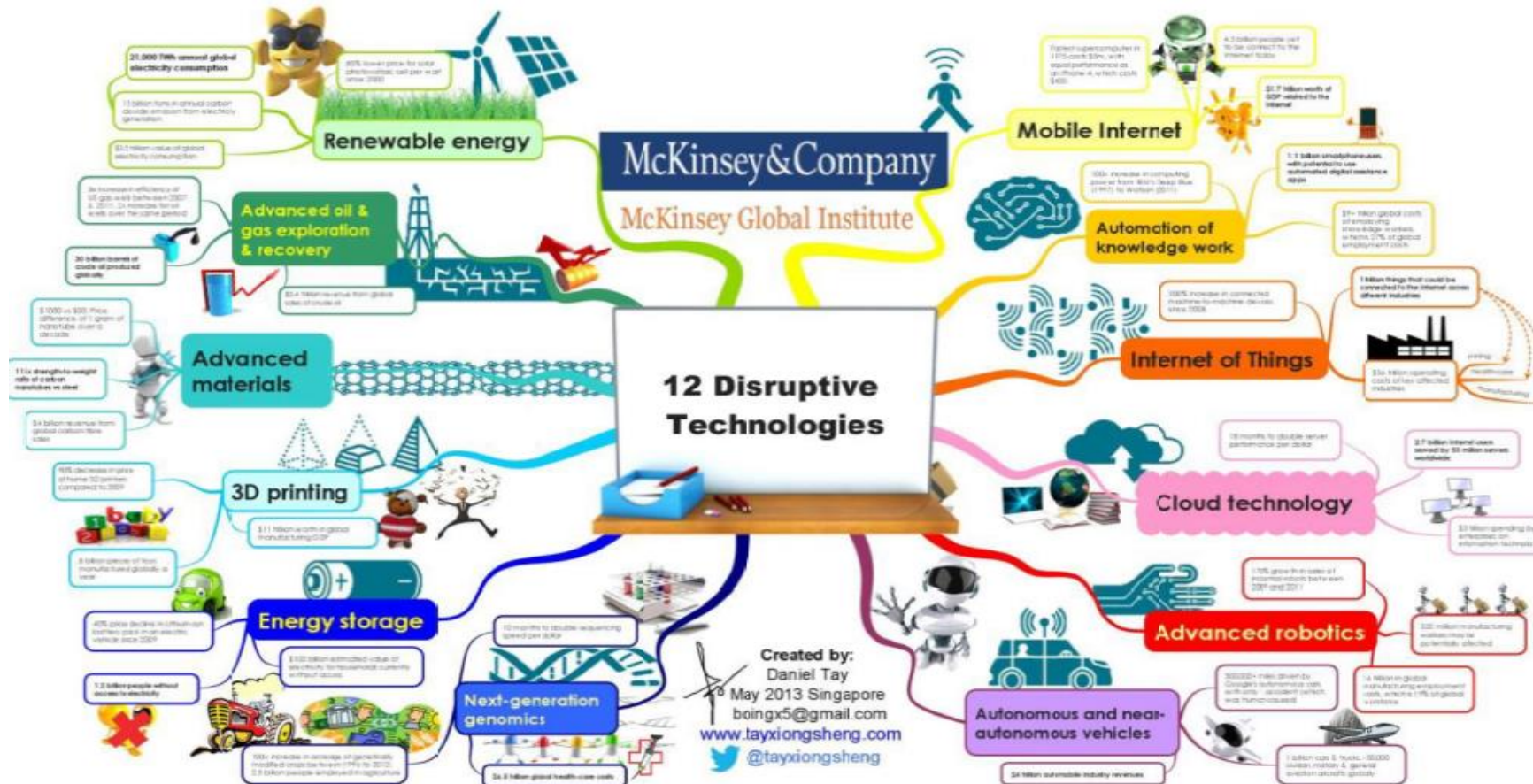
of

evolving

technology

Impact of evolving technology and societal change

12 Disruptive Technologies



The source of information in this Mind Map comes from http://www.mckinsey.com/insights/business_technology/disruptive_technologies

Impact of evolving technology and societal change

- What is the purpose of financial reporting?
- *“Providing financial information about the reporting entity that is **useful** to potential investors, lenders and other creditors in making decisions about providing resources to the entity.”*
- Audited financial reports are prepared in the public interest
- Accounting standard developments reflect user requirement for more transparency and more comparability
- Resulting in larger and more complex annual reports
- Increased disclosures and complexity has led to involvement of non-accounting experts – actuaries, valuers, data scientists
- Fair value issues

ONLY
ACCOUNTANTS
CAN SAVE
THE WORLD!

.... **through PEACE,**
GOODWILL and
RECONCILIATIONS.

3

The

Future of

corporate

reporting

The future of corporate reporting

- New technology is making it easier to access information directly from a company and make comparisons across peer groups
- Reduced relevance of formal financial reports
- Company value is no longer about capital
- Value is now based on access and control over information
- Tradition reporting focused on the past and now
- Users are more interested in what the future holds
- Increased use of Extended External Reporting
 - Integrated reporting
 - Sustainability reporting
 - ESG reporting
- Calls for greater harmonisation of EER and global standards



“

Technology gives us the greatest opportunity to improve financial reporting.

Russ Golden
Chair - FASB



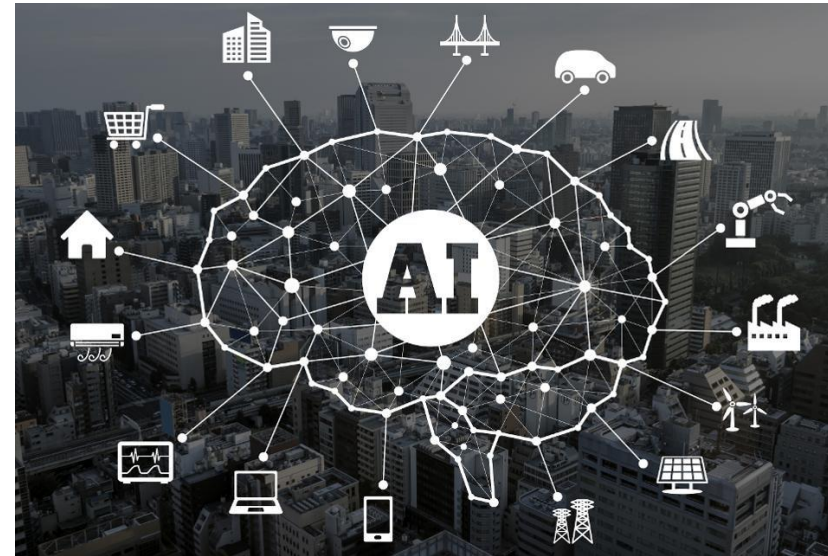
4

The
impact of
AI on
judgment



The impact of AI on judgment

- IFRS is not just about applying a set of rules
- Requires the exercise of professional judgment
- Big data, data analytics and AI can replace much need for human judgment
- Improvement in AI and machine learning are exponential, but have their limitations
- Human judgment, using intuition and reasoning, also has limitations due to inbuilt bias
 - Availability bias
 - Confirmation bias
 - Anchoring



5

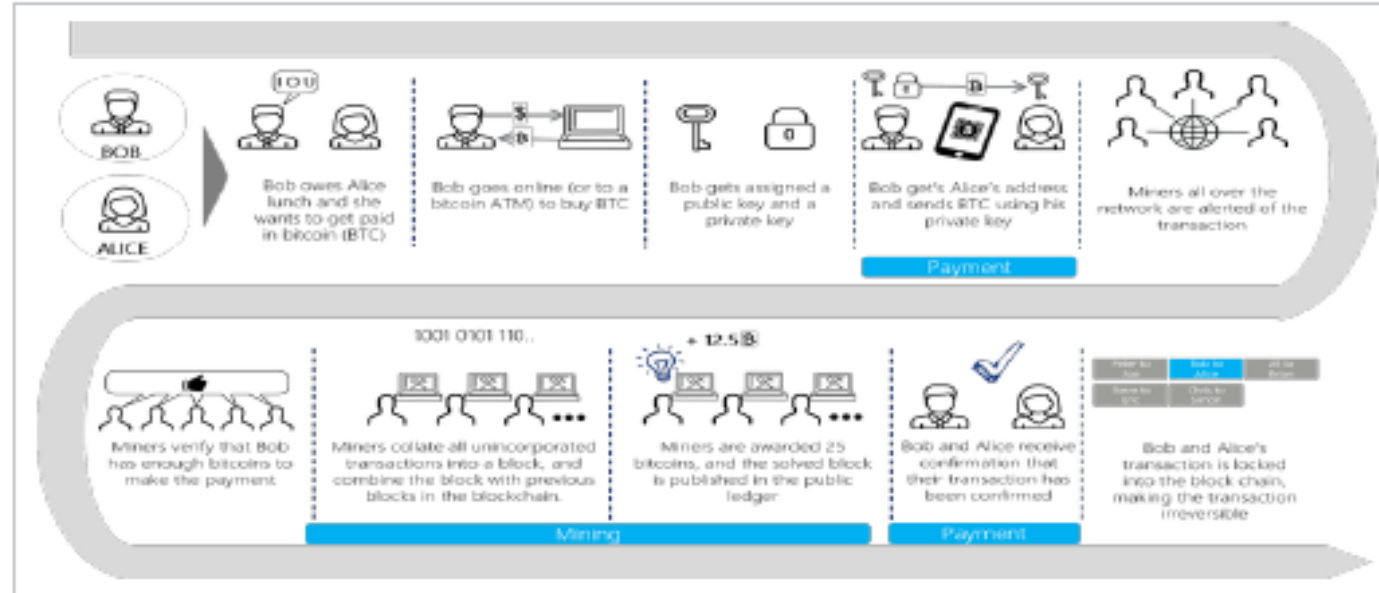
Blockchain

and

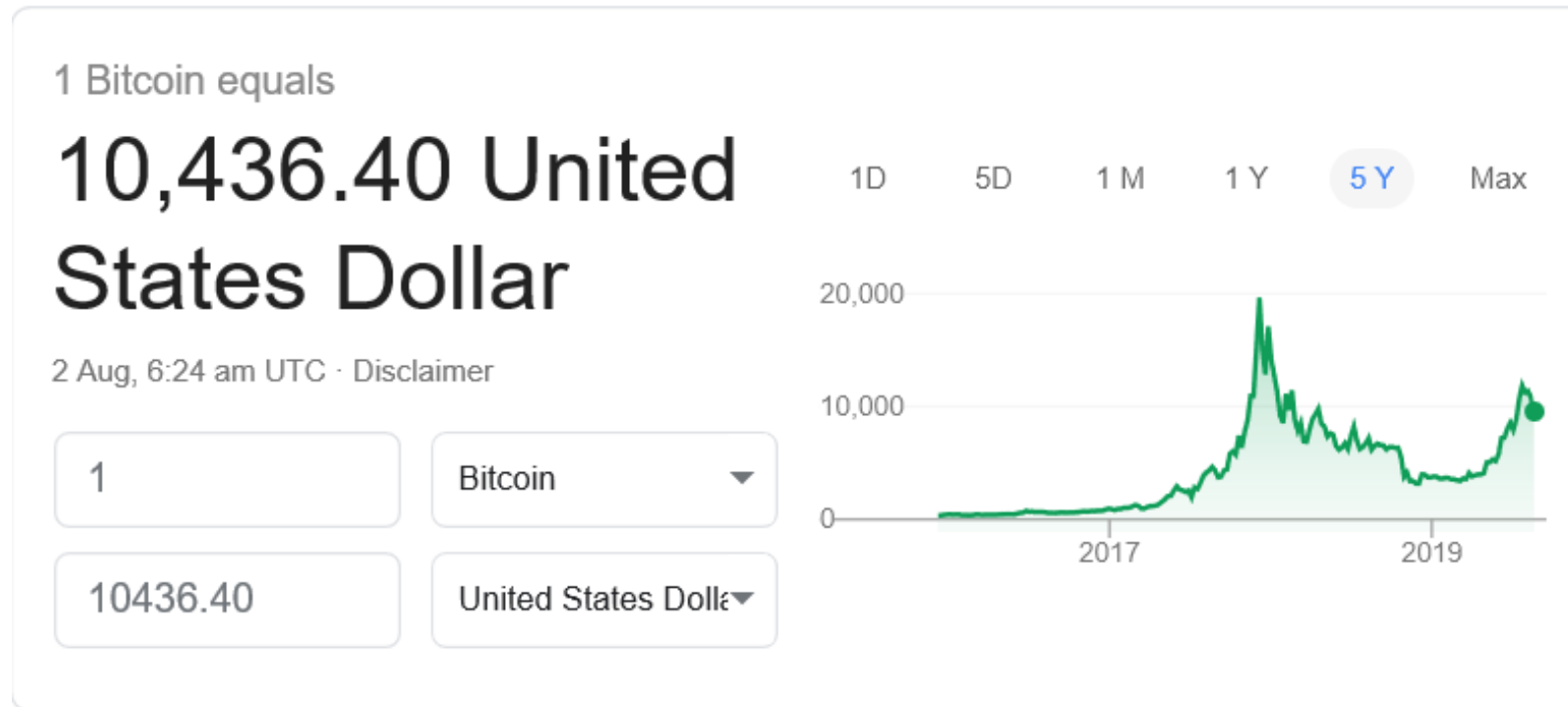
cryptographic

assets

Blockchain and Bitcoin



Bitcoin as a store of value!



Accounting for Bitcoin and other cryptographic assets

Cash or cash equivalent

Similar to cash as a medium of exchange and store of value.

Is not backed by a government or central bank and not legal tender

Is not yet generally accepted

Can be readily converted to cash but is subject to high risk of change in value

NO

(at the moment)

Financial asset

No contractual relationship

No contractual right or obligation to either receive or give cash or another financial asset

NO

Intangible asset

- ✓ An asset
- ✓ Separately identifiable
- ✓ Non-monetary
- ✓ Without physical substance

IAS 38 scope exclusion for assets held for sale in the ordinary course of business (IAS 2)

PROBABLY

Inventory

Classify as inventory under IAS 2 if held for sale in the ordinary course of business

POSSIBLY

Accounting for Bitcoin and other cryptographic assets

Classification	Standard	Measurement	Options
Intangible asset	IAS 38	Cost less amortization and impairment	Fair value model with movements through OCI
Inventory	IAS 2	Lower of cost and NRV	Commodity trader/broker exception for fair value through P&L

- General consensus that fair value through P&L is most appropriate measurement for crypto-currency under the conceptual framework
- Other types of cryptographic assets may depend on specific arrangements and facts
- Clearly a need for standard setting activity

Challenges for the future



Thank you



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