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### **IFRS from an analyst's perspective**

Discover what an analyst looks for in your IFRS conversion announcements and how they use your IFRS statements, as we talk to Trevor Pijper, a Vice President and Senior Credit Officer at Moody's. Plus he reveals his views on the present state of IFRS and global convergence.

### **Financial Instruments with characteristics of equity**

The IASB's discussion paper and the FASB's preliminary views document could conflict with the Conceptual Framework project. Find out why, and learn about the potential effects of each of the three ways the boards propose to classify an instrument as debt or equity.

### **Financial reporting developments**

Learn about tentative decisions reached by standard-setters about defining a liability, presentation of financial statement and IFRS for private entities that could significantly affect your business.

We welcome your feedback on *IFRS outlook*. Please contact us at [ifrs@uk.ey.com](mailto:ifrs@uk.ey.com). The next issue of the newsletter will be published in August 2008.

Will Rainey  
Global Director of IFRS Services

# IFRS from an analyst's perspective



## **Trevor Pijper**

Trevor joined Moody's in 2003 as part of the rating agency's initiative to expand the range and depth of its analysis. His role includes assessing the reporting quality of non-financial companies, and deepening credit analysts' insights into key accounting issues.

Prior to joining Moody's, Trevor was a Director in Ernst & Young's Financial Reporting Group in London, and before that he worked as an equity analyst in South Africa.

One of the expected benefits of the widespread adoption of IFRS is that entities around the world will be reporting under a single set of high-quality global accounting rules. We recently spoke to Trevor Pijper, a Vice President and Senior Credit Officer at Moody's, to get his thoughts on the present state of IFRS, global convergence, how he uses your IFRS statements and what he looks for in an entity's IFRS conversion announcements and earnings releases.

## **Q. How useful do you find IFRS statements today?**

Moody's main objective in using financial statements is to assess the reporting entity's ability to generate cash and satisfy its obligations. In this regard, IFRS financial statements provide us with a great deal of helpful information, but we also make certain adjustments to the numbers to improve comparability and to make them more useful from a credit analysis perspective.

The cash flow statement is of particular interest to us, but we are also keen to understand significant differences between an accruals-based measure of cash-generation, such as EBITDA, and the cash actually generated in practice. Overall, the extensive note disclosures in the IFRS financial statements can be helpful, but we have to sift through them to identify those which are relevant for our purposes. We make extensive use of the notes dealing with leases, pension obligations and guarantees. However, certain notes can also be a distraction when they deal with items that are often immaterial in the context of the primary statements - such as share-based payments for very large companies in sectors such as utilities, telecoms and oil & gas.

The IFRS accounting for derivative financial instruments can sometimes result in income statements and balance sheets that are very confusing, particularly when debt is recorded at an amount that does not reflect the expected future cash outflow, or when certain commodity supply contracts are accounted for as derivatives.

## **Q. The IASB has a number of active projects underway - such as joint ventures, consolidations, revenue recognition and leases. Which projects are most likely to impact the way in which you analyse financial statements?**

We are following the leasing project fairly closely. One of the most frequent and most significant adjustments that we make to financial statements relates to leases. In order to compare businesses, particularly in the retail sector, we capitalise operating leases and adjust the income statement, balance sheet and cash flow statement accordingly. Without these adjustments, an entity that leases its stores under operating leases would have a very different financial profile from one that owns them, even though they both need the outlets to sell their products. The IASB project may not completely eliminate the need for us to make this adjustment, but it could affect the way in which we make it.

“Conversion announcements that reconcile cash flow, debt and EBITDA from an entity’s historical GAAP to IFRS are of great assistance in our analysis.”

Other projects that we have an interest in are consolidations and joint ventures. For joint ventures, we would like to see a single method of accounting for these arrangements.

**Q. Since European and Australian entities converted to IFRS in 2005, have you found it easier to compare financial statements?**

Overall, yes. The transition to IFRS has undoubtedly increased the comparability of financial statements. However, three years after conversion, we still see some influence of an entity’s original GAAP in their IFRS accounting. For example, the tax note in the IFRS accounts of a Spanish company can sometimes look very similar to the version previously reported under local GAAP making it difficult to ascertain whether the total tax expense has been split into “current” and “deferred” tax in the manner required by IAS 12. We have also noted that in countries where cash flow statements were not required prior to the adoption of IFRS, some entities are still struggling to prepare the statement required by IAS 7. However, these examples are few and far between.

**Q. US GAAP provides specific transaction and industry guidance in areas where the IASB and the US Financial Accounting Standard Board (the FASB) are trying to achieve convergence. Would you prefer to see converged standards that are specific?**

To be honest, I am not sure what the better approach is. Of course, specific standards should result in consistent application, but removing judgement from the accounting approach can also be dangerous. I would like to see converged standards that enhance the consistency and comparability of financial reporting by businesses in the same industries. In particular, we would like to see standards that are sufficiently prescriptive to prevent similar transactions from being accounted for differently.

**Q. The adoption of IFRS around the world has been very rapid - Brazil, Canada, China, Chile, India, Japan and Korea are all converting in the next three years and the US has dropped the reconciliation requirement for Foreign Private Issuers using IFRS. How do you see this global convergence affecting your job and what challenges do you see ahead?**

Although our adjustments are intended to reduce some of the more significant differences that arise when companies adopt different accounting rules, it is clearly preferable from our point of view if they are all required to use the same ‘rulebook’. Local GAAP combined with a reconciliation requirement is not really an adequate substitute and that’s why we didn’t object to the removal of the US GAAP reconciliation requirement. Firstly, it focused on net income and equity, whereas we focus on performance indicators such as cash flow, debt and certain measures extracted from the income statement like EBITDA, EBIT and interest expense. As these were typically not included in the reconciliation, it was of limited use to us. Secondly, the reconciliations were not due to be filed until 30 June for entities with a calendar year-end and this was far too late for our purposes.

There will definitely be challenges with the IFRS conversions ahead. Conversion announcements that reconcile cash flow, debt and EBITDA from an entity’s historical GAAP to IFRS are of great assistance in our analysis. As I noted earlier, we still see the influence of the entities’ original GAAP in their IFRS accounting, so I expect this will continue to some extent. Without a global regulator enforcing the ‘rules’, there will never be 100% compliance, so some challenges will still exist. Nonetheless, having all entities report under the same accounting framework will be a very welcome development.

# Financial instruments with characteristics of equity



One of the more sensitive issues encountered by entities is the classification of financial instruments they issue, as either liability or equity. This issue has become even more pronounced with the growing interest in IFRS of those entities currently using US GAAP – as US GAAP has a very different approach to classification. Both the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) issued documents exploring alternative ways to classify financial instruments. In this article, we look at those alternative approaches and our response to both the FASB and IASB.

In November 2007, the FASB issued a Preliminary Views document, *Financial Instruments with Characteristics of Equity (PV)*, discussing three different approaches for determining the classification of financial instruments as either liabilities or equity. In February 2008, the IASB issued the same document as a discussion paper, and requested feedback on additional matters. The IASB has not deliberated on the views included in the PV. Once the views of constituents are considered, the IASB will decide whether to add a project to its agenda in order to deal with the classification of financial instruments as either liabilities or equity.

IAS 32 *Financial Instruments: Presentation* (IAS 32) is the IASB standard that outlines which financial instruments should be classified as liabilities and which should be classified as equity, from the issuer's perspective. IAS 32 is essentially based on the principle that an instrument is a financial liability if it includes a contractual obligation to deliver cash or another financial asset to the holder. The FASB's current guidance, on the other hand, is made up of a number of standards and interpretations. These standards and interpretations have been issued over an extended period of time and, consequently, result in a number of different bases for initial and subsequent measurement (ie, historical cost, accreted value, intrinsic value and fair value). It is in this environment that the FASB began work on its liabilities and equity project.

## Three models

The FASB's PV document outlines the following three approaches to determine the classification of instruments as debt or equity:

### *Basic ownership approach*

The basic ownership approach (which is the FASB's preferred approach) is a simple approach that limits the instruments that can be classified as equity to the lowest residual interests in an entity. The approach defines a basic ownership instrument as an instrument that has the following characteristics:

- ▶ The holder has a claim to a share of the assets of the entity that would have no priority over any other claims if the issuer were to be liquidated on the date the classification is made; and
- ▶ The holder is entitled to a percentage of the assets of the entity that remain after all higher priority claims have been satisfied. The claim has no upper or lower limit, except for the amount of assets available.



The holders of these basic ownership instruments are viewed as the owners of the entity and all other instruments, including forward contracts, options and convertible debt represent either financial liabilities or financial assets. Furthermore, perpetual instruments that do not meet the definition of basic ownership instruments are classified as financial liabilities.

#### *Ownership-settlement approach*

In contrast, under the ownership-settlement approach, instruments are classified as either equity or financial liabilities, based on the nature of their return and their settlement requirements. Instruments that have no stated settlement requirements are classified as equity. Therefore, basic ownership instruments (as defined above) and perpetual instruments would be classified as equity. If settlement occurs by delivering basic ownership instruments, the instrument will be classified as equity. Therefore, forward contracts, written call options and the equity component of convertible debt would all be classified as equity.

However, if settlement occurs in any other manner, provided that the fair value of the instrument moves in the same direction as the basic ownership instrument, it will be classified as equity. This will encompass primarily derivatives over basic ownership interests. As such, written put options, whose fair value changes in the opposite direction to the basic ownership instrument, should not be classified as equity under the ownership-settlement approach. However, they would be classified as equity under IAS 32 (if they meet the 'fixed for fixed' requirement). Conversely, certain instruments that are classified as financial liabilities when applying IAS 32 (those that do not meet the 'fixed for fixed' requirement) might now be classified as equity under the ownership-settlement approach.

#### *Reassessed expected outcomes approach*

The reassessed expected outcomes (REO) approach requires a model to be used to predict the possible outcome of the instrument, with subsequent reassessment at each reporting date. Similar to the ownership-settlement approach, classification is based on the nature of the instrument's return. Instruments, or components of instruments, will be classified as equity if the outcome of the instrument is either directly or inversely related to the fair value of the basic ownership instrument. Derivative financial instruments that are based on the price of the entity's basic ownership instruments (ie, equity derivatives) will be classified as equity. A written put option would also be classified as equity under the REO approach (unlike the ownership-settlement approach). Settlement does not affect the classification and, hence, cash settlement provisions would not preclude an instrument from equity classification.

This approach requires instruments to be separated into equity and non-equity components when there is more than one possible outcome (ie, equity and a liability or asset). Thus, it is expected that a number of instruments will need to be split, because instruments linked to a basic ownership instrument would be separated into their separate components. For example, a written call option on a basic ownership instrument is recognised as an asset (receipt of cash) and equity.

#### *Non-controlling interests*

Under all three approaches, the PV proposes that whenever the instrument meets the definition of equity at the subsidiary level, the instrument would retain equity classification on consolidation, unless some other arrangement within the group affects the substance of that instrument. However, as an exception, some puttable instruments and some instruments that impose an obligation only on liquidation of the entity meet the definition of a financial liability, but are required to be classified as equity in the entity's separate financial statements. That exception does not extend to the consolidated financial statements of the group.

#### **What are our views on the project?**

We strongly support the IASB's efforts to reconsider the classification of financial instruments as either liabilities or equity. However, the PV only discusses three different models for determining liabilities and equity at a standard level, without a comprehensive review of what the conceptual basis for determining equity should be. In our view, this may create challenging implementation issues and have possible unintended consequences (in a similar manner that IAS 32 does today). Therefore, we believe the relevant components of the Conceptual Framework project should be completed first to provide a sound basis for considering whether certain financial instruments should be classified as liabilities or equity. Also, more alternative models, such as the 'loss absorption approach' proposed by the European Financial Reporting Advisory Group should be explored.

We believe the proposals in the PV potentially conflict with the direction currently being taken in the IASB's Conceptual Framework project. This project has tentatively concluded that the entity perspective should be adopted as the overriding principle for financial reporting. However, all of the models in the PV diverge from this concept to some degree, eg, the FASB's preferred 'basic ownership' approach. This approach focuses solely on reporting the most residual claim as equity – a proprietary perspective. We believe it is imperative to apply these principles consistently.

# Financial Instruments with characteristics of equity *continued*

A further example of the need for a conceptual approach relates to the scope of the PV document. The PV document includes basic ownership instruments (regardless of the legal form), other instruments that are ownership instruments *in legal form* and other contracts settled with basic ownership instruments. We believe reference to the legal form of instruments is inappropriate in a global environment. The characteristics of legal form should be reflected in the underlying concepts and criteria for determining equity. This would remove the need to refer to the legal form of instruments, which differs across jurisdictions around the world.

Finally, in considering the conceptual basis, we believe it is imperative that the IASB considers not only the classification of instruments, but also the measurement and presentation requirements for those instruments considered to be equity or liabilities. The measurement of changes in the value of instruments, and where such changes are presented, also has a significant impact on the financial performance and financial position of entities. However, the PV does not begin to consider these issues.

## *Short-term convergence*

We understand that the Boards are focused on achieving convergence between US GAAP and IFRS. Furthermore, convergence on the classification of liabilities and equity is a high priority. Completion of a conceptually-based project, such as we are proposing here, may significantly delay any convergence on this topic. Thus, as a short-term solution to achieve convergence, we would tentatively support the basic ownership approach, of the three models provided in the PV. However, we have difficulty in providing our full support for the model as we believe it requires further clarification and development. Fundamental issues, such as the subsequent measurement of instruments, that are not classified as equity (of which there would be many under the basic ownership approach), have not been dealt with, nor has the presentation of any changes in value of such instruments.

In considering the three approaches in the PV, we compared them with IAS 32. We do not believe that they propose any significant improvements over the current requirements of IAS 32. However, we believe there is a clear argument for replacing the FASB's current model.

A short-term option we have proposed is that the FASB consider adopting IAS 32, either in its current form (to achieve convergence), or with improvements that the IASB would also adopt. We believe that it would present fewer problems because both preparers and users are familiar with the requirements and shortcomings of IAS 32 and understand its impact, in contrast to the three approaches proposed by the FASB, where possible flaws or unintended consequences may not yet be known. This would facilitate convergence between IFRS and US GAAP in this area of accounting, as well as some improvement in financial reporting and enable a more conceptually-based project to be undertaken.

If this is not feasible, we would tentatively support the basic ownership approach over the other two models proposed, due to its relative simplicity. However, this is dependent on how recognition, measurement and presentation issues associated with the model are resolved.

## **Summary**

The Boards have taken on the challenge to improve financial reporting in an area that has a significant effect on financial reporting, regardless of which industry an entity is in or which country. However, the approaches within the documents issued by the FASB and IASB do not appear to have a conceptual basis, but rely more on a collection of definitions or rules. We would prefer a more conceptual approach aimed at consistency with other projects and based upon a full analysis of all alternative models. Even though the 'basic ownership' approach proposed by the IASB is attractive in its simplicity, we are not convinced it is superior to the current IAS 32, even though it has some shortcomings.

# Financial reporting developments

The IASB (the Board) met in London on 16-20 June 2008. The table below summarises the main issues discussed. On the following pages you will find more detailed information and insights about the shaded items in the table.

Projects discussed	Key discussion points	Status
<b>Conceptual framework</b>	The Board tentatively concluded on situations involving legislation as to when an entity does and does not have a present unconditional obligation. The Board tentatively decided how uncertainties should be taken into account.	DP (Phase B – Elements and Recognition) H2 2009
<b>Financial statement presentation</b>	<p>The Board confirmed the financial statement presentation project would not seek to change existing standards relating to which items are recognised outside of profit or loss. The Board also reached preliminary views relating to the presentation of comprehensive income, the allocation of income tax, and the presentation of foreign currency gains and losses. These views are expected to appear in the discussion paper:</p> <ul style="list-style-type: none"> <li>▶ Present a single statement of comprehensive income with other comprehensive income presented in a separate section.</li> <li>▶ Income taxes would be allocated to continuing operations, discontinued operations, items of OCI, and items recorded directly in equity.</li> <li>▶ Present foreign currency gains and losses in the same section and category as the related asset or liability giving rise to the gain or loss.</li> </ul>	DP expected in Q3 2008.
<b>Financial instruments:</b> Hedge accounting: FASB exposure draft on Accounting for Hedging Activities	The Board held an education session in respect of this exposure draft which was published in June 2008.	
<b>Financial instruments:</b> ED amending IAS 39 hedging portions of risk	<p>At this meeting, the Board confirmed that the limited amendments to IAS 39 should be applied retrospectively and tentatively decided that they should come into effect for annual periods beginning on or after 1 July 2009.</p> <p>Previously, the Board decided to limit the IAS 39 amendment on hedging portions of risk to address only those issues in which diversity in practice exists: (1) whether a purchase option, in its entirety, maybe designated as an effective hedging instrument of a financial instrument that contains no optionality; and (2) the designation of inflation as a hedged risk.</p>	Amendments to the Standard expected in Q3 2008.
<b>Financial instruments:</b> Valuing financial instruments in markets that are no longer active	An expert advisory panel was formed to discuss valuation of financial instruments in markets that are no longer active. The first meeting was held on 13 June, to identify specific issues encountered in practice.	
<b>IFRS 5 Discontinued operations:</b> Proposed ED	The Board discussed amending the definition of discontinued operations to include subsidiaries acquired with the intention to be resold. No decision was reached, however, as to how wide the definition should be. For example, whether branches or other similar groups of assets should also be included.	ED expected in Q3 2008.
<b>IFRS for private entities</b>	The Board redeliberated issues relating to financial statement presentation, accounting policy hierarchy, financial instruments and consolidated and combined financial statements.	Final standard in H1 2009.

# Financial reporting developments *continued*

Projects discussed	Key discussion points	Status
<b>Extractive activities research project</b>	The Board considered the research on the initial recognition of minerals, oil and gas reserves and resources. The Board discussed the basic approach, the types of assets that may be recognised and the unit of account. No decisions were made.	DP expected in Q4 2008.
<b>Annual improvements</b>	<p><b>IAS 7 Statement of Cash Flows - classification of expenditure on unrecognized assets</b> The Board tentatively decided to amend IAS 7 to explicitly state that expenditure is classified as an investing cash flow only if it results in a recognised asset.</p> <p><b>IAS 36 Impairment of Assets - unit of accounting for goodwill impairment</b> The Board tentatively decided to amend IAS 36 to clarify that the largest unit permitted for the goodwill impairment test is the lowest level operating segment as defined in IFRS 8, before the permitted aggregation.</p> <p><b>Share-based Payment - scope of IFRS 2 and revised IFRS 3 Business Combinations</b> The Board tentatively decided to amend IFRS 2 (in light of the revised IFRS 3) to clarify that the formation of a joint venture and common control transactions remain outside of the scope of IFRS 2.</p>	ED expected in Q3 2008.

ED = Exposure Draft, DP = Discussion Paper, FI = Final Interpretation, Q1 2008 = First quarter of 2008, H1 2008 = First half of 2008

## Conceptual framework – elements: definition of a liability

### Dealing with uncertainties

The Board tentatively decided that uncertainties should not be included within the definition of, or in the criteria for recognition of, a liability. Rather, once it is determined that a liability exists, uncertainty would be taken into account in its measurement. Additional guidance would be developed at a standards level as to how judgement would be applied relating to uncertainties.

This approach will have a significant impact on an entity's process for determining its liabilities. Under the existing IAS 37, the probability criterion is a key practical 'filter' for deciding whether a provision should be made at all. By removing this criterion, recognition will be based on identifying the past event that gives rise to a present obligation. Entities will then have to use the 'expected cash flow approach' to determine each liability, which is likely to yield a different result from what the entity would consider the 'most likely outcome'.

## Financial instruments: valuing financial instruments in markets that are no longer active

The issues identified by the panel related to measurement and disclosures are as follows:

### Measurement

- ▶ selection of a valuation technique
- ▶ calibration of valuation models
- ▶ use of third-party price quotes
- ▶ adjustments to valuation models
- ▶ meaning of 'observable' and 'significant' inputs
- ▶ distinguishing between active and inactive markets
- ▶ forced transactions and distressed sales
- ▶ measurement of changes in own credit risk

### Disclosures

- ▶ disclosures using the fair value hierarchy
- ▶ disclosures of valuation techniques, inputs, sensitivities and ranges

The panel will now discuss these practical issues and present this to the Board.



### IFRS for private entities

The Board discussed issues relating to the ED and made the following tentative decisions:

#### *Presentation*

- ▶ Require the statement of financial position to be based upon liquidity if it provides reliable and more relevant information than a current/non-current presentation, consistent with entities applying full IFRS.
- ▶ Provide an exemption from presenting additional information by nature when an entity chooses classification by function.
- ▶ Permit the use of a combined statement of comprehensive income and retained earnings in place of the statement of comprehensive income and the statement of changes in equity in some cases.
- ▶ Require a statement of cash flow using either the direct or indirect method for reporting operating cash flows, consistent with entities applying full IFRS.

#### *Consolidated/combined financial statements*

- ▶ Not to add a temporary control exemption, thereby requiring consolidation by parent entities, consistent with entities applying full IFRS.
- ▶ Not require separate parent entity financial statements. If they are presented, allow a choice of valuation method (cost or fair value) for each category of investment, consistent with entities applying full IFRS.

#### *Accounting policy*

- ▶ Reconfirm the accounting policy hierarchy with clarification that management may, but is not required to, consider the requirements and guidance in full IFRSs.

#### *Financial instruments*

- ▶ Not to add an “available for sale” category for financial assets.
- ▶ Not to allow straight-line amortisation of premiums and discounts as an allowable alternative to the effective interest rate method.
- ▶ Not to permit a “shortcut method” for hedge accounting and not allow debt instruments to be hedging instruments.
- ▶ Remove the option to follow IAS 32, IAS 39, and IFRS 7 in their entirety.
- ▶ Redefine an impairment loss for an equity instrument carried at cost (because its fair value cannot be measured reliably), as the difference between the asset’s carrying amount and the best estimate (which will necessarily be an approximation) of the amount that the entity would receive for the asset if it were to be sold.
- ▶ Clarify that interest rate swaps must be measured at fair value through profit or loss.

### New Standards/Interpretations issued

Standard	Effective date
IFRIC 16 - <i>Hedges of a Net Investment in a Foreign Operation</i>	Annual periods beginning on or after 1 October 2008
IFRIC 15 - <i>Agreements for the Construction of Real Estate</i>	Annual periods beginning on or after 1 January 2009

# Resources

## **Supplements to *IFRS outlook* - Issues 7-10**

### **Issue 7 - Exposure Draft on the objective and characteristics of financial reporting**

This publication summarises the draft of the first two chapters of the IASB's Improved Conceptual Framework for Financial Reporting. These chapters propose a new objective for general purpose financial reporting and propose criteria making information decision-useful.

### **Issue 8 - Accounting for the credit crisis - Part 2**

This publication describes a number of key elements of the development of the crisis and outlines the improvements to the relevant standards needed to strengthen the quality of financial reporting and greater transparency in disclosures made by banks and other financial institutions. These recommended improvements should benefit all those involved in preparing, auditing and using financial information.

### **Issue 9 - IFRIC 16 - Hedges of a net investment in a foreign operation**

This publication outlines the ways in which an entity can hedge the risks from its net investments and highlights the importance of the entity's choice of policy to recycle foreign currency gains and losses on disposal of net investments, having clarity in the overall hedging strategy and their alignment with the consolidation method used by the entity.

### **Issue 10 - IFRIC 15 - Agreements for the construction of real estate**

This publication addresses the divergent accounting treatment for the sale of real estate before construction is complete, and provides guidance on determining whether the agreement falls within the scope of IAS 11 or IAS 18, emphasising the importance of the terms of the agreement and the surrounding circumstances.

### **Good Petroleum (International) Limited, International GAAP Illustrative Financial Statements for Petroleum Companies**

This new publication contains the consolidated financial statements of a fictitious petroleum company, Good Petroleum (International) Limited, for the year ending 30 June 2008 based on IFRS in issue at 31 March 2008. The financial statements are cross-referenced to the source literature and include explanatory notes.

## Coming soon

### **IAS 32-39: An overview**

This is the second edition of our overview of IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* and the impact of recent changes to these standards. We also describe some of the IFRIC's recent agenda decisions, as we believe they provide important guidance where the Standards are felt to lack clarity.

### **IFRS 7 Surveys**

These publications will provide an analysis of the disclosures made in the first year of mandatory adoption of IFRS 7 *Financial Instruments: Disclosures* for banking, insurance, asset management and corporate entities. They will also contain examples and commentary on the practical difficulties involved in preparing and interpreting this information.

### **IFRS vs US GAAP - Hedge funds**

### **IFRS vs US GAAP - Investment funds**

These two publications will summarise the key differences between US GAAP and IFRS in the hedge fund and investment fund industries. The SEC are beginning to move towards conversion to IFRS and these supplements provide useful insight into how funds currently using US GAAP would be impacted by this conversion.

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