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Financial reporting in times of uncertainty

The speed and ferocity of the market meltdown and the sheer scale of the ensuing government intervention have taken many by surprise. As a result, regulators around the world are looking for enhanced disclosures in 2008 financial statements. As you finalise your company's financial statements, we discuss key disclosures for pensions, fair value, risk and capital management that you should consider.

Goodwill disclosures under the microscope

Another area that will face even greater scrutiny will be a company's disclosure surrounding its goodwill impairment testing. After the acquisitions that occurred during the global growth that preceded the current crisis, companies now have large goodwill balances that will be increasingly difficult to support. We take a closer look at the disclosure requirements of IAS 36 *Impairment of Assets*.

Financial reporting developments

Find out about the Board's discussions that could significantly impact your business: tentative decisions about derecognition, financial instruments disclosures, fair value and *IFRS for non-publicly accountable entities* (formerly known as *IFRS for Private Entities*).

Resources

Find out more about our recent publications on ED 10 *Consolidated financial statements*, our real estate financial statement survey and our upcoming webcast on consolidations.

We welcome your feedback on *IFRS outlook*. Please contact us at ifrs@ey.com. The next issue will be published in March 2009.

Will Rainey
Global Director of IFRS Services

Financial reporting in times of uncertainty



The speed and ferocity of the market meltdown and the sheer scale of the ensuing government intervention have taken many by surprise. Investors, financial institutions, pension funds, employees, tax payers and ultimately, the man in the street, have all borne the costs of the financial crisis. Regulators have also stepped up the scrutiny of companies under their charge. This year end, more than ever before, the disclosures in financial statements will be closely scrutinised by users to gain insights into how the entity is likely to perform in the coming year and how it manages its risks. In this article, we look at the disclosures we believe have gained in importance and are most likely to be impacted by the current conditions.

Judgments applied by management

Determining the carrying amounts of assets and liabilities often involves estimating the effects of uncertain future events. Current market volatility inevitably means greater uncertainty and, as such, the selection of assumptions and appropriate input variables becomes more complex and judgmental exercise. The effect of this is an increased risk of a material adjustment to those assets and liabilities in the next financial year.

Users of financial statements expect to see both the disclosure of such risks - that uncertainty exists - and detailed information about the nature of the uncertainty and the judgment management has applied. This will enable them to make their own assessment about the likely impact to those risks. IAS 1 *Presentation of financial statements* requires the disclosure of the potential effects of using different assumptions, if there is a reasonable chance that the assumptions could change. This places a tremendous onus on entities not only to identify sources of estimation uncertainty at the balance sheet date, but also to assess the potential for these uncertainties to result in a future material adjustment. This year, the preparation of financial statements will require more time and care to ensure that information is disclosed succinctly.

Areas where estimations are significant include impairment assessments when determining the recoverable amount of tangible and intangible assets, pension obligations and fair value of financial assets and liabilities.

"This year, the preparation of financial statements will require more time and care to ensure that information is disclosed succinctly."

Impairment assessments

Impairment assessments will need to be more robust and significant impairment losses are expected from the write-downs of property, plant and equipment, intangible assets and goodwill. To assess the potential for future write-downs, users of financial statements will be keenly focused on the disclosure of how the impairment losses arose, as well as the basis (e.g., by reference to an active market or value in use) and assumptions applied to determine the loss. Additional disclosures are also required for goodwill, whether or not impaired, as we discuss in the following article.

Pension obligations

The large deficits observed in many defined benefit plans have raised concerns for users of financial statements as to the ability of an entity to fund future benefits, and the impact that funding has on the entity's cash flow. Pension disclosures will therefore receive much greater scrutiny. The most significant actuarial assumption applied to determine the net defined benefit obligation (or asset) is that of discount rates where spreads on high quality reference bonds have widened as a result of heightened counterparty and market risk. The current shape of the bond yield curve shows greater fluctuation in bond rates between different maturities than in previous years. As a result, the details of how an entity has selected its discount rate, including how the bond and benefit payment stream durations have been matched, are even more relevant to financial statement users. Readers will also be interested in what impact a different discount rate has on the defined benefit obligation. Disclosure of the judgments made and the sensitivity of the obligation to changes in the key assumptions will enable users to understand the magnitude of risks and impact on future cash flows (as required generally by IAS 1 and more specifically for certain actuarial assumptions by IAS 19 *Employee Benefits*).

Fair value of financial assets and liabilities

Determining fair value of financial statement assets and liabilities has been difficult as markets have become volatile or inactive. The use of valuation techniques for the measurement of financial instruments is therefore likely to become more prevalent compared with previous years. Entities will need to apply significant judgment to determine expected future cash flows, interest rates and yield curves, or to identify similar financial instruments with similar terms and remaining maturity periods that will serve as reference points. Users of financial statements will want to understand how fair value was determined and to make their own assessments. Where assumptions are not based on market-observable information, IFRS 7 requires disclosure about the effect of reasonably possible alternative assumptions. In current market conditions, for almost every assumption made by management, there will be other assumptions that are reasonably possible. Hence, greater disclosure will be needed.

Similarly, the fair value determination of investment properties and property, plant and equipment has been difficult as transaction volumes have decreased significantly. Discounted cash flow projections based on estimates of future cash flows, discount rates and other assumptions will also be subject to uncertain market conditions. Given the materiality of investment properties and the financial impact of small changes to assumptions, additional disclosure about the effects of changes in assumptions will be critical for users of financial statements to independently assess the risk arising from the uncertain market.

Financial reporting in times of uncertainty *continued*

Financial risk management

Almost all entities will be facing new liquidity, interest and currency risks that they have not had to face in the last few years. The disclosure of the nature and extent of risks arising from financial instruments to which the entity is exposed, as required by IFRS 7, has therefore gained greater relevance. Users of financial statements will seek information on whether entities have material credit risk exposure, the basis of provisions for the impairment of receivables and the extent of the concentration of credit risks. Likewise, disclosure of the maturity profile of financial liabilities and how the entity manages its liquidity risk will be key for users to assess future cash flows and the adequacy of management's actions.

Entities are also required to disclose a sensitivity analysis for each type of market risk they are exposed to at the reporting date - reflecting the impact on profit or loss and equity of any reasonably possible change in the risk factors. The methods and assumptions used in preparing this analysis should also be disclosed, enabling users to assess fully the impact of the risk. If prepared without due care, such disclosures will simply be a mathematical exercise of computing the expected financial impact of each risk. However, thoughtful disclosure of methods and assumptions surrounding the analysis can provide users of the financial statements with relevant insights about the management of the business and the specific geographic and industry conditions impacting it.

Capital management

As different entities may define capital differently, so the objectives, policies and processes for managing capital will differ. This is an often overlooked area of disclosure that is required by IAS 1, and is pertinent for companies that may be facing financial difficulties or have externally imposed capital requirements, such as bank loans. The qualitative and quantitative disclosures of capital management will enable users of financial statements to understand, from key management's perspective, how the business is managing its capital and capital requirements (if any) during the current financial crisis.

Conclusion

Entities, more than ever before, will need to pay greater attention to the disclosures in their financial statement. As the aftershocks of the financial crisis reverberate through the global economy, perhaps the greatest challenge for the financial community as it rebuilds is the restoration of trust - and improving the quality of disclosures in financial statements is a step in the right direction.

Goodwill disclosures under the microscope

Background

The world economy has further weakened since our article, "Testing for impairment during financial crises and recession" appeared in the October 2008 edition of *IFRS outlook* (available at ey.com/IFRS). That article highlighted key aspects of the financial crisis and how such conditions may affect the application of IAS 36 *Impairment of Assets*.

Many acquisitions took place during the boom years that preceded the current crisis. Consequently, many entities are still carrying significant amounts of goodwill on their balance sheet. This article looks at the goodwill disclosure requirements of IAS 36 and the relevant considerations in the current environment.

In the current environment, not only the goodwill impairment test, but also the disclosures about that test will likely be subject to greater scrutiny. Investors will want to understand how an entity has assessed its recoverability and the factors that could affect the recoverable amount of goodwill. It is no surprise that regulators are also focusing on goodwill disclosures.

IAS 36 disclosure requirements and the relevant considerations

Disclosure by unit

IAS 36 requires entities to disclose information about goodwill by cash-generating unit or group of cash-generating units ('unit') if the amount of goodwill allocated to a unit is 'significant' in comparison with total goodwill. This disclosure includes the carrying amount of goodwill, management's valuation approach - value in use ('VIU') or fair value less cost to sell ('FVLCS') - the related key assumptions and sensitivity analyses.

Disclosure by unit had not been a problematic area for most entities although regulators, such as the Financial Reporting Council in the UK, have observed that goodwill disclosures in previous years were often made at the aggregated rather than the unit level. In the current environment, there will be a greater need (and an expectation from the regulators) for entities to make disclosures by unit.

However, there are circumstances in which aggregation is appropriate. If goodwill is allocated across multiple units and each of the allocated amounts is not 'significant', the disclosures may be aggregated for those units, but that fact needs to be disclosed.

Management's valuation approach

IAS 36 requires management to disclose its valuation basis (VIU or FVLCS) and its approach in determining the value assigned to each key assumption, including whether the value reflects past experience or, if appropriate, is consistent with external sources of information, and, if not, why not. This means management needs to describe how the entity determined and validated the assumptions used in its recoverable amount calculations both for VIU and FVLCS, if the latter is not based on observable market prices.

Goodwill disclosures under the microscope *continued*

Disclosures where recoverable amount is based on VIU

IAS 36 requires a description of each key assumption that management has used in its recoverability assessment. The key assumptions generally include the key inputs for the cash flow forecast, growth rate(s) and discount rate(s). Entities should ensure that these disclosures are consistent with other parts of their market communications.

Cash flows: Entities normally project cash flows for a maximum of five years in their most recent budgets. After this period, cash flows are extrapolated using an estimated growth rate.

When updating projected cash flows this year, entities need to consider the impact of the current economy and be realistic about the range over which revenues or costs may move. While the economic downturn is likely to already have had an immediate effect on the cash flows of businesses, management will need to carefully consider and disclose their assumptions about the longer-term effects. For example, does management think that the recession will be sharp but short - V-shaped, or longer, and perhaps shallower - U-shaped? What is the effect on cash flows if the recession is deeper than management had assumed and/or recovery is delayed? Will a second year in which revenue is lower or a delay in recovery by 12 months erode headroom?

Many entities may have based cash flows on assumptions about revenue or operating margin using internal estimates drawn on past performance, which may no longer be a reliable guide. The last year has demonstrated that we have moved from a period in which prices are relatively stable and predictable into one in which there can be huge changes in a very short period of time. Similarly, a number of currencies fell by 25% or more in less than a month against the US dollar. The unexpected doubling of oil prices caused the collapse of a number of airlines and travel companies. This means that greater use of external data may be necessary to support management assumptions. As discussed earlier, IAS 36 requires disclosure of whether the values assigned to the key assumptions are based on previous experience or, if appropriate, are consistent with external sources. In the current environment, previous experience may be less relevant and external sources may

yet to be updated. Accordingly, management needs to provide more detail on the process to their estimates.

Growth rate: IAS 36 requires disclosure of the growth rate used to extrapolate cash flow projections (also known as the 'terminal value'), and the justification for using a growth rate that exceeds the long-term average for the unit (e.g., products, industries, or country or countries in which the entity operates).

In the current environment, using a long-term rate that reflects only the prolonged period of growth since the early 1990s, and not the recession that preceded it or the recession that we are now in, may lead to a misstated long-term growth rate. However, there is no general consensus about long-term growth rates and there is a wider range of potential outcomes. Entities will need to determine a sensible growth rate for each unit and disclose the basis for their decision. In situations where management believes that their growth rate should be higher than the relevant average growth rate, further justification will need to be included in the disclosure.

Discount rate: IAS 36 requires entities to disclose the discount rate applied to their cash flow projections. In the current environment, uncertainty has meant greater risk which, in turn, is likely to lead to increased discount rates. The liquidity crisis has made borrowing more difficult and more expensive. It is generally expected that the net effect on discount rates is that they are at best unchanged, but probably somewhat higher than last year. Again, there is a wider range of possible discount rates that, at the higher end, might affect an entity's recoverability assessment. Entities will need to determine a sensible discount rate for each unit and disclose the basis for their decision.

Sensitivity analysis: If a 'reasonably possible change' in a key assumption would cause a unit's carrying amount to exceed its recoverable amount, an entity is required to disclose the value assigned to each key assumption (e.g., estimated long-term growth rate of 5%) and the amount by which that value must change (e.g., a reduction of 1%) in order for the unit's recoverable amount to be equal to its carrying amount. 'Reasonably possible change' is not defined in the standard. Entities will need to apply judgment in determining whether a change is reasonably possible.



Most entities will be preparing this year's goodwill disclosures in an unfamiliar environment with volatile economic outlooks. Naturally, there will be far more instances of a 'reasonably possible change' in a key assumption, so more information is expected to be disclosed in the current year to help financial statement users understand the environmental effect and management's decisions.

One problem that entities will face in reporting sensitivities is that assumptions may work in combination with one another. IAS 36 requires that consequential effects on all variables be reflected in the impairment test. For example, if a lower inflation rate is assumed, the discount rate may be lower as well. Besides these direct effects on the impairment test, an entity may also consider certain scenarios that could result in the erosion of headroom. For example, if cash flows are lower for the next five years because the recession is deeper and more prolonged than expected and there is a lower growth rate in perpetuity, these two factors taken together could erode headroom and it is reasonably possible that both could happen simultaneously.

IAS 36 requires disclosure only of individual assumptions, including the above mentioned consequential effects, not of their combined effect. In these circumstances, and in the current environment, entities can of course make disclosures in addition to the requirements of IAS 36, in order that their position is properly explained.

Disclosures where recoverable amount is based on FVLCS

If the recoverable amount is based on FVLCS, the valuation method used by management must be disclosed. For example, FVLCS may be based on a previous acquisition or disposal by the entity itself, or a comparable transaction by another entity. This fact would need to be disclosed. However, previous transactions may not be comparable in falling markets, hence, will likely not be enough to refer to in determining fair value.

If the FVLCS is not based on an observable market price, the disclosure should also include the key assumptions and management's approach in determining them. In some cases, FVLCS will be based on a discounted cash flow model or on market multiples. For reporting periods beginning on or after 1 January 2009, the same disclosure requirements as for the VIU approach must be given. While this new requirement is not required for financial statements for periods ending before this date, such disclosures would be considered as best practice, especially in the current environment.

Conclusion

The world economy is in a period of great uncertainty. The deteriorating conditions will likely result in situations of eroded headroom at best and significant goodwill impairments at worst. In this challenging time, disclosure is not just a compliance exercise, but a key communication to investors by management. Entities will need to reconsider and potentially refine and expand their goodwill disclosures which will require additional time and effort. Remember, planning is necessary for good market communication - critical in gaining and securing investor confidence.

Financial reporting developments

The IASB (the Board) met in London on 19 - 23 January 2009. The IFRIC meeting scheduled for January was cancelled. The table below summarises the main issues discussed. In the following pages, you will find more detailed information and insights about the shaded items in the table.

Projects	Key discussion points	Status
Derecognition of financial instruments	The Board continued its discussions of the two approaches to derecognition and made several tentative decisions.	ED expected in March/April 2009
Financial instruments disclosures	The Board made tentative decisions about improving disclosures, as proposed in the recent ED <i>Improving Disclosures about Financial Instruments</i> and the <i>Fair Value Measurements DP</i> . The Board decided not to proceed with the ED on <i>Investments in Debt Instruments</i> , but will consider the issues the ED addressed in its broader project on improving accounting for financial instruments. Refer to our Supplement to <i>IFRS outlook</i> (Issue 28) <i>ED Investments in Debt Instruments</i> , for more details	Amendment expected in Q1 2009
Financial instruments with characteristics of equity	The Board continued its discussions on developing an approach to identify equity instruments and discussed: <ul style="list-style-type: none"> ▸ The conceptual definitions of liability and equity ▸ The classification of various types of puttable and mandatorily redeemable instruments. 	ED expected in H2 2009
Fair value measurement	The Board discussed, amongst others: <ul style="list-style-type: none"> ▸ The use of the term 'fair value' in IFRS ▸ Fair value disclosures ▸ Day 1 gains for service contracts 	ED expected March 2009
Annual improvements 2008	The Board reaffirmed seven of the proposed amendments. Three of the proposals will be discussed in February's meeting. Redeliberations on the remaining two proposals to amend IAS 39 were deferred (i.e., application of the fair value option to non-financial host contracts with embedded derivatives and bifurcation of embedded foreign currency derivatives).	Amendments expected in April 2009
Conceptual framework	The Board made and reaffirmed tentative decisions about phases A (Qualitative Characteristics) and D (Reporting Entity) of the conceptual framework project.	Phase A: Final chapter expected Q2 2009 Phase D: ED expected H2 2009



Projects	Key discussion points	Status
IFRIC	<p>The Board approved IFRIC 18 <i>Transfers from Customers</i>. Refer to our Supplement to <i>IFRS outlook</i> (Issue 29) <i>Transfers of Assets from Customers</i>.</p> <p>The Board issued an ED on proposed amendments to IFRIC 9 <i>Reassessment of Embedded Derivatives</i> and to IFRIC 16 <i>Hedges of a Net Investment in a Foreign Operation</i>. Refer to our Supplement to <i>IFRS outlook</i> (Issue 30) <i>Proposed amendments to IFRIC 9 and IFRIC 16</i>.</p> <p>The Board tentatively decided to amend IFRIC 14 IAS 19 - <i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i> to require that an entity recognises an asset for a prepayment that reduces future contributions.</p>	
IFRS for non-publicly accountable entities	The Board made tentative decisions about the use of accounting policy options, consolidation, goodwill and other indefinite-life intangible assets, financial instruments and special purpose entities.	IFRS expected Q2 2009
Incomes taxes	The Board tentatively decided that the ED on income tax should be silent about whether entities should discount current tax refundable or payable.	ED expected Q1 2009
Leases	The Board and the FASB decided to include a high-level discussion of lessor accounting issues in the DP.	DP expected March 2009
Post-employment benefits	<p>The Board tentatively decided to develop two EDs from their discussion paper Preliminary Views on Amendments to IAS 19 Employee Benefits.</p> <p>For Part 1 (changes in defined benefit obligations and plan assets) the Board tentatively decided that entities should:</p> <ul style="list-style-type: none"> ▸ Disaggregate changes into employment, financing and remeasurement components and recognise these in the income statement ▸ Disclose the employment and financing components in either the income statement or the notes, and the remeasurement component in the income statement (distinguished from other items) <p>Part 2 will address contribution-based promises.</p>	ED expected in H2 2009

ED = Exposure Draft, DP = Discussion Paper, Q1 2009 = First quarter of 2009, Q2 2009 = Second quarter of 2009, H2 2009 = Second half of 2009

Financial reporting developments *continued*

Derecognition

The Board continued its discussions on its two approaches to derecognition (refer to the December 2008 edition of *IFRS outlook*). The following tentative decisions were made:

- ▶ Under Approach 1, a component of a financial asset (or group of financial assets) that is retained in a transfer, would be treated as a new asset, whilst under Approach 2, the retained component would be treated as a retained part of the original asset.
- ▶ To modify Approach 1 to focus not only on whether the transferor can access cash flows but also whether it can access “other future economic benefits” of the asset held before the transfer. Where there is no such access, instruments (including their components) could qualify for derecognition.
- ▶ Under Approach 2, a transfer of a part of a derivative, hybrid instrument or equity instrument shall only be assessed for derecognition (i.e., qualify as the “asset”) if it involves specifically identified and/or proportionate cash flows. Financial assets can be assessed for derecognition as a group, even if they do not share similar characteristics. However, if part of an instrument or a group could be either an asset or a liability over its life (e.g., an interest rate swap) or if it transfers other future economic benefits other than cash flows (e.g., equity investments), that part will not qualify for derecognition and the instrument will not form part of a group.
- ▶ Under both approaches, an investment purchased from a securitisation vehicle would be treated as a new asset.
- ▶ In Approach 2, it was decided not to proceed with linked presentation of transferred assets and liabilities that do not qualify for derecognition if the transferee's only recourse is to the transferred asset. Instead the relationship would be disclosed in the notes.

Approach 1 The transferor would still derecognise the asset if the transferee presently has other access to the economic benefits underlying the transferred asset.

Approach 2 Restricts the items that could qualify as part (or component) of an asset and instead, requires some form of linked presentation if specified conditions are met.

Financial instruments disclosures

The Board discussed responses received on both the *Fair Value Measurements* DP and the ED on *Improving Disclosures about Financial Instruments*. The Board tentatively confirmed most of the proposals in the ED on risk disclosures, maturity analyses and fair value disclosures. The Board tentatively decided that the three level fair value disclosure hierarchy to be used for disclosure of fair value measurements should be the same as required by SFAS 157 *Fair Value Measurements*. It was also tentatively decided not to require the application of the fair value hierarchy to financial instruments not measured at fair value.

The final amendments will be applicable for accounting periods beginning on or after 1 January 2009 (as opposed to 1 July 2009 in the ED) with no first-year comparatives and with earlier application permitted.

Fair value measurement

Use of fair value in IFRS

The Board has proposed that the definition of fair value is based on the price that would be received for an asset or paid to transfer a liability. It tentatively decided not to retain the term ‘fair value’ for the following items, as its use is inconsistent with the Board's proposed definition and guidance:

- ▶ Share-based payment transactions - measurement of equity settled instruments does not take into account the effect of service and performance conditions or reload features; the value of goods and services received for equity-settled share-based payments is not always market-based as the contract price may not be the price a market participant would pay; and the measurement of the liability for share appreciation rights in a cash-settled share-based payment excludes service conditions
- ▶ Reacquired rights in a business combination - currently ignores information that market participants would consider when valuing the reacquired rights



- ▶ Financial liabilities with a demand feature - does not consider market participant's expectations of timing of future cash flows.

The Board also asked staff to consider whether the requirement in IAS 40 *Investment Property* to include rental income from current leases in the fair value assessment of an investment property is consistent with the proposed fair value definition.

The Board discussed initial measurement of financial instruments that are subsequently measured at amortised cost or recorded as available for sale. The majority of the Board thought that the transaction price should be used, in which case, no 'day one' profit or loss would be recognised. It is not clear how this would affect financial instruments which are at 'off market' prices or rates.

Day 1 gains - service contracts

The Board discussed whether the assumption that transaction price is the best evidence of the fair value of an asset or liability, at initial recognition applies to service contracts. For the service provider, they tentatively decided that:

- ▶ The only true exit market is the secondary (wholesale) market with other service providers
- ▶ The exit price reflects the service provider's perspective
- ▶ The exit price, at initial recognition, is not likely to be the transaction price. Therefore, the exit price will generally include amounts to recover origination costs and a return on the origination activity

Conceptual framework

Phase A - qualitative characteristics and constraints of financial reporting

The Board tentatively reconfirmed the following proposals made in the ED:

- ▶ To replace the term 'reliability' in the existing framework with 'faithful representation'

- ▶ To classify relevance and faithful representation as fundamental characteristics
- ▶ To classify verifiability, comparability, timeliness and understandability as enhancing characteristics
- ▶ To describe materiality and cost as constraints on financial reporting

Phase D - reporting entity

The Board tentatively decided:

- ▶ To revise the description of a reporting entity as a circumscribed area of economic activity whose financial information has the potential to be useful to present and potential equity investors, lenders and other capital providers for decisions in their capacity as capital providers (subject to any conclusions reached in Phase A)
- ▶ To clarify that an entity can be a reporting entity even if it is currently inactive
- ▶ That a reporting entity does not need to be a legal entity
- ▶ That a legal entity and a branch or segment of a legal entity can, but do not necessarily, meet the description of a reporting entity

With respect to the group reporting entity the Board tentatively decided that:

- ▶ A reporting entity that controls other entities should present consolidated financial statements using the controlling entity model
- ▶ If a controlling entity is not a reporting entity it may be useful to present combined financial statements of entities under common control
- ▶ An assessment of risks and rewards should not replace control as a basis to identify entities to be consolidated when implementing the controlling entity model
- ▶ Parent-only financial statements may provide useful information if presented together with consolidated financial statements

Financial reporting developments *continued*

IFRS for non-publicly accountable entities

The Board tentatively decided to change the title to International Financial Reporting Standard for Non-publicly Accountable Entities (IFRS for NPAEs).

Accounting policy options

During 2008 the Board tentatively decided that, generally, all accounting policy options in full IFRS would be available to NPAEs. At this meeting, it tentatively decided:

- ▶ That investment property must be measured at fair value if it is possible to determine without undue cost or effort. Otherwise, the cost model is applied.
- ▶ Not to allow property, plant and equipment and intangible assets to be revalued.
- ▶ That borrowing costs and research and development costs must all be expensed (no choice given).
- ▶ That operating cash flows may be presented using either the indirect or direct method.
- ▶ That associates and jointly controlled entities may be accounted for using either the cost method, equity method or at fair value through profit or loss. When applying the cost model, no distinction would be made between an investee's pre- and post-acquisition retained earnings. All dividends received are recognised in profit or loss.
- ▶ That either full IFRS or a simplified version for NPAEs can be applied to financial instruments. The Board continued discussing how to simplify the requirements for financial instruments.

Consolidation

Consolidated financial statements are required, except if the parent entity is a subsidiary and its ultimate parent (or any intermediate parent) produces IFRS-compliant consolidated financial statements (either in full or in accordance with the NPAE standard). In addition, the principles contained in SIC 12 *Consolidation - Special Purpose Entities* would be incorporated into the *Consolidated and Separate Financial Statements* section of the ED.

Goodwill and other indefinite-life intangible assets

Such assets are deemed to have finite lives and will be amortised over a maximum period of 10 years. They are also subject to impairment testing using an 'indicator approach'.

New documents issued

Project	Effective date
ED of <i>Post-implementation revisions to IFRIC 9 and IFRIC 16</i>	Open for comment until 2 March 2009
IFRIC 18 <i>Transfers of Assets from Customers</i>	Applicable prospectively to transfers of assets from customers received in periods beginning on or after 1 July 2009

Resources

Supplements to *IFRS outlook* - Issues 29 - 30

Issue 29: Transfers of assets from customers

The transfer of assets from customers to entities in sectors such as telecoms and utilities has resulted in diversity in the accounting methods used. This has led the IFRIC to issue Interpretation IFRIC 18 *Transfers of Assets from Customers*, providing guidance on when and how to recognise such assets. Entities will need to carefully analyse all the facts and circumstances to assess whether they actually control the assets in question and whether they need to make changes to their revenue policies that would, in turn, significantly affect their future operating results and net asset positions.

Issue 30: Proposed amendments to IFRIC 9 and IFRIC 16

The IASB has issued an ED proposing amendments to IFRIC 9 *Reassessment of Embedded Derivatives* - revising the scope to exclude business combinations between entities under common control and the formation of joint ventures and IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* - allowing, in a hedge of a net investment in a foreign operation, the qualifying hedging instruments to be held by any entity or entities within the group, including the foreign operation itself, provided that all of the requirements of IAS 39 *Financial Instruments: Recognition and Measurement* are satisfied.

Consolidation of SPEs: initial reactions to ED 10 - *Consolidated financial statements*

This publication explores the potential implications of ED 10 for the consolidation of special purpose entities (SPEs) used in securitisations and other structured transactions. On 18 December 2008, the IASB published its ED of a new standard to replace the consolidation requirements of IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation - Special Purpose Entities*. By addressing both 'normal' entities and SPEs in one standard, the decision as to whether to consolidate an entity will no longer depend on whether or not that entity is an SPE and, therefore, which set of rules to apply.

IFRS for real estate: current issues and financial statements survey - January 2009

This survey of real estate investors preparing IFRS financial statements follows on from the 2007 survey. It expands the number of companies surveyed, provides an analysis of financial reporting issues pertinent to real estate investors, including selected examples of disclosures, and discusses the upcoming changes to IFRS that are likely to impact the industry.

Resources *continued*

Good Mining (International) Limited

This publication contains the consolidated financial statements for a fictitious mining company, Good Mining (International) Limited, and its subsidiaries for the year ended 31 December 2008, based on IFRS in issue at 31 December 2008. The financial statements are cross-referenced to the source literature and include explanatory notes.

Standard production costs for insurance contracts

This publication comments on some of the current issues surrounding the development of a new international insurance standard by the IASB and the US FASB. In this report, we propose that the concept of standard production costs can helpfully be applied to the insurance industry in order to develop a measurement model for insurance liabilities that will faithfully represent the economics of insurance contracts.

Archived webcast

Mergers and acquisitions and the effect of the new business combinations standard 20 January 2009

In this webcast, we looked at a number of aspects of the requirements in the new standard on accounting for business combinations (IFRS 3R) that become effective for financial years beginning after 1 July 2009 and should be considered during the negotiation of an acquisition. These included the impact of:

- ▶ contingent consideration arrangements
- ▶ management remuneration structures
- ▶ step acquisitions
- ▶ options available for measuring non-controlling interests when less than 100% is acquired; and
- ▶ factors to consider when determining which method to use, such as impairment.

The new requirements affect not only the accounting - they are likely to have a significant impact on how arrangements are negotiated. Therefore, an entity cannot afford to wait to think about the new requirements after an acquisition has been completed.



Coming soon

First-time adoption of IFRS - an overview for tax departments

This publication summarises the requirements of IFRS 1 - *First-time Adoption of International Reporting Standards* and highlights a number of key implications that tax departments need to consider as their companies convert to IFRS.

PPA global survey: Acquisition accounting - What's next for you?

This global purchase price allocation (PPA) survey of over 700 transactions in 13 major industries across 21 countries, carried out by our global Valuation & Business Modelling network, provides valuable insights on the types of assets companies typically acquire, their financial reporting practices, and the resulting implications for earnings. In an era of intense auditor and regulatory scrutiny of fair value measures, this matter warrants careful attention. You will also find a focus in this survey on specific industries and the practical valuation consequences of upcoming changes in IFRS3R - *Business Combinations*.

IFRS webcast series

Consolidations and the effect of the new business combinations standard

31 March 2009

[9am London, 10am Central European Time, 5pm Hong Kong, 8pm Sydney]

A webcast for companies currently using IFRS

When the IASB amended the accounting for business combinations, they also revised how a parent of a group accounts for certain transactions involving its subsidiaries.

These changes have a direct impact on the reported results of a group and the amount of equity that is attributed between the parent and subsidiaries. Areas of change include:

- ▶ Accounting losses incurred by loss-making subsidiaries
- ▶ Accounting for changes in ownership interests
- ▶ Accounting for loss of control of a subsidiary

The IASB also intends amending its consolidation standard to change the definition of control and introduce additional disclosures for structured entities.

Join us as we discuss the changes in IAS 27 and explore their implications with our panel of experienced professionals. We will also discuss the proposed changes and their expected impact with the panel.

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