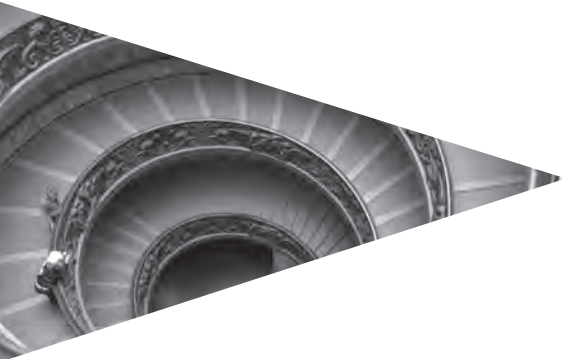


# IFRS outlook



## In this issue...

<b>IFRS for non-publicly accountable entities: much more than a change of name</b>	<b>2</b>
<b>IFRS 3R: avoiding the transition traps</b>	<b>6</b>
<b>Financial reporting developments</b>	<b>10</b>
<b>Resources</b>	<b>14</b>

### **IFRS for non-publicly accountable entities: much more than a change of name**

Many significant changes have been made to the IFRS Exposure Draft for non-publicly accountable entities in recent months. Read about some of the more important tentative decisions taken to date on page 2.

### **IFRS 3R: avoiding the transition traps**

The effective date of the revised business combinations standard (IFRS 3R) is fast approaching. It can be challenging to work through the maze of complexities presented when applying IFRS 3R for the first-time. On page 6, we look at some of the key issues that may trap many first-time adopters.

### **Financial reporting developments**

The Board continued its discussions last month on its two approaches to derecognition and made some tentative decisions about fair value measurement, insurance contracts and rate-regulated activities. Learn more about the Board's recent decisions that could significantly impact your business on page 10.

We welcome your feedback on *IFRS outlook*. Please contact us at [ifrs@uk.ey.com](mailto:ifrs@uk.ey.com). The next issue will be published in April 2009.

Will Rainey  
Global Director of IFRS Services

# IFRS for non-publicly accountable entities: much more than a change of name



Significant progress has been made in recent months by the International Accounting Standards Board (the IASB or the Board) in its re-deliberations on the Exposure Draft aimed at small and medium-sized entities. Based on the comment letters received, the Board has amended or rewritten significant portions of the Exposure Draft. As yet, it is difficult to assess the overall impact of these changes, or how easy this standard will be to use in practice. However, in this article, we set out some of the more important tentative decisions that the Board has taken to date.

## Who is this standard aimed at?

The Board has long struggled to choose a name for this standard. The root of the problem lies in whether the name should describe who the standard is aimed at (IFRS for small and medium-sized entities or IFRS for private entities) or whether it should describe what the standard does (i.e., simplified IFRS for smaller entities). In an attempt to settle on a name, the Board requested input from National Standard Setters, who suggested "IFRS for Non-publicly accountable entities" ("IFRS for NPAEs"), which the Board has tentatively approved. While the decision on the final name of the standard rests with the Board, the decision on which type of entity should

apply this standard would probably be for individual jurisdictions. The current name perhaps allows individual jurisdictions more flexibility in this regard.

The fact that the name has changed three times reflects the ever-changing nature of this project as a whole. The proposed standard has changed considerably since it was first exposed in 2007. One fundamental change is that the Board has tentatively decided that IFRS for NPAEs should be a stand-alone standard. The original Exposure Draft had included a number of cross references to full IFRS, but these have now all been removed with one exception – namely, financial instruments.

Breaking the link between full IFRS and IFRS for NPAEs means that companies would only consider the requirements and guidance of full IFRS when referenced in the accounting policy hierarchy contained within the new standard. It would further imply that, if an entity wishes to change from IFRS for NPAEs to full IFRS, for example in an initial public offering, there would be no short-cut approach. In order to achieve such a transition to full IFRS, entities would have to pass through the full rigours first-time adoption of IFRS under IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

“As yet, it is difficult to assess ....  
how easy this standard will be to use  
in practice.”

## What are the key changes since the Exposure Draft?

### Accounting options

In seeking to address issues raised in the comment letters, the Board reconsidered the ‘user friendliness’ of the standard. As a result, the structure of the proposed standard has changed to include the simplest accounting option available for each accounting topic. More complex accounting options will be contained in an appendix to the final standard.

The Board also tentatively decided that, in general, all accounting policy options in full IFRS should be available to NPAEs. However, certain limitations have tentatively been agreed upon, refer to Box 1 for more details.

### Box 1 Proposed limitations of accounting options

While all options available under IFRS would be available to NPAEs, the Board has tentatively decided to limit the following options:

- ▶ **Investment property:** if an NPAE can measure the fair value of an item of investment property reliably and without undue cost or effort, it must use the fair value model. Otherwise, it must use the cost model.
- ▶ **Property, plant and equipment:** the revaluation model should not be an option.
- ▶ **Intangible assets:** the revaluation model should not be an option.
- ▶ **Borrowing costs:** all borrowing costs should be recognised as an expense. The capitalisation model should not be an option.
- ▶ **Development costs:** all research and development costs should be recognised as an expense. Capitalisation of development costs should not be an option.
- ▶ **Jointly controlled entities:** proportionate consolidation should not be an option. NPAEs could therefore choose between the cost method, equity method or fair value through profit or loss in their separate and consolidated financial statements.

## Consolidated financial statements

For cost-benefit, rather than conceptual reasons, the Board tentatively decided that goodwill and other indefinite-life intangible assets should be considered to have finite lives and amortised over a maximum estimated useful life of 10 years. NPAEs will still be required to assess these assets for impairment, but this assessment would be triggered by an ‘indicator approach’ as opposed to being an annual requirement. This proposed pragmatic approach to dealing with this topic should reduce the cost and effort of applying IFRS for NPAEs.

## Deferred income taxes

Many of the comments received by the Board addressed the area of accounting for income taxes. The overriding concern was that the proposed accounting for income taxes was too complicated for NPAEs. While the comment letters did recommend simplifying the recognition and measurement requirements for income taxes, there was no clear consensus as to the best way to do so. In November 2008, the Board reviewed, and tentatively approved, a proposal to use a temporary difference approach. It is important to note that this model will not be a simplified approach compared with the current requirements of IAS 12 *Income Taxes*, but rather a simplified approach compared with the latest version of the forthcoming Exposure Draft of revisions to IAS 12. Therefore, it remains to be seen whether, once finalised, this model will meet the request from NPAEs to simplify the accounting for deferred taxes. For a summary of tentative decisions, refer to Box 2.

# IFRS for non-publicly accountable entities: much more than a change of name *continued*

## Box 2 Deferred taxes

Tentative decisions taken by the Board include:

- ▶ NPAEs will need to account for deferred taxes in their financial statements. The method of accounting will be based on the temporary difference approach.
- ▶ Deferred tax assets should be recognised for unused tax losses and tax credit carry forwards, subject to the same criteria as IAS 12. This tentative decision is likely to cause issues in practice for preparers of financial statements under IFRS for NPAEs as small companies often lack the detailed budgeting systems needed to accurately forecast future taxable profits.
- ▶ Where a jurisdiction imposes different tax rates on distributed and undistributed income, NPAEs will measure current and deferred taxes at the tax rate applicable to undistributed profits until the entity recognises a liability to pay a dividend. Only upon recognition of the liability for a dividend, will the NPAE be required to use the income tax rate for distributed earnings.
- ▶ All deferred tax assets and liabilities should be classified as non-current.
- ▶ NPAEs are prohibited from discounting current and deferred tax assets and liabilities.

## Financial instruments

The Exposure Draft had proposed a number of changes to simplify the recognition and measurement of financial instruments. It proposed to reduce the number of financial asset categories, to simplify the principle for derecognition by removing the pass-through and control retention tests, and to simplify hedge accounting.

Since the deliberation process commenced in May 2008, the Board has made numerous changes to the proposals in the Exposure Draft which have led to the section on financial instruments effectively being re-written. Section 11 has been divided into two sections: Section 11A deals with basic financial instruments and applies to all entities, whilst Section 11B deals with more complex instruments. Additional guidance has been added to the revised Section 11 and several tentative decisions have been made about the requirements in the final standard. Refer to Box 3 for further details. The disclosure requirements in the Exposure Draft are to be substantially reduced when compared with the disclosure requirements in full IFRS, but are yet to be fully considered by the Board.

NPAEs will be provided with a choice of either applying Section 11 of the IFRS for NPAEs or applying the three financial instrument standards (IAS 32 *Financial Instruments: Presentation*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*) in full IFRS.



### Box 3 The requirements of accounting for financial instruments

#### Section 11A Basic financial instruments

The following financial instruments are basic financial instruments:

- ▶ Cash
- ▶ A non-derivative debt instrument (although additional conditions must be met to ensure they are 'basic'). This includes trade receivables, all plain vanilla loans, deposits and bonds.
- ▶ An investment in non-convertible and non-puttable ordinary shares or preference shares.

The requirements of Section 11A are not dissimilar to those of IAS 39, although the standard has been simplified. For example, the four categories of financial asset have effectively been reduced to two categories (eliminating 'available for sale' and 'held to maturity'). The main features are, as follows:

- ▶ Most financial assets and liabilities are initially measured at the transaction price.
- ▶ Subsequently, debt instruments are measured at amortised cost less impairment and investments in shares are measured at fair value, if the fair value can be measured reliably.
- ▶ At the end of each reporting period, an entity should assess for impairment and examples of impairment 'triggers' are given, similar to those in IAS 39.
- ▶ Derecognition of financial assets has been simplified by removing the 'pass through' test.
- ▶ Guidance is given on factoring arrangements, although these are to be replaced with examples illustrating the general principles of derecognition as applied to factoring arrangements.
- ▶ The requirements for derecognising financial liabilities and accounting for collateral are identical to those in IAS 39.

#### Section 11B Complex financial instruments

Section 11B, as it appears in the Exposure Draft, remains largely unchanged. It deals with all financial instruments (as defined in IAS 39 and with similar scope exemptions) not covered by Section 11A, for example, derivatives.

Section 11B financial instruments are measured initially and subsequently at fair value, with changes in fair value recorded in the income statement, unless fair value cannot be measured reliably. The fair value, impairment and derecognition guidance in Section 11A is cross-referenced in Section 11B.

Hedge accounting is covered in Section 11B and has been considerably simplified compared with IAS 39, although restricted in application. NPAEs need to meet fewer criteria in order to qualify for hedge accounting compared with full IFRS. The accounting principles for cash flow, fair value hedging and hedging of a net investment in a foreign operation are the same as for full IFRS.

#### Pensions

The simplification of defined benefit accounting was the last substantial issue outstanding for discussion at the Board's February meeting. The Board tentatively decided that NPAEs should measure their defined benefit obligations according to IAS 19 *Employee Benefits*, if the information is available to do so, or can be obtained without undue cost or effort. If this is not possible, then a simplified approach may be applied. This would permit the exclusion of assumptions regarding future salary and future service. Additionally, a NPAE would not be required to obtain an actuarial valuation more frequently than once every three years, unless

under extreme market conditions or substantial changes in employee demographics.

#### What are the next steps?

These re-deliberations have resulted in a significant number of changes to the original Exposure Draft. With this in mind, the Board needs to decide whether or not to re-expose the updated text or to move directly to issuing the standard. Any decision on whether to re-expose will clearly have an impact when a final standard can be expected. This decision will be taken at the next Board meeting in March.

# IFRS 3R: avoiding the transition traps



The revised business combinations standard (IFRS 3R) is fast approaching - it is effective for annual periods beginning on or after 1 July 2009. And while the revised standard only applies to new acquisitions, there are a number of exceptions. Add to this the simultaneous requirement to adopt a number of revised or amended related standards (see Box 1 below) and it is all too easy to get lost in the maze of what becomes effective when. In this article, we look at the transition requirements for these amendments and some of the issues identified on transition that you should think about now.

## Box 1 Package of Standards revised and effective at the same time

Standard	Change
IFRS 3 <i>Business Combinations</i>	Revises the measurement of all elements in a business combination
IAS 27 <i>Consolidated and Separate Financial Statements</i>	Primarily accounting for changes in ownership, loss of control and allocation of losses of a subsidiary
IAS 28 <i>Investments in Associates</i>	Primarily accounting for loss of significant influence
IAS 31 <i>Interests in Joint Ventures</i>	Primarily accounting for loss of joint control
IAS 36 <i>Impairment of Assets</i>	Primarily the assessment of impairment where non-controlling interests (NCI) exist
IAS 39 <i>Financial Instruments: Recognition and Measurement</i>	Deleting the scope exemption relating to contingent consideration
IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i>	Accounting for the translation reserve on partial disposal or loss of control, loss of significant influence or loss of joint control
IAS 12 <i>Income Taxes</i>	Accounting for deferred tax benefits arising in a business combination and the deferred tax consequences relating to goodwill
IAS 7 <i>Statements of Cash Flow</i>	Specifies cash flows associated with changes in ownership interest to be disclosed



### Requirements on transition

As the acquisition date is the date on which the acquirer obtains control, irrespective of when negotiations and discussions began, any combinations that are currently in negotiation should be re-assessed well before the new standard is first applied. Companies will need to consider whether completion should be fast-tracked, or whether they need to be re-evaluated to assess their potential impact on future financial performance and financial position, as a result of the change in the standards.

Fortunately, acquisitions that are completed before IFRS 3R becomes effective do not need to be restated as a result of the revised standard. That is, the assets and liabilities recognised, including goodwill, are determined based on the existing standard and will generally remain at those values (although adjustments may be necessary as a result of the requirements of the existing IFRS 3).

However, IFRS 3R introduces changes to the accounting for contingent consideration and deferred income taxes subsequent to an acquisition. This is where it begins to get difficult - the new requirements do not alter how an acquirer accounts for changes in contingent consideration on past acquisitions (see Example 1 below). However, they do alter the accounting for changes in deferred income taxes arising from past acquisitions. The changes to accounting for deferred tax are summarised in Box 2. This effectively means that there will no longer be an automatic adjustment to goodwill whenever deferred tax arising from an acquisition is recognised subsequent to an acquisition - regardless of when that acquisition took place. This, in turn, may trigger a goodwill impairment.

### Example 1 - contingent consideration arrangements on transition

Entity A acquired entity B during 2007. The arrangement requires an additional amount of consideration to be paid to the vendors on 31 December 2010, provided that certain revenue and profit targets were met. The maximum amount payable is CU100,000. As at 31 December 2009, entity A's management estimated that CU60,000 would be payable and recognised a liability for that amount (the effect of discounting has been ignored for the purposes of this example). The existing requirements of IFRS 3 will continue to apply even though IFRS 3R will be effective when the contingent event expires on 31 December 2010. Consequently, any difference between the CU60,000 liability recognised and the amount ultimately paid will be adjusted against goodwill recognised on the acquisition of entity B, rather than being recognised in results for the period, as would be the case under IFRS 3R.

### Early adoption

IFRS 3R and the revised consolidations standard (IAS 27R) also permit the new requirements to be applied to annual periods earlier than those beginning on or after 1 July 2009. However, this is restricted to periods beginning on or after 1 July 2007. The equivalent US standard became effective for periods beginning on or after 15 December 2008. For some calendar year-end entities that also report under US Generally Accepted Accounting Principles (US GAAP), or whose peer group reports under US GAAP, it may be beneficial to apply the new requirements in their December 2009 financial statements.

# IFRS 3R: avoiding the transition traps *continued*

But early application requires careful consideration of the following:

- ▶ When to make the decision - IFRS do not specify that the decision to change an accounting policy is made at the beginning of the financial year. Rather it may be made any time during the year. The change is then accounted for from the beginning of that year. The revised IFRS 3 is no different in that context, but practical problems can arise if the decision to early adopt is made some time after the beginning of the financial year and an acquisition has already occurred, as illustrated in Example 2 below.
- ▶ The need to adopt the changes in all related standards - If an entity wishes to adopt either IFRS 3R or IAS 27R early, it must also early adopt several other related standards that were also revised, as noted in Box 1. The consequences of these revisions must be evaluated. And as we note below, this may not be as straightforward as it appears, particularly with respect to the transition requirements.

## Example 2 - early adoption of the new requirements

Entity A has a financial year beginning on 1 January 2009. On 1 March 2009, it gains control of entity B and, in preparing its interim financial statements for 30 June 2009, applies the existing IFRS 3. On 1 November 2009, entity A gains control of entity C, and decides to early-adopt the revised accounting for business combinations.

IFRS 3R is to be applied to acquisitions on or after the beginning of the financial year. Therefore, entity A will need to restate its accounting for entity B in accordance with the new requirements. This may mean obtaining fair values for some items that were not originally contemplated, for example, contingent consideration, re-acquired rights, and embedded derivatives. The longer the period between the acquisition and the decision to early adopt the revised standard, the more difficult it will be to obtain such values.

## Transition issues

When the transition requirements are linked to transactions, there will inevitably be some matters that cause concern. One such concern relates to transaction costs that may arise prior to the transition. IFRS 3R requires that directly attributable transaction costs - such as transaction fees, due diligence, consulting services - are to be recognised as expenses in the period they are incurred and the services are received. Currently, such costs are included in the cost of the investment and are effectively included in the goodwill recognised. Currently, if the costs are incurred in a period prior to a business combination, and the business combination is probable, we believe such costs should be recognised as an asset.

As a result of the change in IFRS 3R, the question arises as to whether an entity, in its final year of applying IFRS 3, can carry forward such directly attributable costs at the balance sheet date. We believe entities have a choice either to expense the costs or carry these forward as an asset. If management chooses to carry forward the costs as an asset, there are a number of acceptable policies that management can adopt in the year of adopting IFRS 3R, as noted in Table 1.

**Table 1: Alternative policies for deferred transaction costs on initial adoption of IFRS 3R**

Alternative 1	Alternative 2	Alternative 3
Expense deferred transaction costs in income in the year of adoption.	Adjust deferred transaction costs against opening retained earnings in the year of adoption.	Expense deferred transaction costs in the year incurred, thereby restating the comparative period.



A second issue arises due to the consequential amendments to related standards. The amendments to IAS 27R, in contrast to IFRS 3R, generally apply retrospectively. However, some specific changes are prospective - namely:

- ▶ Allocation of profit or loss to non controlling interests (NCI)
- ▶ Accounting for changes in ownership interest
- ▶ Accounting for loss of control of a subsidiary. However, the related standards that were amended at the same time (noted in Box 1) do not always include specific transitional requirements (except IAS 12 *Income taxes*).

This would normally mean that the general requirements for accounting for a change in accounting policy would apply - that is, the changes are accounted for retrospectively. Retrospective application would mean, for example, restating past transactions that resulted in the loss of significant influence of an associate or the loss of joint control of a joint venture where an ownership interest was retained. Such an exercise would not only be time-consuming, but would also be inconsistent with IAS 27R and IFRS 3R and the reasons that the Board adopted prospective application of these changes.

#### Box 2 Accounting for changes in deferred tax benefits after an acquisition

In some cases, deferred tax benefits are acquired as part of the net assets of a business, but do not meet the criteria to be recognised at the date of acquisition. Subsequent to the acquisition, if events change, the benefits are utilised or recognised as the recognition criteria are met. IFRS 3R has changed the accounting for recognising these benefits after acquisition.

##### *Existing IFRS 3*

Recognises the deferred tax benefits in the income statement.

Reduces goodwill by a corresponding amount - although negative goodwill cannot be created.

##### *Revised IFRS 3*

Recognises the deferred tax benefits in the income statement.

We do not believe that the IASB intended such transactions to be restated, given the transition requirements of IAS 27R. We have brought this to the attention of the IASB and anticipate that the transitional requirements in all of the related standards will be revised before the amendments become effective.

#### Conclusion

Many entities are just finalising their financial reporting for 2008, and the furthest thing from their minds is preparing for new standards. That said, management should begin to consider the impact of the new business combinations standard and the related amendments to other standards for their businesses now. In particular, the consequences for transition will affect what many companies do during 2009.

# Financial reporting developments

The IASB (the Board) met in London on 17-20 February 2009. The table below summarises the main issues discussed by the Board. In the following pages, you will find more detailed information and insights about the shaded items in the table.

Projects	Key discussion points	Status
<b>Derecognition of financial instruments</b>	Continued discussing the two approaches to derecognition and tentatively decided to propose Approach 2 in the ED, but to include a detailed description of Approach 1 as an alternative view.	ED expected in March/April 2009
<b>Financial instruments: embedded derivatives</b>	Tentatively decided that when a hybrid (combined) financial asset is reclassified out of the fair value through profit or loss category, the entity is required to assess whether an embedded derivative is to be separately recognised. If this assessment cannot be performed, or the embedded derivative cannot be separately measured, the entire hybrid (combined) financial instrument must remain in the fair value through profit or loss category.  The standard will take effect for annual periods ending on or after 30 June 2009.	Final standard expected in H1 2009
<b>Fair value measurement</b>	Tentative decisions were made about the fair value of liabilities, day one gains or losses and financial liabilities with a demand feature.	ED expected in early Q2 2009
<b>IFRS for non-publicly accountable entities (NPAEs)</b>	Tentative decisions were made about defined benefit pension accounting for NPAEs. At its meeting in March 2009, the Board will consider whether there is a need for re-exposure of the ED on IFRS for NPAEs before issuing a standard. Refer to page 2 of this publication for a discussion on the proposed standard.	IFRS expected in Q2 2009
<b>Insurance contracts</b>	Tentatively decided on the key features to apply when measuring insurance contracts and measurement of the margin at the inception of a contract.	ED expected in H2 2009
<b>Post-employment benefits</b>	Tentatively decided that, when segregating the changes in defined benefit obligations and in plan assets into the re-measurement component and other changes, the re-measurement component should: <ul style="list-style-type: none"> <li>▶ Exclude service cost and interest cost</li> <li>▶ Include the total return on plan assets and actuarial gains and losses on the defined benefit obligation.</li> </ul>	ED expected in H2 2009



Projects	Key discussion points	Status
<b>Rate-regulated activities</b>	Tentatively decided the scope of the project. The Board will consider the recognition, measurement and disclosure of rate regulated assets at a future meeting.	ED expected in Q2 2009
<b>Annual improvements 2008</b>	Tentatively decided on the extent of disclosure of segment information, timing of recognition of gains and losses arising on cash flow hedges and the transition requirements for adoption of the amendments to IAS 17 <i>Leases</i> regarding classification of land leases.	Amendments expected in April 2009
<b>Annual improvements 2009</b>	Tentatively decided to amend paragraph 106 of IAS 1 <i>Presentation of Financial Statements</i> to clarify that the reconciliation of each item of accumulated other comprehensive income may be either presented in the statement of changes in equity or disclosed in the notes.	ED expected in August 2009

ED = Exposure Draft, DP = Discussion Paper, Q2 2009 = Second quarter of 2009, H1 = First half of 2009, H2 2009 = Second half of 2009.

### Derecognition

The following tentative decisions were made about Approach 2:

- ▶ The proposed standard would be applied prospectively to new transactions occurring after its effective date. If financial assets were previously derecognised, but would not be under the proposed standard, the entity would disclose the nature of, and risks associated with, the entity's continuing involvement with those derecognised assets. However, if financial assets are still recognised, but would have to be derecognised under the proposed requirements, the entity would disclose information about the relationship between the assets and the associated liabilities.
- ▶ To define the term 'transfers' broadly so that derecognition would be not be based on the form of the transaction, but rather on the cash flows or other economic benefits underlying the financial assets. Transfers include all forms of sale, assignment and provision of collateral, sacrifice, distribution and other exchange. Therefore, a transfer occurs 'when one party passes to or undertakes to pass to another party some or all of the cash flows or other economic benefits underlying its financial assets'.
- ▶ The determination of the asset transferred and continuing involvement in the asset is assessed at the level of the reporting entity.

# Financial reporting developments *continued*

- ▶ Any remaining proportionate interest in the financial asset recognised before the transfer, or investment in a transferee vehicle (i.e., a proportionate beneficial interest) acquired in connection with a transfer, would be treated as a retained part of the original asset. If the vehicle contains assets or liabilities in addition to the assets transferred by the transferor, the transferor's investment should be proportionately split between the retained part of the original and new assets or liabilities. This is a change from the decision the Board made at the January 2009 meeting.
- ▶ A proportionate part of an equity instrument qualifies as an asset to be assessed for derecognition. This is a change from the decision the Board made at the January 2009 meeting.
- ▶ The 'practical ability to transfer' test should be applied to the entity with which the transferor has agreements that result in the transferor's continuing involvement with the transferred asset. The 'practical ability to transfer' test considers if the transferee can transfer the asset for its own benefit. It is applied to determine if a transferor's continuing involvement in the transferred asset would preclude derecognition by placing restrictions on the transferee.

## **Fair value measurement**

### *Fair value of liabilities*

The Board tentatively decided that, in all cases, the fair value of a liability will equal the fair value of the counterparty's asset.

### *Day 1 gains or losses*

The Board withdrew its tentative decision, made in January 2009, that certain day one gains or losses would be recognised for financial instruments measured at fair value through profit and loss. Instead, if the transaction price does not represent fair value of a financial instrument at initial recognition<sup>1</sup>, the gain or loss will be deferred in a separate line in the balance sheet and the entity will continue to recognise this in profit or loss using the existing criteria in IAS 39 *Financial Instruments: Recognition and Measurement*. Consequently, there will continue to be a difference between US GAAP and IFRS in this instance.

### *Financial liabilities with a demand feature*

The Board tentatively decided to exclude from the scope of the ED a financial liability with a demand feature, such as a demand deposit. As a result, the fair value will continue to be no less than the discounted value of the amount payable on the first date that the amount could be required to be paid.

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<sup>1</sup> This would be the case only if the transaction is with a related party, or was transacted under duress, or there is a difference in the unit of account used to measure the instrument, or the instrument could be sold or transferred in a different market from that in which the transaction occurred.



### **Insurance contracts**

The Board tentatively decided that a measurement approach for insurance contracts should include the following features:

- ▶ Estimates of financial market variables based on observable market prices
- ▶ Explicit current estimates of the expected cash flows
- ▶ Time value of money
- ▶ An explicit margin

The Board did not reach a decision as to whether to base the measurement approach on either an exit notion or a fulfilment notion. The Board discussed four candidate approaches and asked the staff to further consider measurement approaches used in other existing and future standards such as revenue recognition. The Board also tentatively decided the margin at inception of an insurance contract should be measured by reference to the premium. Therefore, no day one gains should be recognised in profit or loss.

### **Rate regulated activities**

The Board tentatively decided that rate-regulated activities meeting the following criteria are within scope of the project:

- ▶ Binding customer rates are set by an authorised body; and
- ▶ Activities taking the form of cost-of-service regulation, i.e., where rates are designed to recover an entity's specific costs and to earn a specific return. It is not necessary for the minimum return to be fixed or guaranteed. It could be a minimum or a range.

### **Annual Improvements - 2008**

#### **IFRS 8 Operating Segments**

The Board decided to clarify in IFRS 8 that an entity should report a measure of total assets and liabilities for each reportable segment, if such amounts are regularly provided to the chief operating decision maker.

#### **IAS 39 Financial Instruments: Recognition and Measurement**

The Board decided to clarify in IAS 39 that, for cash flow hedges, gains and losses on hedging instruments should be reclassified from equity to profit or loss as a reclassification adjustment in the same period (s) that the hedged forecast cash flow affects profit or loss.

#### **IAS 17 Leases**

The Board tentatively decided that, when adopting the amendment which removes the specific guidance on classifying land as a lease so that only the general classification guidance remains, an assessment of whether unexpired land leases were operating or finance leases would be made based on conditions at the inception of the lease. Land leases that are now finance leases would be recognised at fair value at the date of their inception.

The Board also tentatively decided not to require retrospective application when information at inception of the lease was not available. In such cases, the classification of unexpired land leases would be determined at the date of adoption. If the lease is classified as a finance lease, it will also be recognised at fair value at that date.

# Resources

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

This publication explores the potential implications 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.

## **Insurance alert**

This is the first issue of a new insurance accounting alert which will track the progress of the IASB's Insurance Contracts Project during 2009. This issue contains a summary of the IASB's Agenda Papers for its meeting on 18 February 2009 and alerts clients to key issues and potential risks.

## **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, 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 IFRS 3R *Business Combinations*.

This survey was carried out by our global Valuation & Business Modelling network.

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

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

## **Supplement to IFRS outlook**

### **Issue 31: Amendments to IFRS 7**

The IASB has now issued amendments to IFRS 7 that are intended to enhance the disclosures for fair value measurement and liquidity risk. Entities will be required to use a 3-level disclosure hierarchy for financial instruments recorded at fair value, including a reconciliation of instruments in level 3. This may present a challenge as the disclosures must be given by class of financial instrument. In addition, the amendments also revise the specified minimum liquidity risk disclosures i.e., the contractual maturity analysis of financial liabilities for derivative liabilities and financial guarantee contracts. Businesses will need to carefully consider whether they need to modify their management information systems and internal controls to capture both the quantitative and qualitative disclosures required by the amendments.

## **Archived webcast**

### **Proposed changes to revenue recognition requirements**

The IASB and FASB joint Discussion Paper (19 December 2008) proposes a new model for the recognition of revenue, thereby changing the landscape for both IFRS and US GAAP. Revenue is a significant item for all reporting companies and any changes to the revenue recognition model may have a fundamental impact on a company's results. The Discussion Paper proposes a shift from an income-statement approach to that of a balance-sheet driven model for revenue recognition. It also proposes a change in the recognition of revenue from a risks-and-rewards basis to a model based on the transfer of control to the customer that is likely to have a significant impact on transactions that contain multiple elements and contracts where revenue is recognised on the percentage completion methodology.

In this webcast, we discussed the new proposed model for revenue recognition. In particular, we explored: the project's scope, performance obligations within a customer contract; satisfying performance obligations and, hence, the timing of revenue recognition; measuring performance obligations within a contract; and issues around the practical application of the model.



## Coming soon

### **IFRS 2 *Share-based payment* - the essential guide (updated March 2009)**

This updated guide gives an overview of IFRS 2 and the related interpretations of IFRIC 8 *Scope of IFRS 2* and IFRIC 11 *IFRS 2 – Group Treasury Share Transactions*. It also encompasses the recent amendments to the standard in respect of vesting conditions and cancellations that became effective on 1 January 2009.

### **Good Bank (International) Limited**

This publication contains the consolidated financial statements for a fictitious banking entity, Good Bank (International) Limited, and its subsidiaries, for the year ended 31 December 2008, based on IFRS in issue at 28 February 2009. The financial statements are cross-referenced to the source literature and include explanatory notes.

### **IFRS webcast series**

#### **Consolidations and the effect of the new business combinations standard**

**31 March 2009 [9am London Central European Time, 5pm Hong Kong, 8pm Sydney]**

A webcast for companies currently using IFRS.

When the IASB amended the accounting for a business combination, it also revised how a parent of a group of companies accounts for certain transactions involving its subsidiaries in IAS 27. 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 to amend their 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 the implications with our panel of specialists. We will also discuss the proposed changes and their expected impact with the panel.

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