

IFRS outlook

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Status of IFRS in the United States

Based on comments made by SEC Chairman, Mary L. Schapiro, many anticipated the SEC would clarify its plans for IFRS at the December AICPA National Conference on Current SEC and PCAOB Developments. Learn what was said about the SEC's plans for IFRS at this conference.

Status update – revenue recognition project

In December 2008, the International Accounting Standards Board and the US Financial Accounting Standards Board issued a Discussion Paper *Preliminary Views on Revenue Recognition in Contracts with Customers*. During 2009, the Boards considered feedback received on the Discussion Paper and made tentative decisions on several issues not addressed in the Discussion Paper. This article discusses the tentative decisions made during 2009.

Financial reporting developments

Find out more about the IASB's discussions that could significantly impact your business: including tentative decisions on derecognition, financial statement presentation and leases.

Resources

Look here for an up-to-date list of our recent publications, including: our illustrative financial statements *Good Real Estate Group (International) Limited*, *Good Investment Fund Limited (Equity instruments)* and *Good Investment Fund Limited (Financial liabilities)* and *Impairment in turbulent times: managing stakeholders' expectations*. Also, register for our webcast *Reporting on climate change initiatives under IFRS* on Tuesday 19 January 2010, to learn how climate change initiatives may impact your financial reporting.

We welcome your feedback on *IFRS outlook*. Please contact us at ifrs@uk.ey.com. The next issue will be published in February 2010.

Ruth Picker
Global Leader of IFRS Services

Status of IFRS in the United States



The last quarter of 2009 was marked by considerable speculation and uncertainty regarding the position the Securities and Exchange Commission (SEC) might take with respect to its proposed Roadmap for IFRS conversion. While the SEC made positive comments during the latter part of 2009 regarding the convergence efforts that were underway between the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB), it had remained fairly reticent earlier in the year with respect to progress on any conversion decisions. This led some to question whether the SEC was just too busy dealing with the US economic crisis to focus on its proposed Roadmap, or whether it had simply lost interest in conversion altogether.

Perhaps in part to address this uncertainty, beginning in September several SEC representatives, including the Chairman Mary L. Schapiro, commented that the SEC would address its expectations regarding its Roadmap before the end of 2009. For obvious reasons, the US was vitally interested in the SEC's intentions with respect to IFRS conversion, but so too were investors, companies and regulators throughout the world. Many believed that a positive intention on the SEC's part to adopt IFRS would signal a vital step toward realising a single set of global accounting standards, while a negative comment could indicate that – without the US – that goal would never be achieved. Still others were concerned that a neutral comment from the SEC would cause the rest of the world to

question the United States' true commitment to IFRS, thereby resulting in a diminished ability of the US to effectively influence the setting of the international standards. In other words, if the US was not willing to commit to IFRS, why should the rest of the world listen to its views?

In late September, the G-20 Leaders once again supported the goal of a single set of global accounting standards at their summit in Pittsburgh, signaling to some that IFRS would be adopted in the US. But at the same time, some business leaders in the US publicly challenged whether the benefit of international standards truly outweighed the significant costs of conversion. Amid this uncertainty, many US companies adopted a "wait and see" attitude toward IFRS, while others, believing that IFRS would ultimately be adopted in the US, continued to assess its potential impact.

Many anticipated that the SEC would clarify its plans for IFRS at the annual AICPA National Conference on Current SEC and PCAOB Developments held on 7-9 December. However, while SEC representatives at the Conference continued to support the concept of a global set of accounting standards, they indicated that the SEC was still closely evaluating the proposed Roadmap. Further, the SEC did not expect to issue a policy statement on the future of IFRS in the US until early 2010. Therefore, while IFRS still holds a prominent spot on the SEC's agenda, a certain degree of uncertainty remains—at least for the next several months.

Status update – revenue recognition project

Overview

On 19 December 2008, the FASB and the IASB (collectively, the Boards) issued a discussion paper entitled *Preliminary Views on Revenue Recognition in Contracts with Customers* (the Discussion Paper) relating to their ongoing joint revenue recognition project.

The Discussion Paper sought comment on the Boards' preliminary views on a single asset-and-liability-based revenue recognition model for all entities. Since the issuance of the Discussion Paper, the Boards have addressed certain aspects of the model not addressed in the Discussion Paper and have also redeliberated certain aspects of the proposed model.

This article provides an update on the decisions the Boards have made on the joint revenue recognition project. This article is based on the Boards' deliberations to date and our discussions with the FASB and IASB staffs to obtain a better understanding of those decisions. However, readers of this publication should note that the discussions within this publication do not represent final views of the Boards, as the elements of the joint revenue recognition project are subject to change on further deliberation by the Boards.

Summary of proposed model included in the Discussion Paper

As more fully discussed in our *Revenue recognition project: Preliminary IFRS views* publication, the proposed model would apply to contracts with customers. Contracts with customers may be either explicit or implicit arrangements. Contractual promises to transfer goods or services that are outputs of the entity's arrangements with customers are characterised as performance obligations.

When an entity becomes a party to a contract with a customer, the combination of the rights and the performance obligations in that contract gives rise to a net contract position. An entity's net contract position changes from either the entity's performance or the customer's performance. In the proposed model, revenue is recognised when an entity satisfies the performance obligations in

the contract by transferring a promised asset (which might be either a good or a service) to the customer. An entity has transferred a promised asset when the customer controls the asset. Performance by the customer (typically, payment of consideration to the entity) does not lead to revenue recognition.

Pursuant to the proposed model, performance obligations initially are measured at the transaction price – the consideration promised by the customer. If a contract comprises more than one performance obligation, an entity will allocate the transaction price to the performance obligations based on the relative standalone selling prices of the goods and services comprising the various performance obligations.

The standalone selling price of a promised good or service is the price at which the entity would sell that good or service if it was sold separately (i.e., not as part of a multiple-element arrangement). The best evidence of such a price is the price of a good or service when the entity actually sells it separately. However, if the entity never sells the good or service separately, the entity will estimate the standalone selling price based on other evidence.

As a performance obligation is satisfied, the amount of revenue recognised is the amount of the transaction price allocated to that performance obligation at contract inception (based on its relative standalone selling price). Consequently, the total amount of revenue that an entity recognises over the life of a contract as it satisfies performance obligations is equal to the transaction price.

After contract inception, the initial measurement of a performance obligation is not updated unless that performance obligation is deemed onerous. The Boards had tentatively concluded a performance obligation is onerous when an entity's expected cost of satisfying the performance obligation exceeds the initial measurement of the performance obligation. In such cases, the Boards had expressed a preliminary view that a performance obligation is remeasured to an amount equal to the entity's expected cost of satisfying the performance obligation.

Status update – revenue recognition project *continued*

Update of proposed model

During the past year, the Boards (both individually and jointly) have addressed a number of topics not addressed in the Discussion Paper and have redeliberated several aspects of the proposed model based on the feedback received. Those tentative decisions on the more significant aspects of the proposed revenue recognition model are described below.

Product warranties and rights of return

The Boards have reached tentative conclusions regarding the accounting for product warranties and rights of return that differ from those included in the proposed model.

Product warranties

The Discussion Paper had proposed that product warranties represent a performance obligation that should be accounted for similar to any other performance obligation. However, based on the feedback received from respondents, the Boards have tentatively concluded that not all warranties represent performance obligations. Instead, the Boards have determined that warranties should be evaluated based on the objective of the warranty, as follows:

- ▶ When the objective of the warranty is to correct defects that existed at the time the asset was transferred to the customer, the warranty should not be considered a separate performance obligation. Rather, the entity should treat assets transferred with defects as unsatisfied performance obligations and defer revenue recognition on those assets. The Boards tentatively concluded that an entity should estimate and recognise the expected amount of unsatisfied performance obligations at each reporting period.

- ▶ When the objective of the warranty is to provide the customer coverage for defects in the product that arise after the asset is transferred to the customer, the warranty is a separate performance obligation and should be identified and accounted for as such (e.g., part of the transaction consideration is allocated to the warranty performance obligation).

Rights of return

The Discussion Paper had discussed two possible methods of accounting for sales with rights of return: the performance obligation approach and the failed sale approach. However, because of mixed views among members of the Boards, the Discussion Paper did not include a preliminary view regarding which approach was more appropriate. Respondents also expressed mixed views regarding the two outlined approaches and raised concerns with both alternatives. Based on this feedback and their redeliberations, the Boards have tentatively concluded on a revised approach to accounting for sales with rights of return.

Under this approach, when an entity sells goods with a right of return, it should not recognise revenue for goods expected to be returned. Instead, the entity should recognise a refund liability based on the expected (probability-weighted average) amount of refunds. However, all of the goods sold should be relieved from inventory as they have been transferred to the customer. Instead, the entity should recognise an asset (and corresponding adjustment to cost of sales) to reflect its right to recover the asset from the customer. This asset would initially be measured at the original cost of the item sold. For example, if an entity sells 100 units with a right of return and expects that 2% of those units will be returned, it should recognize revenue for 98% of the units and a refund liability for 2% of the units. However, all 100 of the units should be released from inventory. Finally, the entity should recognise an asset for the 2% of the units expected to be returned with a corresponding credit to cost of sales.



Effect of contract renewal and cancellation provisions

Many transactions include option(s) for the customer to renew or cancel the goods and services being provided. The Boards have tentatively concluded that an entity should account for any contract option (including one to renew or cancel the goods or services being provided) - that is, the entity cannot choose to ignore the option for accounting purposes if that option provides a "material right" to the customer that would not otherwise be available to a customer.

The Boards declined to prescribe how the estimated standalone selling price of an option should be estimated, consistent with the Boards' decision not to prescribe how the value of other performance obligations should be estimated. The staffs acknowledge that in some cases the standalone selling price of an option may be observable, although we believe this would be uncommon. In most cases, the standalone selling price of an option will have to be estimated, taking into consideration the discount that the customer will receive upon exercising the option, the discount the customer may have received without the option and the likelihood that the option would be exercised.

However, the Boards tentatively concluded that an entity could use the "look through" approach to account for an option in certain circumstances, rather than estimating the standalone selling price of the option. In order for an entity to use the "look through" approach, the option granted must include a right to receive additional goods and services that are similar in nature to the goods and services already being received in the contract and in accordance with the pricing and other conditions in the original contract. Under this approach, the entity would include in the original contract allocation both the expected rights and expected obligations resulting from the exercise of an option (using a probability-weighted approach). This would be an alternative to determining the stand-alone value of the option. As the rights and obligations are presented on a net basis in the proposed model, the Boards would expect that the look-through approach would yield a similar result to an approach that estimates the standalone value of the option.

Contracts in which an entity grants a licence to a customer

The Boards discussed the revenue recognition for contracts in which an entity grants a licence to a customer - that is, when has the performance obligation associated with the licence been fulfilled? The Boards tentatively concluded that exclusive licences should be accounted for differently than non-exclusive licences. An exclusive licence generally can be used only by a single entity, similar to a lease of a tangible product. This similarity led the Boards to tentatively conclude that exclusive licences should be accounted for in a manner similar to a lease - that is, revenue would be recognised on a pro rata basis over the licence term as the performance obligation (providing exclusive access to the licenced intellectual property) is fulfilled. The only proposed exception to this approach would involve transactions in which the customer obtains full control of the licenced intellectual property as such transactions would be treated as a sale, rather than a licence, of the intellectual property.

Conversely, non-exclusive licences can be used by a large number of customers during the concurrent licensing periods. This difference has led the Boards to tentatively conclude that the underlying performance obligation in such an arrangement is fundamentally different from the performance obligation in an exclusive licence. While the performance obligation for an exclusive licence involves an ongoing component (i.e., the obligation to provide exclusive access to the intellectual property, or said another way, to not licence the intellectual property to other parties), the performance obligation for a non-exclusive licence is fulfilled once the customer is granted access to the intellectual property. As a result, the Boards have tentatively concluded that transaction consideration allocated to that performance obligation can be recognised once the customer is able to use and benefit from the licence (generally upon delivery). However, the staff also acknowledged that there may be situations in which it is more appropriate to recognise revenue for a non-exclusive licence over time (e.g., because it can't be separated from other performance obligations in the contract or the arrangement contains uncertain transaction consideration that cannot be reliably estimated).

Status update – revenue recognition project *continued*

Measurement of rights

The Discussion Paper indicated that total revenue in a contract is the total amount of consideration received (or to be received) from the customer. During the Boards' redeliberations the Boards tentatively concluded that this amount should take into consideration the following factors:

- ▶ **The time value of money** - if the payment is received from the customer significantly before or after the point in which the entity satisfies the performance obligations, the entity must take into consideration the time value of money. The Boards tentatively concluded that the entity should use a discount rate consistent with the rate that would have used in a financing transaction between the entity and its customer (i.e., a financing transaction that does not involve the provision or receipt of goods or services).
- ▶ **Uncertain or contingent consideration** - when an arrangement includes uncertain or contingent consideration and the entity can make a reliable estimate of that consideration, the entity should include in the total transaction amount the amount of expected uncertain consideration. This expected amount should be based on a probability-weighted average of the different amounts that may be received. Further, as additional information becomes available, the entity would continue to update its estimate of total expected consideration, allocating those changes to all performance obligations. To the extent that performance obligations have already been satisfied, any changes in allocated consideration (positive or negative) would be recognised in revenue in the period in which they occur.
- ▶ **Customer credit risk** - The Boards reached a tentative conclusion that the total amount of contract consideration recognised should reflect the credit risk of the customer. Under this approach, to the extent that an entity believes amounts may not be collectible as of the date of sale, such amounts should not

be included in the amount of arrangement consideration allocated to the performance obligations. As changes in estimates regarding collectability occur, those changes should be allocated to all performance obligations. To the extent that performance obligations have already been satisfied, any changes regarding collectability of allocated consideration would be recognised in the income statement (i.e., bad debt expense) in the period in which they occur.

Allocation and recognition of transaction consideration

As discussed above, the model proposed in the Discussion Paper requires the transaction consideration to be allocated to each identified performance obligation, with revenue recognised as the entity fulfills those performance obligation. However, many respondents to the Discussion Paper expressed concerns regarding whether this model was operational for a number of reasons, particularly for contracts that contain a large number of performance obligations. As a result of the concerns raised, the Boards redeliberated the requirement to allocate transaction consideration to the identified performance obligations and made a tentative decision to change this proposed approach to require the transaction consideration to be allocated to the identified "segments of a contract," rather than to each identified performance obligation.

The revisions to the proposed model would still require an entity to identify the performance obligations within an arrangement. However, the entity would then aggregate those performance obligations into "segments" for purposes of allocating transaction consideration. It appears that the Boards would consider a segment of a contract to be a portion of a contract that "could be sold separately." As a result, a segment could comprise of a single performance obligation or a number of performance obligations.



In determining whether segments of a contract could be sold separately, entities will need to exercise judgment and likely will have to consider materiality, the timing of the transfer of goods and services to the customer and the margins on those goods and services, in addition to whether evidence of a market exists. For example, it would not be necessary to segment a contract for individually immaterial items, nor would it be necessary to segment a contract when such segmentation would not materially affect the timing and amount of revenue recognised. Additionally, it would not be necessary to segment a contract for goods and services delivered at the same time. However, segmenting a contract might be necessary for goods and services with different margins.

When there is no evidence of a market for some or all of the performance obligations (and the entity concludes they could not be sold separately), those performance obligations will have to be bundled with other segments of the contract for which there is evidence of a market (or the entity concludes they could be sold separately). In some circumstances an entity may not be able to segment a contract. For example, if an entity promises to provide a licence and services related to the licence, and the licence could not be sold without the related services, those two performance obligations would be accounted for on a combined basis.

However, while contract segments will be used to allocate transaction consideration, revenue recognition is still based on the satisfaction of the performance obligations, not the satisfaction of the contract segment. Therefore, once an entity has identified the segments in a contract and allocated transaction consideration to those segments, the revenue recognition would focus on the satisfaction of the performance obligations within the segment. For many segments, it may be relatively straightforward to determine the best measurement of performance for a segment, such as when all of the performance obligations are satisfied at the same time.

However, when a segment comprises more than one performance obligation, and those performance obligations are satisfied at different times or continuously, this determination could be more difficult.

Acknowledging that difficulty, the Boards tentatively concluded that management should exercise judgment and select from various methods of measuring goods and services transferred (e.g., units of output, units of input, passage of time) as long as the selected method is applied consistently throughout the contract and to segments in other contracts with similar characteristics. The method selected should be the one that best depicts the transfer of goods and services to the customer (such that the customer has obtained control of the goods or service – see the next section for a further discussion on this point). Additionally, only one method would be applied to each segment, based on the characteristics of the predominant deliverable within that segment.

Determination of transfer of control

The Discussion Paper proposed that performance obligations were satisfied when the good or service had been transferred to the customer such that the customer had obtained control of that good or service. Many respondents to the Discussion Paper asked the Boards to clarify what constituted control of a good or service and how an entity would determine when control is transferred to the customer. While concerns were raised by a number of the respondents, this issue was of particular concern to respondents with contracts currently accounted for under the long-term construction and production-type contracts guidance in IAS 11 *Construction Contracts*.

Status update – revenue recognition project *continued*

The Boards defined control of a good or service as an entity's "present ability to direct the use of and receive the benefit from that good or service," and that this assessment should be from the customer's perspective. Additionally, the Boards tentatively concluded that the following were indicators of when an entity has transferred control of a good or service to a customer:

1. The customer has the unconditional obligation to pay for the asset (and payment is non-refundable).
2. The customer specifies the design or function of the asset.
3. The customer has continuing managerial involvement with the asset.
4. The customer has legal title to the asset.
5. The customer can sell the asset to (or exchange the asset with) another party.
6. The customer has physical possession of the asset.
7. The customer has the practical ability to take possession of the asset.
8. The customer can secure or settle debt with the asset.

In proposing these indicators, the staff acknowledged that it can be difficult for an entity to determine the relative importance of each indicator, but did not propose weighting certain indicators more heavily than others. Additionally, the staff acknowledged that the application of the above indicators may seem more intuitive for the transfer of a good than a service, indicating that some of the proposed indicators are not as relevant for services. In such situations, the remaining indicators, by default, become more important, especially the first three indicators in the list above.

The inclusion of these indicators in the proposed model are meant to address the concerns raised by respondents that it would be very difficult, if not impossible, to recognise revenue continuously (versus at the completion of the contract) for long-term arrangements in which a tangible product is delivered at the end of the arrangement. These indicators are intended to clarify that the transfer of control may happen continuously over the course of an arrangement, depending on the facts and circumstances, even if the physical transfer of the goods does not occur until the end of the arrangement.

Measurement of onerous contracts

The Discussion Paper proposed that after contract inception, a contract should only be remeasured in situations in which it was determined to be onerous. Onerous was defined as a situation in which the entity's expected cost of satisfying a performance obligation exceeds the carrying amount of that performance obligation. Most respondents agreed that the proposed revenue recognition model should include an onerous test, and the Boards reaffirmed this decision.

The Boards reached tentative conclusions that the onerous test should be performed at the contract segment level. The Boards noted that it may be impracticable to perform this test at the performance obligation level and that applying the test at the segment level seemed more consistent with other aspects of the proposed revenue recognition model than the contract level.



In determining what costs should be included in the onerous assessment, the Boards tentatively concluded that only direct or incremental costs (as compared to a full-cost model) should be included in the assessment. This approach would require an entity to consider only those costs that would not have been incurred absent that specific contract in determining whether the cost of satisfying the contract segment exceeds the carrying amount of the performance obligation for that contract segment. This approach prevents an entity from accelerating the recognition of expenses for costs that the entity would have incurred regardless of the contract (as could happen under a full-cost approach). Any expected contract segment loss would be recognised as a liability (with a corresponding contract loss recognised in the income statement) as of the date of measurement.

Finally, while the overall proposed revenue recognition model does not require the remeasurement of a contract after inception unless it is deemed onerous, once a contract is deemed onerous the Boards tentatively concluded that the liability for the onerous segment should be remeasured at each financial statement date. Under this approach, any changes in the expected incremental and direct costs for the contract segment would be recognised in the period of the change.

Capitalisation of costs

The Discussion Paper indicated that costs associated with revenue transactions would be expensed as incurred unless they were eligible for capitalisation under other existing guidance. While many respondents to the Discussion Paper raised concerns with this approach, the Boards ultimately re-affirmed their preliminary views.

Next Steps

The Boards have made some significant decisions on the proposed revenue recognition model over the past twelve months, and we encourage entities to consider carefully how the proposed model may affect their particular facts and circumstances and provide the Boards with feedback on the decisions made when an Exposure Draft is issued. The Boards have indicated their intention to issue an exposure draft of a revenue recognition standard by the end of the second quarter of 2010.

Financial reporting developments

During December, the IASB (the Board) met in London from 15 to 18 December 2009. The meetings on 16 and 17 December 2009 were joint meetings of the IASB and the FASB (the Boards). The table below summarises the main issues discussed at these meetings. 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	The Board continued to discuss comments received on the <i>Derecognition</i> exposure draft and made a number of tentative decisions.	IFRS expected H2 2010
Discontinued operations	<p>In a joint session with the FASB, the Boards discussed the definition of a discontinued operation and tentatively decided that a discontinued operation is a component that has been disposed of, or is classified as held for sale, and:</p> <ul style="list-style-type: none"> ▶ Represents a separate major line of business or geographical area, and ▶ Is part of a single co-ordinated plan to dispose of it, or ▶ Is a business that meets the criteria to be held for sale on acquisition <p>The Boards also discussed some disclosure requirements for discontinued operations and decided that the proposals will be re-exposed.</p>	IFRS expected Q1 2010
Emissions trading schemes	<p>The Board discussed trading schemes that are split into annual compliance periods, where entities receive allowances at the beginning of each year and surrender allowances at the end of each year. Two views were presented regarding when an entity controls a resource related to future instalments:</p> <ul style="list-style-type: none"> ▶ View 1 - the entity does not control the resource until contingencies are resolved ▶ View 2 - the entity controls the resource when it holds a right that will result in receiving allowances if the entity continues to make emissions <p>The Board will continue to discuss the model for emissions trading schemes in 2010</p>	ED expected Q2 2010
Fair value measurement	The IASB and the FASB agreed to work on eliminating the differences between the fair value measurement ED and US GAAP by September 2010.	IFRS expected Q3 2010
Financial instruments with characteristics of equity	<p>The Board made the following tentative decisions:</p> <ul style="list-style-type: none"> ▶ The reporting for instruments currently accounted for under IFRS 2 <i>Share-based Payment</i> will not be changed ▶ Physically settled forward purchase contracts will be reported in the statement of financial position as offsetting debit and credit instruments. The debit will be an offset to equity and the credit will be a liability for the discounted total future payment of a cash-settled debt instrument with similar maturity ▶ The Board will continue to consider which types of share-settled instruments will be classified as equity 	ED expected Q2 2010
Financial statement presentation	The Boards considered a number of issues and made a number of tentative decisions regarding this project.	ED expected Q2 2010



Projects	Key discussion points	Status
Insurance contracts	<p>The Boards discussed the measurement approach and tentatively decided it should portray a current assessment of the obligation based on:</p> <ul style="list-style-type: none"> ▶ The probability weighted average cash flows expected to arise ▶ The time value of money ▶ A risk adjustment for the effect of uncertainty about the cash flows ▶ An amount that eliminates any gain at inception of the contract <p>The Boards asked the staff to consider what factors the insurer should take into account in determining the risk adjustment.</p>	ED expected Q2 2010
Joint ventures	<p>The Board discussed an inconsistency between SIC 13 <i>Jointly Controlled Entities - Non-Monetary Contributions by Venturers</i> and IAS 27 <i>Consolidated and Separate Financial Statements</i> regarding accounting for gains and losses from contributions of non-monetary assets to jointly controlled entities. The Board tentatively decided to deal with the inconsistency outside the joint ventures project, and to incorporate the requirements of SIC 13 relating to the equity method as a consequential amendment to IAS 28 <i>Investments in Associates</i>.</p> <p>The Board also tentatively decided to:</p> <ul style="list-style-type: none"> ▶ Incorporate the requirement for the transaction to have commercial substance for recognition of gains and losses on contributions of non-monetary assets ▶ Require full recognition of losses when the contribution provides evidence of a reduction in the recoverable amount of the asset 	IFRS expected Q1 2010
Leases	<p>The Boards made tentative decisions on accounting for contingent rentals and the scope of the new requirements.</p>	ED expected Q2 2010
Post-employment benefits	<p>The Board discussed two aspects of the definition of the remeasurement component of the change in a net defined benefit asset or liability and tentatively decided that the remeasurement component:</p> <ul style="list-style-type: none"> ▶ Includes changes in the estimate of service costs ▶ Excludes net interest income or expense 	ED expected Q1 2010
Revenue recognition	<p>The Boards discussed warranty and product liability, rights of return and estimates of uncertain consideration. These decisions have been discussed in the article on page 3.</p>	ED expected Q2 2010
Effective dates	<p>The Board decided that, in order to allow preparers time to plan for the adoption of new IFRS requirements, where possible:</p> <ul style="list-style-type: none"> ▶ New requirements would be effective for annual periods beginning on or after a specified date ▶ The effective date for major projects completed in 2010 should not be earlier than 1 January 2012 and for those completed in 2011 should not be earlier than 1 January 2013 	

ED = Exposure Draft, Q1 2010 = First quarter of 2010, Q2 2010 = Second quarter of 2010, Q3 2010 = Third quarter of 2010, H2 2010 = Second half of 2010.

Financial reporting developments *continued*

Derecognition

The Board discussed responses to the ED received from respondents and made the following tentative decisions.

Extinguishments

A financial liability is extinguished and should be derecognised when the contract is substantially modified. The contract is substantially modified if the timing, amounts or uncertainty of cash flows are substantially different from those under the original contract; or there is a change in the nature of the debtor's obligation or the nature of the investment that the contract represents, for example, a change in the currency in which the principal is denominated or the addition of prepayment or cross collateralisation provisions.

Accounting treatment

Extinguishments, modifications and partial extinguishments should be treated in accordance with the current guidance for those transactions under IAS 39 *Financial Instruments: Recognition and Measurement*. The assessment as to whether a contract has been substantially modified should be made on a contract by contract basis and not for part of a financial liability.

Debt for equity swaps

The decisions reached in IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* will be incorporated into the ED with one clarification. Where there is a difference between the fair value of the liability extinguished and the fair value of the equity issued, the difference will adjust the gain or loss recognised to the extent that it qualifies as an asset or liability.

Symmetry between debtor and creditor

The Board agreed that the accounting by borrowers and lenders should be the same when a contract has been substantially modified.

Financial statement presentation

The Boards discussed a number of proposals and made the following tentative decisions.

Cohesiveness principle

The Boards agreed that cohesiveness should be a core presentation principle and therefore decided:

- ▶ The principle should be applied at the category level in the statement of financial position, statement of comprehensive income and statement of cash flows
- ▶ An entity will generally classify items in the financial statements by reference to how the related assets and liabilities are classified in the statement of financial position
- ▶ An additional category labelled 'financing arising from operating activities' will be added to the business section of the statement of financial position and statement of cash flows. The definition of that category will be discussed at a future date, but may include long-term liabilities relating to operating activities such as a net pension liability.



Presentation in the statement of financial position

The IASB proposed to include in the exposure draft the minimum line items currently required in the statement of financial position by IAS 1 *Presentation of Financial Statements*. The FASB's exposure draft will not include minimum line items.

Presentation of remeasurements

The IASB decided that remeasurement information will be presented in the notes to the financial statements. However, the FASB's exposure draft will propose a two column approach in the statement of comprehensive income, with the columns labelled total comprehensive income and remeasurements.

Presentation of basket transactions

The Boards tentatively decided to require presentation of basket transactions (a single acquisition or disposal where assets and liabilities are recognised or derecognised in more than one category) in a distinct section of the statement of comprehensive income and statement of cash flows.

Leases

Contingent rentals

The Boards tentatively decided that:

- ▶ The obligation recognised by the lessee (and the receivable recognised by the lessor) should include contingent rentals
- ▶ The lessor would only recognise the receivable if the amount could be measured reliably

- ▶ The amount would be measured using an expected outcome technique
- ▶ Contingent rentals based on an index would be measured using readily available forward rates
- ▶ The carrying amount would be reviewed each reporting date if facts indicated a material change in the amount.

The Board also tentatively decided that residual value guarantees should be accounted for in the same way as contingent rentals.

Scope

The Boards tentatively decided to exclude leases relating to intangible assets, exploration or use of natural resources and biological assets. However, there will be no scope exclusion for leases of non-core assets.

New documents issued

Project	Comment period
ED <i>Measurement of Liabilities in IAS 37</i>	Open for comment until 12 April 2010

Resources

Negotiation series: Contingent consideration

The third issue in our *Negotiation series* considers the impact of the changes to accounting for contingent consideration arising in a business combination and the business implications.

Impairment in turbulent times: managing stakeholders' expectations

This publication is based on research and explores the views of analysts, investors and lenders in financial institutions around the world on impairment disclosures in financial statements. In particular, the study provides details on the information that companies look for and how they use it. An impairment strategy should be part of a company's overall capital agenda. It can help to test and report impairments and provides the greater transparency required by shareholders to make investment decisions.

Asset management – IFRS insight: classifying investments in investment funds in the three-level fair value hierarchy

The International Accounting Standards Board finalised its amendments to IFRS 7 *Financial Instruments: Disclosures* in March 2009. These amendments introduce a three-level fair value hierarchy in the required disclosures. For investments in investment funds, classification in the three-level hierarchy can be particularly difficult and requires considerable judgment. This article provides practical guidance to preparers on how to classify fund investments measured at fair value within the new hierarchy.

Good Real Estate Group (International) Limited 31 December 2009

This publication contains the consolidated financial statements of a fictitious group of real estate company, Good Real Estate Group (International) Limited, for the year ending 31 December 2009 based on IFRS in issue at 30 September 2009. The financial statements are cross-referenced to the source literature and include explanatory notes.

Good Investment Fund Limited (Equity instruments) 31 December 2009

This publication contains the consolidated financial statements of a fictitious fund, Good Investment Fund Limited, whose puttable shares are classed as equity instruments for the year ending 31 December 2009 based on IFRS in issue at 30 September 2009. The financial statements are cross-referenced to the source literature and include explanatory notes.

Good Investment Fund Limited (Financial liabilities) 31 December 2009

This publication contains the consolidated financial statements of a fictitious company, Good Investment Fund Limited, whose puttable shares are classed as financial liabilities for the year ending 31 December 2009 based on IFRS in issue at 30 September 2009.

Archived webcast

Replacement of IAS 39 *Financial Instruments: Recognition and Measurement*

In response to calls from stakeholders, including the G20, the IASB accelerated its project to replace IAS 39.

In this webcast, Patricia McConnell, IASB, and a panel of experienced Ernst & Young professionals discussed the key changes arising from the IAS 39 replacement project and their implications for companies. They also considered the classification and measurement standard, which is available for early adoption for financial years ending 2009. The webcast is aimed at CFOs, finance directors, audit committee members and controllers from financial and non-financial institutions who take a proactive approach to addressing the impact of new IFRS standards and pronouncements.

To listen this webcast go to ey.com/ifrs and follow the links.



Coming soon

IFRS webcast series

Reporting on climate change initiatives under IFRS - Tuesday 19 January 2010

We are offering this global webcast twice in 24 hours.

Live broadcast: 9:00-10:00 London, 10:00-11:00 Paris, 20:00-21:00 Sydney

Replay: 17:00-18:00 London, 12:00-13:00 New York, 09:00-10:00 Los Angeles

Climate change initiatives have been introduced around the world, and can have a significant impact on businesses. They also pose a challenge for financial reporting in the absence of a comprehensive accounting standard. This has led to the emergence of a range of accounting practices and voluntary disclosure guidelines that are used by many countries. These challenges have received a new focus despite the lack of a legally binding agreement to reduce greenhouse gas emissions following the discussions in December at the United Nations Climate Change Conference in Copenhagen.

Join us as we consider the outcome of the Copenhagen meeting and the potential impact of steps such as the introduction of an emissions verification system and the fact that individual countries can set their own greenhouse gas emission reduction goals for 2020 – for individual businesses, their financial performance, and the emerging reporting issues to be addressed. We will also look at the status of the joint project of the International Accounting Standards Board and the US Financial Accounting Standards Board (including stumbling blocks) and ask if it addresses the key issues, as well how some of the voluntary reporting schemes could influence the IASB's thinking.

To register to listen to this webcast, go to ey.com/ifrs and follow the links.

IFRS for SMEs comparison with IFRS

This publication compares the IFRS for Small and Medium-sized Entities standard, on a section-by-section basis, to full IFRS. Where differences exist, the impact of these differences on financial statements will also be discussed.

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