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Improving disclosures in financial reporting – an analyst's perspective

With the spotlight on financial statement disclosures as a result of the financial crisis, we speak to Peter Elwin, Head of Accounting and Valuation Research at J.P. Morgan Cazenove, about his views on how companies can improve disclosures under the current accounting standards. Find out, from an analyst's perspective, the areas of focus in the financial statements and the areas where management can enhance disclosures for the investing community.

IFRS adoption update

As more countries permit, require or base their local accounting standards on IFRS, we review the current status of adoption of IFRS in key markets around the world.

Financial reporting developments

Find out more about the IASB's and IFRIC's tentative decisions that could significantly impact your business – in particular in the areas of fair value measurement, insurance contracts, consolidation, financial statement presentation, leases and annual improvements.

Resources

Look here for an up-to-date list of our recent publications, including the *IFRS for real estate: current issues and financial statements survey* which provides the findings from our survey of financial statements and analysis of key financial reporting issues of real estate investors reporting under IFRS.

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

Ruth Picker
Global Leader of IFRS Services

Improving disclosures in financial reporting – an analyst’s perspective



Peter Elwin, Head of Accounting and Valuation Research at J.P. Morgan Cazenove

The financial crisis turned the spotlight on accounting standards and the role of the International Accounting Standards Board (IASB). Much of the scrutiny is focused on how the IASB should change accounting standards to provide more decision-useful information to investors. However, perhaps too little attention has been paid to what management should disclose under current accounting standards to make their financial statements more informative for investors.

At our recent Financial Reporting Outlook conference, Peter Elwin, Head of Accounting and Valuation Research at J.P. Morgan Cazenove, explained how he believes companies can improve the quality of their disclosures under the current standards. This article summarises his views, and provides our outlook on current requirements and how the IASB’s current project might address these concerns.

The problems with GAAP in a financial crisis

Peter Elwin cited a number of problems with financial reporting in a financial crisis. His view was: “Information is too infrequent, information is too late, information is out of date when published.”

In general, the authority to change many of these requirements rests not with the IASB, but with local regulators. The regulators decide who must prepare financial statements in accordance with International Financial Reporting Standards (IFRS), when they should be prepared, and how quickly they must be completed.

“Changing regulatory requirements and IFRS does not happen fast enough to help the market in a financial crisis, as the last two years have shown,” said Peter Elwin. However, he noted that management could provide information to markets voluntarily, without waiting for changes to regulations. For example, management can:

- ▶ Shorten the financial closing cycle and issue the annual and interim financial statements more quickly`
- ▶ Issue statements regarding relevant events within hours or days, rather than weeks.

Peter Elwin continued, “There is too little information and some key information is missing from interim disclosures.” He suggested that management needs to do a better job of disclosing the key information that is relevant to an understanding of the interim period, rather than complying with

“Information is too infrequent, information is too late, information is out of date when published.”

the minimum requirements of IAS 34 *Interim Financial Reporting*, or simply repeating everything that is in the annual financial statements. Peter Elwin observed that the regulators should act more quickly where management is not meeting this objective. However, he noted that when determining what information to release, and when to do so, the issue of balancing timeliness with completeness becomes critical.

Cash is still king

Although IFRS is accruals-based, analysts also need to see the inflows and outflows of cash, and how those flows reconcile back to the financial statements. Management can address this need by providing information so that investors can reconcile key performance metrics from financial statements, such as EBITDA (earnings before interest, taxes, depreciation, and amortisation) to cash flow from operations. Peter Elwin observed that “All too often, it is not possible to reconcile the cash flow disclosures with what is disclosed in the other notes to the accounts.”

We will be interested to see whether analysts view the IASB’s proposed changes to the statement of cash flows as an improvement. The IASB tentatively decided in its deliberations on the Discussion Paper, *Preliminary Views on Financial Statement Presentation*, to require companies to present their operating cash flows using the direct method in the statement of cash flows (e.g., disclosing receipts from customers and payments to suppliers and employees). In addition, companies would be required to use the indirect method to reconcile operating income to operating cash flows in the notes. This is a change from the current approach, which permits an entity to use either the direct or the indirect method in the cash flow statement.¹

The following table summarises some of Peter Elwin’s observations and recommendations:

Analyst need	Analyst recommendation
Detailed explanations of working capital movements (using indirect method), to enable cash flow forecasts and analysis.	Improve disclosures related to the indirect cash flow statement, either as part of the notes or management commentary.
Amount of net debt (broadly long-term and short-term borrowings less cash and short-term deposits).	Reconcile each of these amounts to the statement of financial position and to the related maturity schedules.
Cash flows related to non-current employee benefits (e.g., pensions and other post-retirement benefits).	Provide a schedule of maturities, particularly for each of the next five years.

Better use of the notes

Peter Elwin also commented that disclosures do not provide a sufficiently detailed explanation of management’s key judgments in preparing the financial statements, or an explanation of how the figures are affected by the use of different assumptions. “The notes should support the financial statements ... they should explain how each of the statements link to the others, as well as year-on-year. Management should use the notes to reconcile key balances from the statement of financial position to the statement of comprehensive income to the statement of cash flows” he said.

¹ FASB and IASB Project update (web page) *Financial Statement Presentation* updated 8 December 2009.

Improving disclosures in financial reporting – an analyst's perspective *continued*

Peter Elwin illustrated this point, saying that, "Management should use the notes to explain the impact of foreign currency exchange rates, especially on debt. An analyst can see the total change in debt year-on-year, based on the change in the statement of financial position. The cash flow statement shows the proceeds from new borrowings and repayments of existing borrowings. However, if the debt is held in a currency other than the presentation currency, management should disclose the impact of the fluctuations in exchange rates on the carrying amount of debt."

The notes should also explain complex transactions and accounting policies. For example, "very few companies explain their hedging policies effectively ... they should explain the policy, and the impact on cash and profit or loss."

Mergers and acquisitions

Peter Elwin said that management can improve disclosures of mergers and acquisitions in a number of ways:

- ▶ Disclose the total cost of acquisitions, including consideration transferred to the seller, contingent payments, issuance costs for any new shares, and transaction costs ('deal costs', both internal and external) that are recognised as an expense, and the line item in which they are included. (This required disclosure is especially important upon adoption of the revised IFRS 3 *Business Combinations*, because previously, transaction costs were included in the purchase price, making it more difficult for analysts to compare between periods).
- ▶ Disclose the expected profitability of the acquired business as compared with the actual profitability of that business. If management pro-actively communicates the expected profitability of the acquired business, and progress made in respect of that target, unpleasant surprises can be mitigated, thereby reducing the negative impact on these share price and ratings. (We believe that management should consider whether its systems and processes are adequate to provide this information, particularly where an acquired business is integrated into an existing business).
- ▶ Disaggregate data so that analysts can compare the operating profitability of the acquired businesses with internally generated business.
- ▶ Separately identify acquisition and divestiture activity in the cash flow statement.
- ▶ Disclose the fair value of all financial assets and liabilities that are acquired or divested (both at the acquisition date, which is required by IFRS 3, and at the end of the first reporting period after the acquisition date).
- ▶ State the intangible amortisation expense. Analysts frequently 'add-back' the amortisation expense when analysing the profit of a company, because they do not believe it is informative from an economic perspective.



Despite the current difficult economic environment, 64% of senior executives said in a recent survey that they are interested in completing an acquisition during the next nine months.² However, 60% of senior executives in the survey also noted that investor/financier caution is a potential obstacle to future transactions.³ Therefore, we believe that it makes sense for management to focus on making disclosures about past transactions more transparent, to re-assure investors and analysts about new transactions.

The horizon for financial reporting

Peter Elwin stated, "The volume of disclosure requirements under IFRS, as well as risk of litigation or regulator queries, are creating a 'check-the-box' approach that is damaging, because important information is often obscured in the detail."

Indeed, the IASB is trying to resolve this issue in its joint project on *Financial Statement Presentation* with the US Financial Accounting Standards Board (FASB). Together with the FASB, the IASB hopes to improve the usefulness of information in financial statements to capital providers making decisions. One of the main principles in this project is that information should be disaggregated so that it is useful in predicting an entity's future cash flows.⁴

Many users and preparers of financial reports are hopeful that the IASB and FASB will continue to heed the words of analysts like Peter Elwin on what makes the financial statements decision-useful. Peter Elwin believes that "the business model should drive the accounting ... even if this risks making the financial statements between companies in different sectors less comparable." Fortunately, the IASB and FASB are heading in that direction in their deliberations of the Discussion Paper on the *Preliminary Views on Financial Statement Presentation*.⁵

But even before the *Financial Statement Presentation* project is complete, we believe that management can, and should, do more to disclose information that is useful to the users of its financial statements. Management would also be well advised to consider the views of others, such as the Corporate Financial Reporting Users' Forum, the CFA Institute and global leaders.

In conclusion

Striking a balance between meaningful disclosures and too much information is very difficult, a point Peter Elwin was keen to acknowledge. "Financial reporting is telling a story with numbers. It should be an exercise in effective communication, a dialogue between management on the one hand and users on the other." Ultimately, the IFRS disclosure requirements are a minimum, not a maximum, of what management should disclose to present its 'story' to the users of its financial statements.

² Ernst & Young survey, "Why capital matters: Building competitive advantage in uncertain times," which surveyed 490 executives in September and October 2009.

³ Ibid.

⁴ FASB and IASB Project update (web page) *Financial Statement Presentation*, updated 8 December 2009.

⁵ Ibid.

IFRS adoption update



Currently, more than 100 countries permit or require IFRS, or base their local accounting standards on IFRS. As the trend toward IFRS adoption continues, we look at the current status of adoption around the world.

UK and Ireland propose a move to IFRS in 2012

The Accounting Standards Board (ASB), has issued a consultation paper wherein it considers convergence with IFRS for statutory reporting by most entities in the United Kingdom (UK) and Ireland. The proposal advocates a three-tier approach whereby publicly accountable entities (such as listed banks, financial services companies and insurers) will apply IFRS, as adopted by the EU. All other entities will be permitted to apply *IFRS for SMEs*, although a third tier would be retained for small reporting entities. Such entities would have the option of continued use of the simplified UK GAAP standards (FRSSE). The consultation paper proposes an effective date of 1 January 2012 for such a change.

Argentina committed to IFRS for public companies

The National Securities Commission in Argentina recently announced the country's adoption of IFRS. The announcement states that all companies

with publicly traded shares and bonds must file their financial statements for the year ending 31 December 2012 in accordance with IFRS. On a voluntary basis, companies may file their financial statements in accordance with IFRS for the year ending 31 December 2011.

Colombia moves forward with IFRS

In June 2009, Colombia announced its intention to adopt IFRS. Authorities indicate that this move will result in greater market stability and make it easier for Colombian companies to move into new markets. Although the move to IFRS is agreed, the date of transition has yet to be finalised. Currently, only entities in the utilities sector are required to move to IFRS with an opening balance sheet date of 1 January 2010. All other entities are expected to transition one year later, however, the final decision is outstanding.

India announces roadmap for convergence with IFRS

The Ministry of Corporate Affairs for Convergence in India, has announced a roadmap for the convergence of Indian GAAP with IFRS. This roadmap proposes two separate sets of accounting standards. The first set consists of Indian GAAP fully converged with IFRS and would apply to listed entities and some large entities (see below). The second set consists of current Indian GAAP and would apply to smaller entities.



The IFRS-converged standards will be adopted in three phases.

Phase 1: Companies that are: (a) either listed inside or outside India and which form part of the Nifty 50 and Sensex 30; or (b) whose net worth (whether listed or not), exceeds INR 1,000 crores (~ US\$ 200m) are required to prepare their opening balance sheet for the financial year beginning on or after 1 April 2011.

Phase 2: Listed and non-listed companies with a net worth of between INR 500 crores (~ US\$ 100m) and INR 1,000 crores (~ US\$ 200m) will be required to prepare the opening balance sheet for financial years beginning on or after 1 April 2013.

Phase 3: Listed companies with a net worth of INR 500 crores (~ US\$ 100m) or less will be required to prepare their opening balance sheet for financial years beginning on or after 1 April 2014.

A separate roadmap is being prepared for banking and financial services entities and will be issued by the end of February 2010.

Japan announces voluntary use of IFRS

In December 2009, the Accounting Standards Board of Japan (ASBJ) announced a new, accelerated roadmap for convergence. The roadmap permits listed international companies to report under IFRS for financial years ending on or after 31 March 2010. The decision as to whether IFRS will become mandatory will be made in 2012, and will allow entities at least three years to prepare.

Asia and Oceania organise to speak with a stronger voice for the region

In November 2009, the Asian-Oceanian Standard-Setter Group (AOSSG) met for the first time. The AOSSG represents 24 countries in the region, including Australia, China, Japan, Hong Kong, Saudi Arabia, Malaysia, and New Zealand. In its initial meeting, 21 countries were represented. Sir David Tweedie, IASB chairman, attended the meeting and noted that, as a group, these countries would now have more influence on international standards.

Canadian regulatory proposal eases transition to IFRS

Public companies in Canada are required to transition to IFRS from 1 January 2011. To facilitate a smooth transition from Canadian GAAP, the Canadian Securities Administrators (CSA) have proposed new rules under National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards*. It explains changes to securities regulations that will result from IFRS adoption, including modifications to terminology and required disclosures.

IFRS for SMEs moves forward

After the issuance of the IFRS for SME standard in July 2009, many countries are planning to adopt it. Other countries, such as South Africa and the United States have already adopted or allowed it. Around 35 countries have already indicated that they are going to permit or require *IFRS for SMEs* within the next three years. The United Kingdom, the Bahamas, Brazil, Hong Kong, Malaysia, Tanzania, Trinidad-Tobago and the Philippines are just a few of them and the number is expected to increase in the near future.

Financial reporting developments

The IASB (the Board) met in London on 5 January 2010 and again on 18-22 January 2010. Both meetings were held jointly with the US FASB (collectively, the Boards). The International Financial Reporting Interpretations Committee (IFRIC) also met on 7-8 January 2010. 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 highlighted items in the table.

Projects	Key discussion points	Status
Financial instruments with characteristics of equity	<p>The Boards decided not to pursue any of the approaches they previously considered, but instead will explore a possible amendment to IAS 32 <i>Financial Instruments: Presentation</i>. The amendment could potentially include:</p> <ul style="list-style-type: none"> ▶ A slight relaxation of the provision that to qualify as equity, there must be an exchange of a fixed number of shares for a fixed amount of cash ▶ A requirement to classify puttable shares as equity only if the shares are puttable when specified events occur, such as the death or retirement of the holder ▶ A requirement to separate some puttable shares into equity and liability components 	ED expected Q2 2010
Fair value measurement	The Boards continued to work jointly on the key elements of fair value measurement and made tentative decisions. Details of these decisions are provided on page 11.	IFRS expected in Q3 2010
Revenue recognition	The Boards tentatively decided that the disclosure requirements would specify a high-level objective and include some specific disclosures such as principle judgments used in the accounting and information about onerous contracts.	ED expected Q2 2010
Insurance contracts	<p>The Boards continued their deliberations on the proposals in the ED and made tentative decisions on the following topics:</p> <ul style="list-style-type: none"> ▶ Unbundling ▶ Measurement and risk adjustments ▶ Day one losses ▶ Treatment of the residual margin 	ED expected May 2010
Consolidation	The Boards made tentative decisions on the power element of the definition of control, particularly where less than half of voting rights or options are held.	IFRS expected H2 2010



Projects	Key discussion points	Status
Financial statement presentation	The Boards continued their deliberations on the proposals in the ED and made tentative decisions on the disaggregation of income and expense and segment disclosures.	ED expected Q2 2010
Leases	The Boards continued their deliberations on the proposals in the ED and made tentative decisions on the following topics: <ul style="list-style-type: none"> ▶ Purchase and sale of underlying assets ▶ Subsequent measurement of leases with options and contingent rentals under amortisation cost ▶ Concession for short-term leases ▶ Lessor accounting - investment properties 	ED expected Q2 2010
Post-employment benefits	The Boards tentatively decided, with respect to termination benefits: <ul style="list-style-type: none"> ▶ The definition would be revised such that it should not include benefits for future employee service ▶ A liability is recognised when the entity no longer has the ability to withdraw from an offer of benefits 	ED expected Q1 2010
IFRIC – tentative agenda decisions	The IFRIC tentatively decided not to add the following issues to its agenda: <ul style="list-style-type: none"> ▶ IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i> – determination of functional currency of an investment holding company ▶ IAS 32 <i>Financial Instruments: Presentation</i> – shareholder discretion ▶ IAS 36 <i>Impairment of Assets</i> – interaction with transition provisions of IFRS 8 ▶ IAS 39 <i>Financial Instruments: Recognition and Measurement</i> – unit of account for forward contracts with volumetric optionality 	The IFRIC will confirm its tentative decisions at its March 2010 meeting
Annual improvements	The IFRIC confirmed six of the proposed amendments in the ED and recommended removing three proposed amendments from the Annual Improvements project without finalising them.	Amendments expected in April 2010

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*

IFRIC - items not taken onto the IFRIC's agenda

IFRS 2 Share-based Payment – transactions in which the manner of settlement is contingent on future events

The IFRIC was asked to clarify the classification and measurement of share-based payment transactions in which the manner of settlement is contingent on either a future event that is outside the control of the entity and the counterparty, or a future event that is within the control of the counterparty. The IFRIC recommended that the IASB address the issue as part of a post-implementation review of IFRS 2.

IFRS 4 Insurance Contracts and IAS 32 Financial Instruments: Presentation – scope issue for investments in Real Estate Investment Trusts (REIT)

A REIT is an entity with a special tax designation which is usually required to distribute 90% of its Total Distributable Income (TDI) to investors with the remaining 10% distributed at the discretion of management. The IFRIC received a request to provide guidance on whether the discretion to distribute the remaining 10% is considered a Discretionary Participation Feature (DPF) as defined in IFRS 4, thereby permitting the ownership units to be presented as a liability. The IFRIC noted that providing guidance on this issue would be in the nature of application guidance and not an interpretation, and decided not to add this item to its agenda.

IAS 18 Revenue – receipt of a dividend of equity instruments

The IFRIC received a request for guidance on the recognition as revenue of a dividend in the financial statements of an investor when the dividend is in the form of an investee's own equity instruments. The IFRIC noted that, when all shareholders are issued a dividend of an investee's own equity instruments, the economic interest of the investors does not change. As a result, revenue would not be recognised as it is not probable that economic benefits will flow to the investor.

IAS 27 Consolidated and Separate Financial Statements – combined financial statements and redefining the reporting entity

The IFRIC received a request for guidance on whether a reporting entity can present financial statements that comprise a selection of entities that are under common control. The IFRIC was also asked to comment whether an entity can exclude entities/businesses from its comparative periods that have been carved-out.

The IFRIC noted that the Board's common control project and Phase D of the Conceptual Framework project will address these issues. Therefore, the Board decided not to add the project to its agenda.

IAS 27 Consolidated and Separate Financial Statements – presentation of comparatives when applying the 'pooling of interests' method

The IFRIC received a request for guidance on the presentation of comparatives when applying the 'pooling of interests' method for business combinations of entities under common control. The IFRIC did not add this project to its agenda, as the Board's common control project is expected to address the issue.

IAS 32 Financial Instruments: Presentation – application of the 'fixed for fixed' condition

The IFRIC received requests to provide guidance on the interpretation of the 'fixed-for-fixed' condition when determining if an instrument that is to be settled in shares is classified as a liability or equity. The IFRIC did not add the issue to its agenda, as the Board currently has a project to improve and simplify the financial reporting for financial instruments with characteristics of equity.

IAS 38 Intangible Assets - amortisation method

The IFRIC received requests for guidance on the meaning of 'consumption of economic benefits' when determining the appropriate amortisation method for an intangible asset with a finite useful life. The IFRIC noted that the method of amortisation is a matter of judgment, guidance is already provided in IAS 38, and IAS 1 requires the disclosure of significant judgments. As a result, the IFRIC did not add the issue to its agenda.



Fair value measurement

The Boards reached the following tentative decisions:

Measuring fair value when a market becomes less active

- ▶ Guidance for situations where there has been a significant decline in the volume and level of activity. It is not for situations where the market was never active, which might be the case for an emerging economy.
- ▶ Focuses on whether an observed transaction price is orderly – not on the level of the activity in the market.
- ▶ An entity considers observable transaction prices unless there is evidence that the transaction is not orderly.

Reference market

- ▶ Defined as the principal market to which an entity has access. The principal (or most advantageous) market is the market with the greatest volume and level of activity for the asset or liability.
- ▶ There is a presumption that the market in which an entity normally transacts is the principal market. Entities do not need to perform an exhaustive search for markets that might have more activity.
- ▶ The determination of the most advantageous market considers both transaction costs and transportation costs.

Measuring liabilities at fair value

- ▶ In the absence of a quoted price in an active market representing the transfer of a liability:
 - ▶ Use the quoted price of the identical liability when traded as an asset if available
 - ▶ Use quoted prices for similar liabilities or similar liabilities when traded as assets if available
 - ▶ Use a valuation technique such as an income approach or a market approach
- ▶ Fair value of a liability should not be adjusted further for the effect of a restriction on its transfer, if the restriction is already included in the other inputs to the fair value measurement.

Day one gains and losses

- ▶ The IASB tentatively decided not to address the recognition of day one gains or losses as part of this project. This will be discussed outside the project at a future date.

Insurance contracts

The Boards reached the following tentative decisions:

Unbundling

- ▶ An insurer should unbundle a component of a contract only if it is not interdependent with other components of the contract.

Measurement and risk adjustments

- ▶ When measuring the insurance contract, the objective is to measure the combination of rights and obligations arising from the contract which should be presented net.
- ▶ A risk adjustment is to be included within the measurement formula to reflect the amount the insurer requires for bearing the uncertainty from fulfilling the contract. This risk adjustment should be re-measured at each reporting period.

Day-one losses

- ▶ An entity should recognise, at inception, the loss which may arise if, after applying a risk adjustment, the expected present value of cash outflows exceeds the expected present value of cash inflows.

Treatment of the residual margin

- ▶ Any gain at inception is eliminated by including a residual margin in the measurement of the contract. This residual margin should not be remeasured in subsequent reporting periods. Guidance will be developed on how the residual margin is released to profit or loss.

Consolidation

The Boards tentatively decided that the power element of the control definition is met by a reporting entity if it has:

- ▶ More than half of the voting rights; or
- ▶ Less than half of the voting rights and the legal or contractual ability to direct activities that significantly affect the returns of the entity.

Financial reporting developments *continued*

The IASB also tentatively decided that the power element is met if the reporting entity has less than half of the voting rights, but its voting rights are significantly more than any other party or organised group of shareholders and the other shareholders are widely dispersed. The FASB tentatively decided that such a reporting entity must have demonstrated that it has directed the activities of the entity that significantly affect the returns for this purpose.

The Boards also tentatively decided that, when assessing power through voting rights, the entity considers options and convertible instruments, and all facts and circumstances associated with these.

Financial statement presentation

The Boards reached the following tentative decisions:

Disaggregation 'by nature' and 'by function'

- ▶ The upcoming ED will require disaggregation of income and expense items by nature and by function. The 'by nature' and 'by function' information is required to be presented in the same note, even if the function information is already presented in the statement of comprehensive income (SCI), unless disaggregation by function is not useful for the purpose of predicting future cash flows, in which case, the disaggregated information is presented by-nature only in the SCI.
- ▶ 'By nature' income and expense information must be classified consistently in the SCI and the segment note.

Leases

The Boards reached the following tentative decisions:

Purchase and sale of underlying assets

- ▶ The scope of the new lease requirements will exclude contracts that transfer control of the underlying asset. Additional analysis is to be performed on the definition of control, and to identify indicators as to when it is transferred

Subsequent measurement of leases with options and contingent rentals under amortisation cost

- ▶ The discount rate of the lessee and lessor should not be revised for changes in expected lease term, nor the changes in contingent rentals unless the rentals are contingent on variable reference interest rates

Concession for short-term leases

- ▶ Lessees and lessors may use a simplified form of lease accounting for short-term leases – defined as those leases that have a maximum possible lease term of less than 12 months
- ▶ Lessee may present gross amounts payable and a corresponding right-of-use asset on the statement of financial position
- ▶ Lessor may treat short-term leases as service contracts

Lessor accounting - investment properties

- ▶ Investment properties carried at cost are within the scope of the upcoming ED

IFRIC - tentative agenda decisions

IAS 21 *The Effects of Changes in Foreign Exchange Rates – Determination of functional currency of an investment holding company*

The IFRIC was asked to provide guidance on whether the underlying economic environment of subsidiaries should be considered in determining, in its separate financial statements, the functional currency of an investment holding company. The IFRIC noted that the determination is a matter of judgment, guidance is already provided in IAS 21, and IAS 1 *Presentation of Financial Statements* requires the disclosure of significant judgments. As a result, the IFRIC did not add the issue to its agenda.

IAS 32 *Financial Instruments: Presentation – Shareholder discretion*

The IFRIC received a request for guidance on whether a financial instrument in the form of a preference share that includes a contractual obligation to deliver cash is a financial liability or equity, if the payment is at the ultimate discretion of the issuer's shareholders. The IFRIC noted that the Board's current project on Financial Instruments with Characteristics of Equity is expected to address the distinction between equity and non-equity instruments. The IFRIC therefore decided not to add this issue to its agenda.



IAS 36 Impairment of Assets - Interaction with transition requirements of IFRS 8

The IFRIC was asked to provide guidance on how to recognise the incremental goodwill impairment loss (that would have been recognised in a prior period if cash generating units had been grouped by reference to IFRS 8 *Operating Segment*) determined as a result of retrospective application of the change from IAS 14 to IFRS 8, in particular, whether it should be presented as a prior period adjustment or a current period event. The IFRIC noted that IFRS 8 is already in effect and it would not be able to provide guidance on a timely basis. Consequently, the IFRIC decided not to add the issue to its agenda.

IAS 39 Financial Instruments: Recognition and Measurement – Unit of account for forward contracts with volumetric optionality

The IFRIC received a request to provide guidance on whether a contract that:

- ▶ obliges an entity to deliver (sell) at a fixed price a fixed number of units of a non-financial item that is readily convertible to cash; and
- ▶ provides the counterparty with the option to purchase, also at a fixed price, a fixed number of additional units of the same item

can be assessed as two separate contracts for the purpose of determining whether IAS 39 *Financial Instruments: Recognition and Measurement* applies.

The IFRIC noted that the Board will consider the scope of IAS 39, including the guidance about contracts to buy or sell non-financial items, as part of the replacement for that standard. Consequently, the IFRIC decided not to add this issue to its agenda.

Annual improvements

Proposed amendments recommended for removal, without finalisation, from the Annual Improvements project

The IFRIC noted that the Board has an accelerated project to replace IAS 39. The IFRIC believes the following issues should be reconsidered taking into account the broad IAS 39 replacement project and not considered on a piecemeal basis. Therefore, the IFRIC has recommended that the three proposed amendments be removed:

- ▶ IAS 39 *Financial Instruments: Recognition and Measurement* – Bifurcation of embedded foreign currency derivative (published August 2008)
- ▶ IAS 39 *Financial Instruments: Recognition and Measurement* – Application of the fair value option (published August 2008)
- ▶ IAS 27 *Consolidated and Separate Financial Statements* – Impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor (published August 2009)

New documents issued

Project	Effective date
Amendment to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> (Limited exemption from comparative IFRS 7 disclosures)	Annual periods beginning on or after 1 July 2010. Earlier application is permitted.

Resources

Supplements to *IFRS outlook*

Issue 65: Proposals to change the measurement of non-financial liabilities

The IASB has issued a new exposure draft re-exposing its proposals for measuring a non-financial liability. The first ED was issued by the IASB in 2005, and when finalised will replace IAS 37 *Provisions, Contingent Consideration and Contingent Assets*. This new ED specifically proposes to clarify how a non-financial liability is measured – which will depend largely on whether or not the obligation can be transferred or cancelled. This supplement summarises the proposals in this ED and its consequences on businesses.

These changes will require significant changes to many entities' information systems as more information will be required to support the measurement of liabilities. The adoption of these proposals could also have significant impact on many entities' financial position.

Comments on the ED are due by 12 April 2010

Issue 66: Amendments to financial instrument disclosure exemptions

The IASB has amended the transitional provisions of the March 2009 amendments to IFRS 7 to clarify its conclusions on the relief available from providing comparative disclosure information while at the same time making this relief available to first-time adopters of IFRS. These changes will benefit both existing IFRS reporters that present more than one comparative period in the year following their initial application and preparing interim financial statements of the amendments and first-time adopters.

IFRS for real estate: current issues and financial statements survey – January 2010

This survey of real estate investors preparing IFRS financial statements follows on from our 2009 survey. This year, the number of companies surveyed has increased to 30 and we have extended our analysis to provide information on interim financial reporting and issues pertinent to the global economic downturn and uncertainty in the real estate market.

Archived webcast

Reporting on climate change initiatives under IFRS

Following the Climate Change Conference in Copenhagen in December 2009, our panel discussed a range of different perspectives on climate change and the associated accounting issues and challenges in the absence of a comprehensive reporting standard. The panel considered the potential financial reporting and disclosure consequences of various 'green' incentives. Also discussed was the current status of the joint project of the IASB and the FASB (including stumbling blocks) and whether it addresses the key accounting issues, as well as how some of the voluntary reporting schemes could influence the IASB's thinking going forward.

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



Coming soon

IFRS for SMEs comparison with IFRS

This publication provides a high-level review of *IFRS for SMEs* which was issued as a stand-alone standard in July 2009 and an appraisal of the similarities and key differences between it and full IFRS. In particular, this guide provides an overview on the recognition and measurement differences between IFRS and *IFRS for SMEs* that are most likely to arise.

IFRS webcast series

23 March 2010 – Financial instruments – further insights

The first phase of the project to replace IAS 39 *Financial Instruments: Recognition and Measurement* has been completed, while proposals to reform the accounting for financial instruments continue to be developed. Our panellists will discuss the proposed changes and their potential impacts for businesses and will also offer insights on the key application issues in adopting the amendments to IFRS 7 for the year ending 31 December 2009. This webcast is intended to assist CFOs in understanding the significant practical challenges and the full impact of the proposed changes on their reporting performance.

25 May 2010 – The lessons learned for year end reporting

Although signs of recovery in the market have been evident since the beginning of 2010, businesses are still facing significant challenges in different areas including valuation for impairment and mark-to-market measurement. A panel of specialists will share their experiences from the 2009 reporting cycle and discuss the trends that are emerging from the released annual reports. This webcast is aimed at CFOs and controllers to enable them to take a proactive approach in the upcoming reporting season.

29 June 2010 – A new accounting model for insurers (subject to issue of Exposure Draft)

The new proposals for accounting for insurance contracts are likely to have a significant effect on all insurance companies as IFRS 4 *Insurance Contracts* is an interim standard that grandfathered accounting standards previously used. Our panel of experts will discuss the key aspects of the proposals and the potential impact these may have on the financial performance of insurers.

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EYG no. AU0444

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